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

2017 ANNUAL REPORT

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Chairwoman's letter

Dear Shareholder,

Ferrovie dello Stato Italiane group posted excellent results for 2017, in line with the challenging 2017-2026 business plan approved by the board of directors in September 2016.

In their collective pursuit of the objectives set forth in this business plan, the group companies are highly focused on protecting their businesses and satisfying their stakeholders, with a strong sense of belonging and shared accountability for the achievement of their common strategic goals.

A crucial project with government ministries and institutional bodies in 2017 led to the contribution of ANAS, the major Italian road builder and operator, to FS Italiane group, which was formalised in the first few weeks of 2018. The company will therefore be consolidated in the 2018 financial statements. The contribution of ANAS to FS Italiane group marks a historic step for Italy, as it creates Europe's largest integrated rail and road hub by both the number of residents served and investment volumes.

At the same time, to support our business plan, which will see substantial growth for the group in size and complexity, we have significantly strengthened our corporate governance system, embracing Italian and international best practices, and we have implemented, even where not specifically required to by law, all the tools that we believe may help reinforce the internal control and risk management system and uphold the high ethical standards for which our group is known.

In particular, we have signed the United Nations Global Compact, demonstrating our formal commitment to respecting human rights, protecting workers, safeguarding the environment and fighting corruption; established an intragroup antitrust compliance committee to oversee antitrust issues and prevent unfair business practices; formally introduced, on a voluntary basis, a unified anti-corruption framework up to the highest international quality standards, which has made our pre-existing prevention measures and controls systematic and even more effective; introduced a new regulation for the management and communication of insider and confidential information; reinforced the Risk Management Department and created a new organisational and functional structure for the group's Internal Audit Department; voluntarily joined the cooperative compliance programme with the tax authorities for ongoing, fruitful collaboration in the joint consideration of situations that could generate tax risks.

In light of the foregoing, I would like to briefly discuss the following four key aspects:

results;

investments;

the pursuit of the strategic goals in the 2017-2026 business plan, based on five fundamental pillars: integrated passenger mobility, integrated logistics, infrastructure, international development, digital & customer centricity;

sustainability.

Results

The group results are described in great detail in the directors' report and executive summary. I would like to take this opportunity to emphasise the significance of the rise in revenue (+9%) - which underscores how the group is growing in its core business - and the highest normalised profit for the year in recent years (€424 million).

The group has also expanded through a few large M&As completed in 2017, in line with the strategies of its business plan, which provide for growth in both modal services, by expanding road transport services and in metropolitan areas, and through geographical expansion, particularly in the European market. These strategies have entailed the acquisition of UK-based Trenitalia C2C, a company that manages connections between London-South Essex and boasts excellent levels of punctuality and customer satisfaction in the UK market, as well as the acquisition of TrainOSE, which manages railway

transport on the Athens-Thessaloniki line in Greece, and Qbuzz, Holland's third largest local public transport service provider. In Italy, the group acquired Simet-Busitalia, which launched the long-haul road transport service named "Busitalia Fast".
In the meanwhile, the group has maintained its sound financial structure. With net invested capital of €46 billion (+1.5%), mainly directed towards infrastructure (€33.5 billion, +1%), the ratio of net financial debt (€7.3 billion) to equity (€38.7 billion) has remained substantially steady since 2016 (19%, +1%).
Sound confidence in financial markets, which is reflected in our credit ratings (BBB, in line with the country's rating), has enabled us to place additional bonds of €1.7 billion, bringing our listed placements to a total of €3.8 billion and reducing the cost of debt, while further improving the matching of sources of funding with applications. In November, we issued our first green bond (with a nominal amount of €0.6 billion, six-year maturity and minimum spread) and received the initial recognition for our decision to fully integrate economic, social and environmental sustainability in FS Italiane group's business strategies.

Investments

For the third consecutive year, FS Italiane group's capital expenditure exceeded €5 billion (€5.6 billion in 2017, 99% of which was invested in Italy), as it largely benefited from public policies prioritising investments in the country's key infrastructure, which made it possible for us to confirm our extraordinary investment commitments in the business plan up to 2026.
In this way, FS Italiane group remains Italy's largest investor among industrial groups, fuelling growth and creating jobs throughout the country. Applying the indicators published by ISTAT (national statistics institute) to investment volumes, in the past year, FS Italiane group has created jobs for nearly 100,000 workers, in addition to our 74,436 employees.
Not only are these investments significant in terms of their amount, but they are of the highest quality as well, and substantially boost the capacity, safety, efficiency and sustainability of the country's transport infrastructure. As we continue our vital, ongoing dialogue with the Ministry of Infrastructure and Transport ("MIT") and other institutional stakeholders, we were thrilled to see the deep commitment to creating more sophisticated planning and assessment tools that are better structured from a methodological standpoint, increasingly sensitive to our reciprocal roles and more highly focused on measuring the utility of investments and how well they respond to the country's general needs.
We are well aware of our role as Italy's largest contracting party (with published tenders for infrastructure projects worth a combined total of €7.5 billion in 2017 alone), and we control supplier vetting and evaluation processes with procedures that go beyond mere compliance with the applicable legislation and are aimed at becoming the benchmark for Italian and international best practices. In 2017, in addition to updating the general contractual terms for supply and works contracts, we have established specific prevention controls for purchases and the assignment of contracts within the new unified anti-corruption framework. In addition, we have introduced specific criteria and mechanisms in the supplier vetting and evaluation processes of our tender procedures that reward suppliers for their sustainability practices, such as their labour conditions and environmental impact.

Our commitment to achieving the objectives in the 2017-2026 business plan

Integrated passenger mobility

We firmly believe in the urgent need to shift towards sustainable mobility and zero emissions. We are convinced that the improvements in our punctuality, service quality and our ability to satisfy passengers – the achievement of which may include integrating our services with those of other mobility providers – are absolutely essential if we are to show

increasingly more residents that there are more comfortable and safer travel solutions than their car. This change in mobility, and culture, is the number one objective in our business plan and the foundation on which we base all our operations in all passenger transport service segments. In particular, by understanding that each of our customers' journeys is multi-modal, we have made "integrated mobility" the central focus of our business plan and the key to collective mobility's success over private cars.

We have continued investing in regional railway services, with the invaluable support of our institutional customers, and we have focused on passengers' priorities: punctuality (satisfaction rate of 97.1% in 2017, +0.5% on 2016 and +4.1% on 2014, with a train cancellation rate of 1.1%, making us Europe's best in class), safety, travel comfort and cleanliness on board trains.

Overall passenger satisfaction data show us and our institutional customers (which include the six regions that renewed service contracts with Trenitalia in 2017) that we are headed in the right direction: in 2017, we recorded, for the second year in a row, the highest annual improvement in overall passenger satisfaction with regional services in FS Italiane's history (+3.6% in 2017 and +3.5% in 2016), making the same progress in the past two years that we made in the previous five (when the average annual improvement was +1.5%).

We signed a new contract with the MIT for the universal long-haul service covering a ten-year term from 2017 to 2026, laying the groundwork for improvements in our InterCity railway service. In 2017, we invested €118 million and recorded an encouraging increase in passengers' overall satisfaction on the previous year (+2.2%).

We have completed a series of significant investments in the services we offer on the market to improve our high-speed fleet: 150 trains (including 50 new Frecciarossa 1000 trains) confirm our top standing among European railway operators by the age, comfort and performance of our fleet and have enabled us to better the already exceptional levels of punctuality (97.9%, +0.5%) and overall customer satisfaction with their journey (94.4%, +0.8%) for the second year in a row.

With an eye on 2020, when the single European railway space will go into effect, we are carefully monitoring the opening of railway networks in other EU countries, bolstered by our long-standing experience in Italy's exemplary domestic context for its open approach and competitive scenario.

In road transport, we have managed LPT services in Veneto, Tuscany, Umbria, Campania (through Busitalia) and Puglia (through Ferrovie del Sud Est e Servizi Automobilistici ("FES")), consolidating our position as Italy's third largest player behind the two big urban LPT companies in Rome and Milan.

We are satisfied with the early results of FSE's administrative transparency and initial restructuring process, which has entailed considerable investments in infrastructure and the focusing of the group's energies on Puglia's mobility needs to provide its residents with services and management on par with the other FS Italiane group companies' high quality and ethical standards.

Integrated logistics

2017 was a historic year for FS Italiane operations, with the start-up of Mercitalia Rail, Trenitalia's spin-off in the cargo sector. In addition, Mercitalia Logistica was established through the transformation of FS Logistica and operates as the sub-holding company responsible for coordinating all the group's logistics and cargo transport companies, which together form the Mercitalia hub.

The 2017-2026 business plan includes the ambitious goal of enabling the only segment in which FS Italiane group reports a structural loss for the year to progressively achieve break-even, by doubling turnover and rapidly expanding international business. We have earmarked substantial resources to turn this business around: €1.5 billion, €1 billion of which to update and maintain rolling stock.

The first investments were carried out in 2017 (€69 million) and a radical rolling stock updating and strengthening plan was kicked off (125 new electric locomotives, five shunting locomotives and 250 last-generation carriages were ordered). We

have also conducted an extensive customer satisfaction survey to gain a better understanding of our strengths (such as personnel's ability to assist customers) and the areas where we must improve.
The results of this first year underscore the dedication of roughly 4,000 employees who just over one year ago took up the challenge of launching the Mercitalia hub: revenue has grown by 9%, the gross operating profit is no longer a loss, and the loss for the year has improved by more than half on 2016. Moreover, in a clear signal of increased efficiency, we transported larger volumes of cargo (tonne-km +2.5%) using a smaller number of trains (train-km -1.4%).

Infrastructure

Thirty-two railway companies operated on the 16,787 km of our network, for a total of approximately 354 million train-km travelled (+1% on 2016), roughly 22.5% of which were operated by non-FS Italiane group companies (an increase on 2016).
€4.4 billion was invested in the railway network (+4% on 2016), with – according to the classification provided for by the Government Programme Contract - 50% for safety, technology and efficiency and 50% for works to resolve bottlenecks, traditional network infrastructure development, the completion of the high-speed line and large construction works.
We ramped up investments in extraordinary maintenance and safety for the fourth consecutive year: the €1.8 billion invested in 2017 (+9% on 2016, +83% on 2013) brought total investments in the 2015-2017 three-year period to just under €5 billion (+59% on the previous three years).
We allocated 95% of infrastructural investments to the traditional network, with the completion of a few particularly important projects, like the roll-out of the first transborder pass crossing between Italy and Switzerland (Arcisate-Stabio), the upgrading of the Modena hub, the laying of double tracks on key lines and line variations in Sicily and the commissioning of remote systems on 115 km of lines (bringing remote coverage to 76% of the network). The new Napoli Afragola station opened on the high-speed line and already serves more than 4,000 passengers per day, while the construction and authorisation process on major lots along the Naples – Bari line continues, with the completion of the Bovino-Cervaro section.
Furthermore, we began integrating the former railway companies (in Umbria, Tuscany and Puglia, with FSE). Lastly, by acquiring 36.7% of Metro5 in Milan, we launched our first project to support the development of metropolitan networks in Italian cities, a priority for urban mobility, to which we plan to contribute in the near future.
Over the term of the business plan, we are transforming our stations into integrated mobility hubs. In 2017, we began the first project to improve the quality of the spaces and public information services at stations (the "Easy Station" project, launched at the network's 50 largest stations) and another project to put up barriers at stations and install turnstiles ("Smart Station - Turnstiles 2.0"). In addition, we regained complete control of Centostazioni and planned another development project for retail operations at five major stations (Torino Porta Susa, Napoli Afragola, Milano Porta Garibaldi, Roma Ostiense and Padua), which will begin in 2018.

International development

The 2017-2026 business plan provides for substantial growth abroad, particularly in a European market that is increasingly integrated by common legislation and regulations, and so increasingly domestic.
In 2017, the first year of the plan, we consolidated our position in the European market: we are the second largest railway operator in Germany (with Netinera Deutschland, which also manages local road transport) and the largest operator in Greece (following our acquisition of TrainOSE); in the United Kingdom, we manage the "City-to-Coast" commuter line (through Trenitalia C2C) and we are keeping a close eye on current tenders for the assignment of the service in the East Midlands and West Coast; we provide railway transport services in France with Thello and LPT services in the Netherlands with Qbuzz and Utrecht Mobility Services; Mercitalia hub (through TX Logistik) makes us Germany's second largest cargo

railway carrier and we operate in other Northern European countries as well (most recently, in 2017, we acquired the licence and safety certificate to operate in Sweden).

In addition, we have expanded our presence in a number of other countries (India, Saudi Arabia, Argentina, Costa Rica, Iran and South Africa), mainly through our holding company, FS, and the subsidiary Italferr.

The board of directors has pushed for the adoption of a strict methodology to be followed in the definition of our international development strategy and the strengthening of the company departments that oversee our presence abroad and foreign development programmes, and will continue to monitor projects in progress in forthcoming years, while reinforcing controls.

Digital & customer centricity

In 2017, customer satisfaction and punctuality indicators became permanent factors in the calculation of FS Italiane group managers' incentives, carrying significant weight, so as to further encourage conduct in line with the interests of our key stakeholders, i.e., the people we transport and the companies who trust us with their cargo. We have also kicked off projects to perfect - including using digital technologies - customer satisfaction tools and indicators that measure and assess the aspects of our services that are most important to customers.

We have also continued investing in the creation of a complete extended customer experience platform to combine travel solutions and attract, by embracing coopetition over competition, other local public transport companies. 4.

Sustainability

We signed the United Nations Global Compact to formalise our commitment to economic, social and environmental sustainability and to maintaining the highest standards of ethics and integrity. This same commitment underpins our business plan and is fully reflected in our operations in every sector.

The 2017 annual report already includes the new, detailed information on the group's commitment to economic, social and environmental sustainability. This is one more step in the process that will lead to the adoption of a reporting system that is genuinely fully integrated.

Our many initiatives and milestones of 2017 include the granting of additional space at our stations on a free loan basis to bodies and associations (over 119,000 square metres, +3.5%) for various social, cultural and environmental initiatives, notably the network of help centres (up from 17 to 18 centres, 61% in central and southern Italy), which helps over 500,000 people per year. In addition, our social projects included fund raising in collaboration with Fondazione Banco Alimentare Onlus, a not-for-profit organisation that funds the recovery and distribution of food to disadvantaged and socially marginalised people.

Personnel

FS Italiane group's workforce grew (from 70,180 to 74,436 employees, +6%), due to new hires (4,379, 3,400 of which in Italy) and acquisitions (3,789), net of employee turnover. The increase in employees was accompanied by rise in average group revenue by 4% to over €128,000.

For the fourth consecutive year, FS Italiane ranked first in the "Best Employer of Choice 2018" contest.

The agreement with the trade unions for generational turnover led 497 employees to receive the extraordinary benefits under the bilateral fund for income assistance, a process that will continue in 2018 when around 1,000 young people join the group.

Lastly, we are pleased to report another improvement - for the ninth year in a row - in our accident rate (-5.2%) thanks to our investments and the attention that everyone has devoted to workers' safety.

We have continued to work on gender diversity throughout the entire group, raising the number of women in the overall employee population (15.2%, +0.6%) and in managerial positions (17.2%, +1.1%). Although these figures are encouraging, they confirm that a gap still exists, and the board of directors is taking steps to significantly increase the number of women. These efforts include projects like “Women in Motion”, which has led to an increase in the number of female candidates with technical degrees by nearly 50%, “Viaggio con l’altra metà del cielo” and the pilot site “Girls @ Work” to introduce girls and young women to the world of railway technology. Finally, we have established an equal opportunities rule for recruitment whereby 50% of candidates must be women, and this rule is enforced following the comply or explain principle.

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Ferrovie dello Stato Italiane is a well governed company with devoted management that aspires to values of transparency and integrity. We are fully committed to putting Italy at the avant-garde of integrated and sustainable mobility. The group will continue to work with its shareholder and the MIT in a spirit of service and daily commitment, an approach demonstrated by the results achieved in 2017.

The Chairwoman
Gioia Ghezzi

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

Board of directors	**In office until 31 December 2017**	**In office since 1 January 2018[1]**
Chairwoman	Gioia Maria Ghezzi	Gioia Maria Ghezzi
CEO and General Manager	Renato Mazzoncini	Renato Mazzoncini[2]
Directors	Daniela Carosio	Francesca Moraci
	Giuliano Frosini	Giovanni Azzone
	Simonetta Giordani	Simonetta Giordani
	Federico Lovadina	Federico Lovadina
	Vanda Ternau	Vanda Ternau
Board of statutory auditors		
Chairwoman	Carmine di Nuzzo	
Standing statutory auditors	Susanna Masi	
	Roberto Ascoli	
Alternate statutory auditors	Paolo Castaldi	
	Cinzia Simeone	

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

Angelo Canale

MANAGER IN CHARGE OF THE COMPANY'S ACCOUNTING DOCUMENTS PREPARATION

Roberto Mannozzi

INDEPENDENT AUDITORS

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

[1] Appointed by resolution of the shareholders on 29 December 2017.

[2] Appointed by the board of directors on 10 January 2018.

Group highlights

Ferrovie dello Stato Italiane group's annual report

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 (see the "Non-financial information" paragraph in the directors' report).

Disclaimer

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

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 reflect the results of operations and financial trends of its business segments:

- **Gross operating profit**: this is an indicator of the performance of operations and reflects the group's core business only. It is calculated as the difference between revenue and operating costs.
- **Operating profit:** this is an indicator of the performance of operations and is calculated as the algebraic sum of gross operating profit and amortisation and depreciation, impairment losses (reversals of impairment losses) and provisions.
- **Net operating working capital:** this is the algebraic sum of inventories, construction contracts, current and non-current trade receivables and current and non-current trade payables.
- **Other assets, net:** these reflect the sum of receivables and advances from the Ministry of the Economy and Finance for grants, deferred tax assets, other current and non-current assets and other current and non-current liabilities.
- **Working capital:** this is the sum of net operating working capital and other assets, net.
- **Net non-current assets:** these reflect the sum of property, plant and equipment, investment property, intangible assets and equity investments.
- **Other provisions:** these reflect the sum of post-employment benefits and other employee benefits, the provision for litigation with employees and third parties, the provisions for other sundry risks and deferred tax liabilities.
- **Net invested capital (NIC):** this is the algebraic sum of working capital, net non-current assets, other provisions and net assets held for sale.
- **Net financial debt (NFD):** this is a financial indicator calculated as the algebraic sum of bonds, non-current bank loans and borrowings and the current portion thereof, current bank loans and borrowings, current and non-current loans and borrowings from other financial backers, financial assets with the Ministry of the Economy and Finance for current fifteen-year grants, cash and cash equivalents and current and non-current loan assets.
- **Equity (E):** this is a financial statements indicator calculated as the 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 in progress; 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, using the average of opening equity (including of the profit (loss) for the previous year) and closing equity (net of the profit (loss) for the year).
- **ROI (return on investment**): this is a profitability indicator for invested capital through core business operations. It is calculated as the ratio of operating profit to average NIC (the average of opening and closing NIC).
- **Net asset turnover:** this is an efficiency indicator that expresses invested capital's ability to transform into sales revenue. It is calculated as the ratio of operating revenue to average NIC (the average of opening and closing NIC).
- **Generated economic value:** this indicator reveals how the group generates wealth for its stakeholders and it includes revenue from sales and services and other sundry income. 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

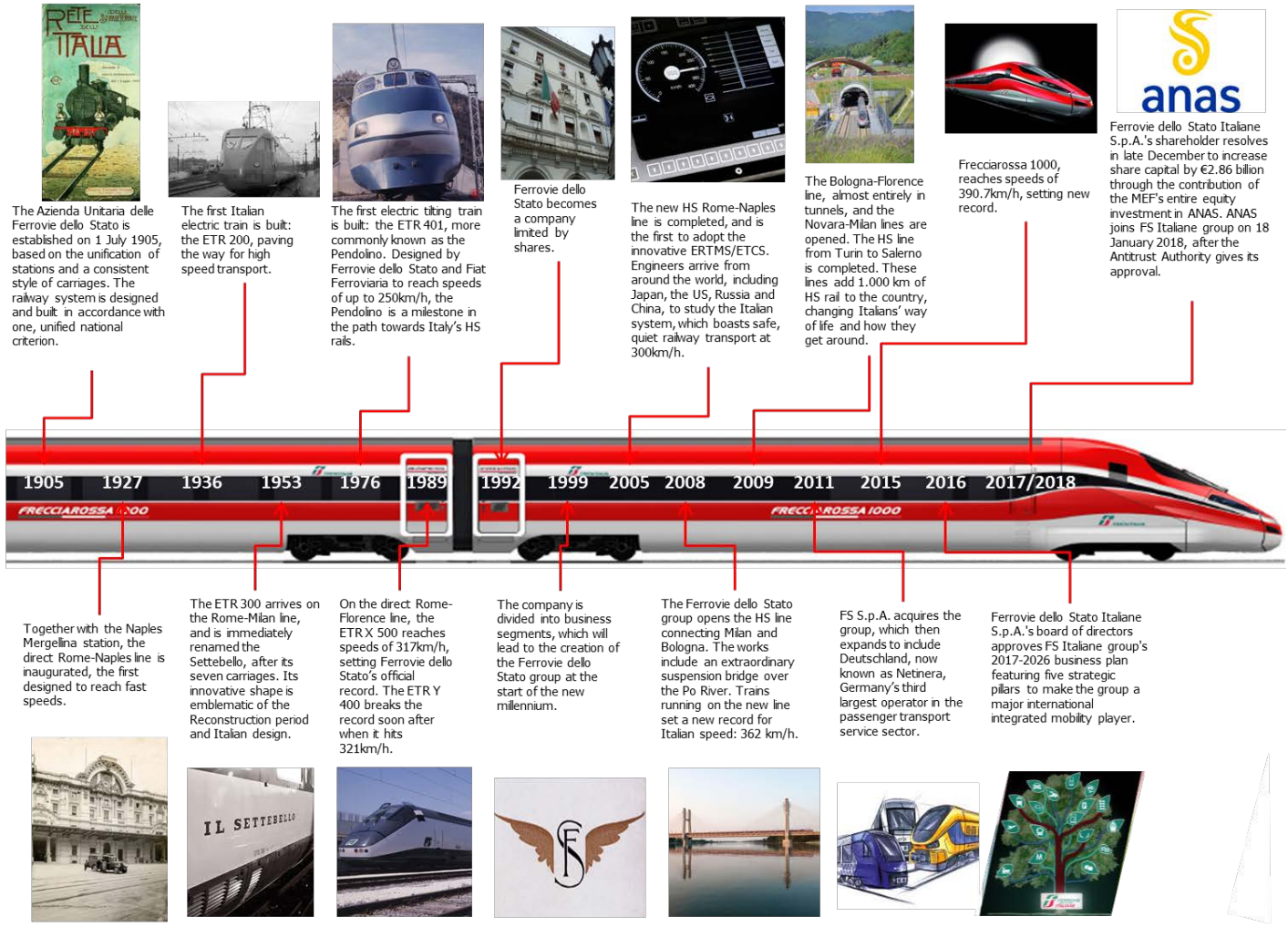
The following terms are frequently used in this report in relation to the group's operations:

- **Computer- based 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.
- **Government Programme Contract (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.

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

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

The future is founded on history



Consolidated highlights

GROSS OPERATING PROFIT/REVENUE

2017	2016
24.9%	25.7%

ROS (OPERATING PROFIT/REVENUE)

2017	2016
7.7%	10.0%

PERSONNEL EXPENSE/REVENUE

2017	2016
(44.9%)	(44.3%)

EMPLOYEES

2017	2016
74,436	70,180

millions of Euros

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

DIRECTORS' REPORT

Non-financial information – Methodology for reporting non-financial information

Legislative decree no. 254 (the "Decree") was promulgated on 30 December 2016, implementing Directive 2014/95/EU and amending Directive 2013/34/EU with respect to the disclosure of non-financial information in the financial statements for periods ending on or after 31 December 2017 by certain large companies and groups.

The Decree applies to Ferrovie dello Stato Italiane group because the parent, FS Italiane S.p.A., is a public interest entity and qualifies as a large company under the same Decree. The Sustainability Reporting Standards defined by the Global Reporting Initiative (GRI) have been applied in the reporting of such non-financial information (GRI referenced).

To ensure the comparability of the non-financial information provided, as required by the standards, it refers to the 2016-2017 two-year period. 2015 data can be found in Ferrovie dello Stato Italiane group's 2016 Sustainability Report published online. The indicators were selected considering the various areas of the Decree, the group's activities and the consequent potential/real impacts. In addition, group considered the results of the materiality analysis and the "Guidelines on non-financial reporting" defined by the European Commission and published in the Official Journal of the European Union on 5 July 2017, as well as the Regulation implementing Legislative decree no. 254/2016 issued by Consob on 18 January 2018.

The information required by the aforementioned Legislative decree is reported in the directors' report considering its nature. A reconciliation of the information required by the Decree and applicable to the group with the sections of this report is given below.

The Decree		Reference
Art. 3.1.a	Business model	Business model Report on corporate governance and the ownership structure
Art. 3.1.b	Policies and related indicators	The group's financial position and performance: *Table of directly generated and distributed economic value* Sustainability in the group Stakeholders
Art. 3.1.c	Main risks	Report on corporate governance and the ownership structure: *The internal control and risk management system* Risk factors
Art. 3.2.a	Energy and water resources	Sustainability in the group: *The environment*
Art. 3.2.b	Greenhouse gas emissions	Sustainability in the group: *The environment*
Art. 3.2.c	Impacts	Sustainability in the group: *The environment* *Stakeholders: Human resources (Health and safety in the workplace)* Risk factors Travel safety
Art. 3.2.d	Social and personnel management issues	*Stakeholders: Human resources*
Art. 3.2.e	Respect for human rights	Report on corporate governance and the ownership structure: *Human rights policies* Sustainability in the group: *Approach to sustainability* Risk factors: *Social and human rights protection risks*
Art. 3.2.f	Anti-corruption and anti-bribery	Report on corporate governance and the ownership structure: *The company's anti-corruption and anti-bribery policies and the whistleblowing process* Risk factors: *Corruption and bribery risks*; *The internal control and risk management system*
Art. 3.3	Methodology and principles	Non-financial information – Methodology for reporting non-financial reporting
Art. 10.1.a	Diversity policies	Report on corporate governance and the ownership structure: *FS Italiane S.p.A.'s Board of directors; Board of statutory auditors*

The reporting scope was defined according to the group materiality in the annual report by assessing the (real or potential) impacts with respect to the areas covered by the Decree and considering, *inter alia*, the nature of the business and the size of the group companies ("Level 1" scope).

Qualitative aspects and the group's policies for non-financial reporting (GRI), which have entailed the extension of the Level 1 scope to all consolidated companies, were also considered.

The group's financial position and performance

Introduction

For the purposes of describing its financial position and performance, the group prepared reclassified financial statements in addition to those required by the IFRS adopted by the FS Italiane group (and described in the notes to the financial statements). 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 group's performance in the year and changes with respect to the previous year, the main extraordinary transactions completed in 2017 with a material impact on the reported figures are described below. These transactions, which fit into FS Italiane group's traditional business and do not constitute new business segments for the group – also considering the materiality of the transaction amounts – did not require the preparation of pro forma data in the reclassified financial statements although the effects of the transactions arose solely in 2017. In particular:

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

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

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

millions of Euros

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

Consolidated income statement

millions of Euros

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

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

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

Partly due to the developments described above, in 2017, the group posted growth of €724 million in revenue and a substantial **profit for the year** of €552 million.

The profit for 2016, which came to €772 million, was significantly affected by the aforementioned sale of Grandi Stazioni Retail S.p.A. assets and – to a lesser extent – the completion of the settlement with the Prime Minister's office to resolve

the difficult, longstanding waste emergency in Campania. The normalised profit for 2016, excluding the effects of these extraordinary transactions, would have therefore been €385 million. Similarly, eliminating the non-recurring prior year income of €128 million generated by electrical energy for traction (Law no. 167/2017), the normalised profit for 2017 would have been €424 million (+10.1% on 2016), FS Italiane group's highest profit in the past three years.

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

The main factor driving the increase in **revenue from transport services** (+€682 million) is undoubtedly the long haul railway passenger transport service, both that offered on the market (+€111 million) and the universal service (+€100 million). Another factor is the Freccia service's excellent results (+€107.9 million), as it benefited from a generic recovery in demand for mobility services and the commercial measures taken to limit price competition in the HS segment. The universal service benefited from the revised prices following the renewal of the 2017-2026 service contract with the government. The new prices will guarantee the contract's balance of costs and revenues and will support the group's long-term investment plan, ensuring better service quality, comfort and punctuality thanks to the upgrading of rolling stock. The short haul railway passenger transport service also performed well (+€89 million) both in Italy, where Trenitalia S.p.A. posted growth in revenue (+€65 million), and internationally, with the contribution of Netinera Deutschland group (+€24 million).
This growth in revenue from transport services was also driven by the extraordinary transactions that entailed the consolidation of FSE S.r.l., a regional transport company operating in Puglia (+€41 million), Trenitalia c2c Ltd, a passenger transport company operating on the UK's medium haul market (+€177 million) and, in the second half of 2017, TrainOSE SA, which provides transport service connecting Athens and Thessaloniki on the Greek peninsula (+€35 million).
Revenue from road transport services also rose significantly in the year, by €156 million, almost entirely due to the aforementioned expansion of the consolidation scope. In particular, FSE S.r.l. (+€44 million), Busitalia Campania S.p.A. (+€33 million), Busitalia Simet S.p.A. (+€10 million) and the Dutch company, QBuzz BV (+€68 million) contributed to this growth.
On the other hand, revenue from cargo transport and logistics services decreased by approximately €20 million.

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

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

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

- the €227 million increase in net personnel expense is mostly due to the expansion of the consolidation scope (+€178 million) and the effects of the full application of the new national labour agreement for the railway mobility sector, signed at the end of 2016;

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

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

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

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

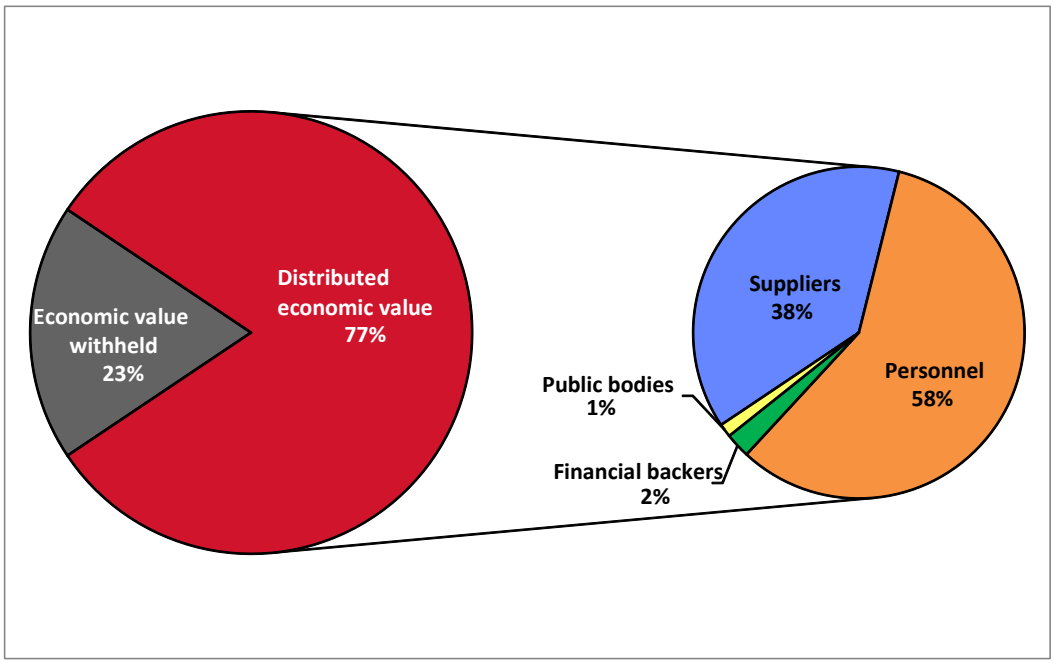
Income taxes amount to €64 million, an increase of €38 million mainly reflecting changes in deferred taxes.

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

In addition to the above observations and pursuant to Legislative decree no. 254/2016, the following table shows the directly generated economic value and that distributed by FS Italiane group, highlighting its redistribution to stakeholders. The group acknowledges the importance of a balanced distribution of the value generated by its operations to its stakeholders, value that they contributed to creating directly or indirectly. The analysis of the economic value distributed shows the flows allocated to employees, providers of goods, services and capital, the public administration and the communities in which the group is present.

millions of Euros

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



The value not distributed by the group (approximately €2.2 billion in both 2016 and 2017) consisted substantially of self-financed investments and accruals to reserves, to be reinvested and thereby ensure the continuity and sustainability of non-current business, indirectly benefiting FS Italiane group's stakeholders (such as employees and the community through, for example, improvements in service quality, including the universal service).

Reclassified statement of financial position

millions of Euros

	31.12.2017	31.12.2016	Change
ASSETS			
Net operating working capital	402	404	(2)
Other assets, net	1,173	591	582
Working capital	**1,575**	**995**	**580**
Net non-current assets	47,279	47,330	(51)
Other provisions	(2,902)	(3,068)	166
Net assets held for sale	2		2
NET INVESTED CAPITAL	**45,954**	**45,257**	**697**
COVERAGE			
Net current financial (position) debt	(65)	353	(418)
Net non-current financial debt	7,338	6,407	931
Net financial debt	**7,273**	**6,760**	**513**
Equity	**38,681**	**38,497**	**184**
COVERAGE	**45,954**	**45,257**	**697**

Net invested capital of €45,954 million rose by €697 million in 2017, due to the increases in **working capital** (+€580 million) and **net assets held for sale** (+€2 million) and the decrease in **other provisions** (which generated a benefit of €166 million), partially offset by the decrease in **net non-current assets** (-€51 million).

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

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

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

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

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

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

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

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

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

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

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

Reconciliation at 31 December 2017 and 31 December 2016

Reconciliation as at 31 December 2017 and 31 December 2016 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

	31 December 2017		31 December 2016	
	Equity	**Profit for the year**	**Equity**	**Profit for the year**
Ferrovie dello Stato Italiane S.p.A.	36,867	231	36,986	639
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	2,179	556	1,790	362
- elimination of impairment losses on equity investments	98	22	76	(16)
- reversal of dividends	(4)	(161)	(4)	(134)
Total	**2,273**	**417**	**1,862**	**212**
Other consolidation adjustments:				
- equity accounting of investments in unconsolidated subsidiaries and associates	46	10	40	10
- reversal of intragroup profits	(497)	(41)	(456)	(42)
- reversal of taxes arising on tax consolidation	125	(86)	211	(62)
- other	30	11	21	2
Total	**(296)**	**(106)**	**(184)**	**(92)**
- Valuation reserves	(467)		(512)	
- Translation reserve	3		3	
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT	**38,380**	**542**	**38,155**	**758**
- Equity attributable to non-controlling interests (excluding profit for the year)	240		243	
- Profit attributable to non-controlling interests	10	10	14	14
EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**250**	**10**	**257**	**14**
TOTAL CONSOLIDATED EQUITY	**38,630**	**552**	**38,412**	**772**

Business model

A brief summary of Ferrovie dello Stato Italiane group's business model is provided below, in accordance with the requirements of article 3.1.a) of Legislative decree no. 254 of 29 December 2016.

Ferrovie dello Stato Italiane group operates in Italy and abroad in the construction and management of infrastructure and services for the transport of passengers and cargo by rail, road and motorway and public road transport. In accordance with its bylaws and organisational model, the group's operations are mainly, although not exclusively, carried out through investees.
The group is organised into four operating segments: Transport, Infrastructure, Real Estate Services and Other Services. Segment reporting on their results and performance is provided below.

The companies operating in the various segments report to the parent:

Transport	Infrastructure	Real Estate Services	Other Services
Companies that carry out passenger and/or cargo transport by rail, road or waterway	Companies that maintain, use and develop the railway infrastructure and sea connections with the main islands	Companies that manage the main railway hubs and oversee the management and development of the group's real estate assets	FS Italiane S.p.A. and the companies that manage activities not directly related to railway operations (administration, building and facility management, leasing, factoring, transport system certification, etc.)

Each company has its own corporate characteristics and independently manages operations to achieve its respective business targets.

The FS Italiane group companies operating in the transport of passengers and/or cargo by rail, road or sea are part of the Transport segment.
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 Thessoloniki; Trenitalia c2c Ltd, a UK passenger transport company; and FSE S.r.l., which holds the concession for road and rail services in Puglia, Italy.
The group companies that mainly operate in cargo transport are those in the Mercitalia hub, with domestic and international operations, and TX Logistik group (mainly 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. As mentioned earlier, FSE S.r.l. also provides these services.

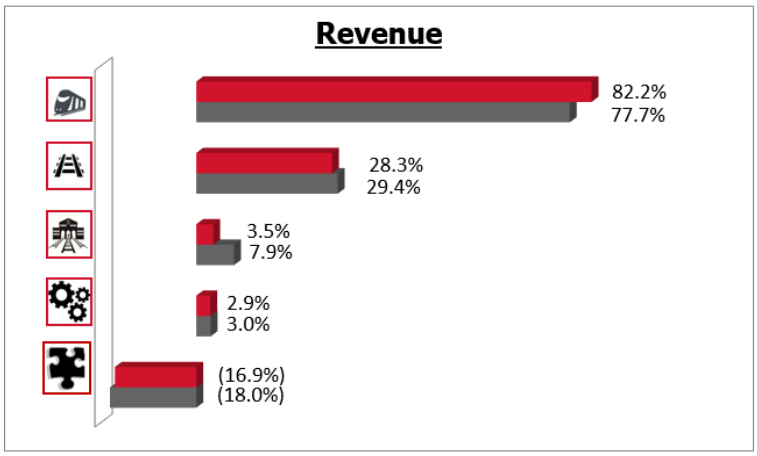
The group's main Infrastructure segment company is Rete Ferroviaria Italiana S.p.A. (RFI S.p.A.), whose mission is to serve as the national railway network operator. As such, it maintains, uses and develops the network and related safety systems, in addition to managing research and development in the 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, exclusively or in relation to infrastructure services, are: FSE S.r.l., Brenner Basis Tunnel SE, Tunnel Ferroviario del Brennero S.p.A. (TFB) and Tunnel Euralpin Lyon Turin (TELT). These companies' main activity is the construction of tunnels between Italy and Austria and Italy and France.

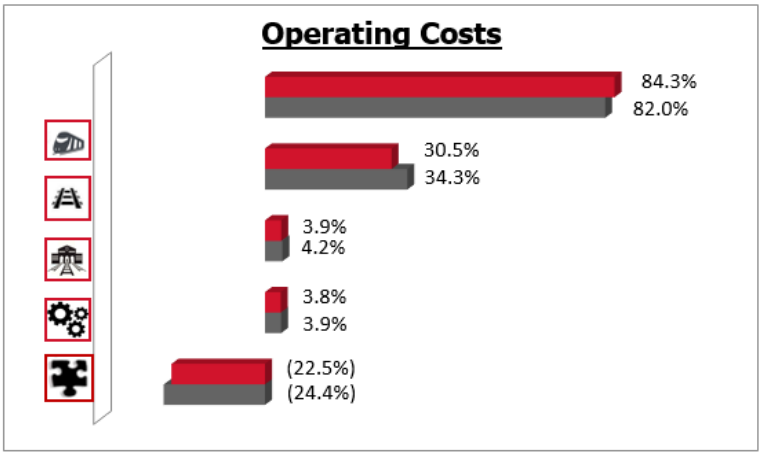
The Real Estate Services segment mainly consists of the companies that manage the main railway stations (Grandi Stazioni Rail S.p.A. and Centostazioni S.p.A.). In addition, this segment also includes FS Sistemi Urbani S.r.l. which handles management, sales and development services for real estate assets 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. Lastly, this segment also includes Metropark S.p.A., specialised in the study, design, construction and management of car parks and the management of depots for all types of transport vehicles.

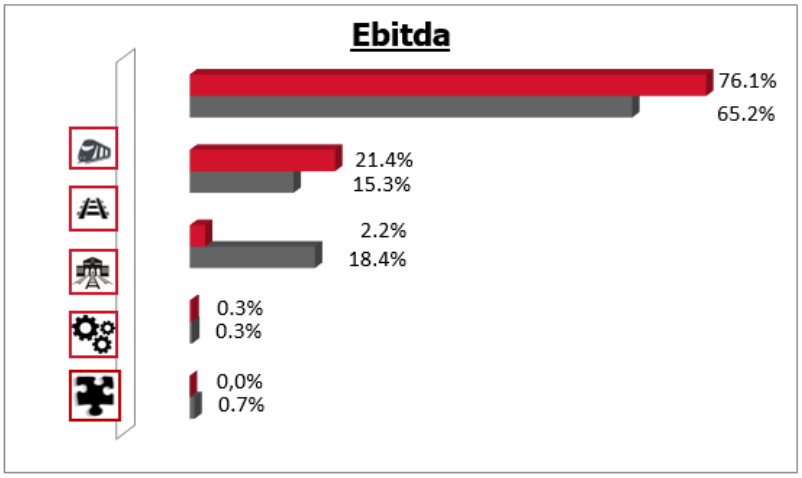
Ferrovie dello Stato Italiane S.p.A. operates in the Other Services segment in its role as the group's holding company and for all the activities not included in the real estate management described above. It steers and coordinates the operating companies' business policies and strategies. The other companies that operate in this segment are: Ferservizi S.p.A., which manages the activities not directly related to railway operations as outsourcer for the group's main companies; Fercredit S.p.A., which mainly develops the credit factoring and lease business on the captive market and develops the consumer credit business for the group's employees, and Italcertifer S.p.A., which carries out certification, validation and testing activities on transport and infrastructure systems.

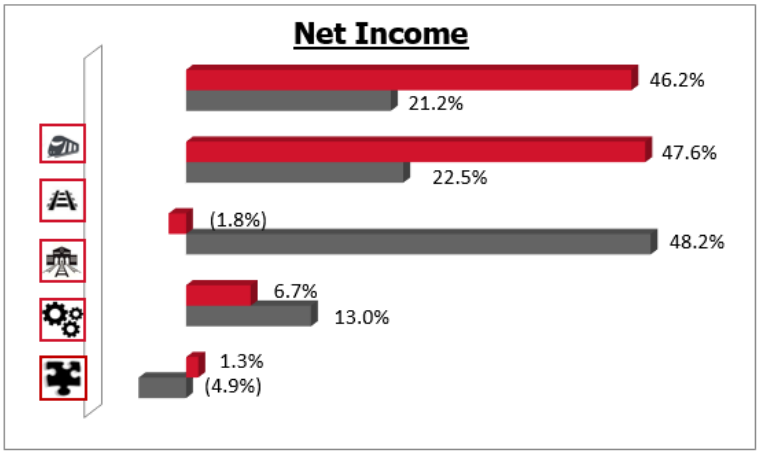
Segment reporting

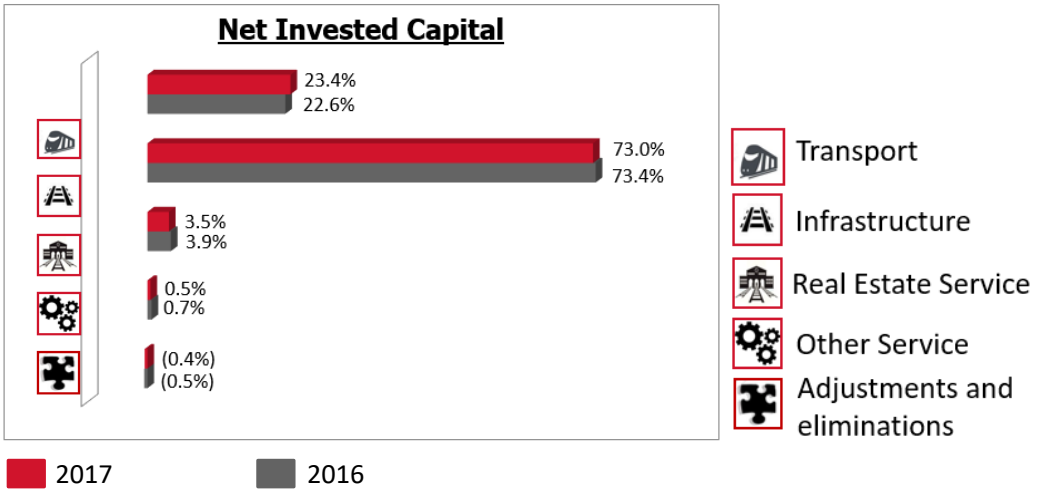
FS Italiane group's performance is analysed below with reference to each of the operating segments that make up its business (Transport, Infrastructure, Real Estate Services and Other Services). The charts below summarise the 2017 and 2016 performance with indication of the percentages of revenue and operating costs, gross operating profit, profit for the year and net invested capital attributable to each segment.











Each segment's operations and main companies are detailed in the previous paragraph "Business model", while the performance of each segment is described below.

Transport

millions of Euros

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

	31.12.2017	31.12.2016	Change
NET INVESTED CAPITAL	**10,767**	**10,218**	**549**

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

millions of Euros

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

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

- the excellent performance of domestic long haul services drove growth in this segment by €215 million, in addition to the €62 million rise in short haul services.
- In particular, the long haul services provided on the market (+€106 million) benefited from the growth in the Freccia service, while the universal service (+€109 million) benefited from the positive effects of the new service contract.

Moreover, the introduction of the new regional ticket and the steps to prevent evasion boosted the results of short haul services;

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

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

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

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

Loans and borrowings - Transport segment

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

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

Green bond placement - EMTN series 7

On 30 November 2017 – with settlement on 7 December – FS Italiane S.p.A. placed its first green bond, amounting to €600 million, also as part of the EMTN Programme. The bond has a fixed coupon of 0.875% and is redeemable on 7 December 2023. The placement is part of the Green Bond Framework set up by FS Italiane S.p.A. to finance projects that have a positive impact in terms of environmental sustainability. Specifically, the proceeds from the initial placement are earmarked to replace rolling stock for public transport as detailed below:

- new electric multiple unit (EMU) trains for regional passenger transport (i.e., *Pop* and *Rock* trains);

- new high-speed ETR 1000 trains for high-speed passenger transport.

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

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

Crédit Agricole CIB and HSBC are Joint Structuring Green Advisors, while Banca IMI, Barclays, Crédit Agricole CIB, Deutsche Bank, Goldman Sachs International, HSBC, J.P. Morgan and SG CIB have been joint lead managers and joint bookrunners for the placement.

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

EIB bond placement - EMTN series 8

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

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

TX Logistik AG loan

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

Infrastructure

millions of Euros

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

	31.12.2017	31.12.2016	Change
NET INVESTED CAPITAL	**33,537**	**33,219**	**318**

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

millions of Euros

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

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

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

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

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

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

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

Loans and borrowings - Infrastructure segment

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

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

Real Estate Services

millions of Euros

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

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

millions of Euros

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

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

Net invested capital also decreased by approximately €122 million, again mainly as a consequence of the demerger of Grandi Stazioni Rail S.p.A. (formerly Grandi Stazioni S.p.A.) and the subsequent sale of GS Retail S.p.A..

Other Services

millions of Euros

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

	31.12.2017	31.12.2016	Change
NET INVESTED CAPITAL	**231**	**311**	**(80)**

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

millions of Euros

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

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

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

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

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

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

Loans and borrowings - Other Services segment

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

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

- intragroup loan of GBP60 million (roughly €70.6 million) which the parent provided directly to Trenitalia UK Ltd to finance part of the acquisition, together with a guarantee given by Trenitalia S.p.A. on FS Italiane S.p.A.'s behalf;
- in order to comply with the financial requirements imposed by the Department for Transport, in the Funding Deed signed by FS Italiane S.p.A., the Department and NXET, FS Italiane S.p.A. also provided the operating company NXET with a subordinated credit facility of GBP140 million (of which GBP35 million made available on the closing) and bank guarantees (with hold harmless letters from FS Italiane S.p.A.) and direct guarantees of approximately GBP82 million, which were also counter-guaranteed by Trenitalia S.p.A..

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

Fitch rating

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

Update of the 2017 EMTN Programme Base Prospectus

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

S&P's rating

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

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

Income statement

millions of Euros

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

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

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

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

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

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

- the lack of gains on sales of assets in 2017, unlike the previous year, when the sale of Grandi Stazioni Retail S.p.A. to Alba Bidco S.p.A. had a significant impact (-€383 million);
- the lack of "revaluations of financial assets" compared to the previous year, when the equity investment in Trenitalia S.p.A. was revalued (-€42 million);
- the increase in dividends distributed by group companies (+€19 million) mainly due to the greater dividends distributed by Rete Ferroviaria Italiana S.p.A. (+€70 million) compared to the smaller dividends distributed by Trenitalia S.p.A. (-€34 million), Grandi Stazioni Rail S.p.A. (-€12 million) and Ferservizi S.p.A. (-€5 million);

- interest accrued to Metro 5 S.p.A. (+€1.1 million) on receivables transferred as part of Astaldi's acquisition of 36.7% of Metro 5 S.p.A., the net increase in financial income on the Eurofima loan (€1.7 million), the proceeds from the backup facility (€0.8 million) and income on bonds relating to the Euro Medium Term Notes Programme (€0.9 million).

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

Reclassified statement of financial position

millions of Euros

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

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

Net operating working capital of €444 million decreased by €99 million in the year, mainly due to the net reduction in trade receivables and payables (-€17 million) and the decrease in land and buildings held for trading (-€81 million) following the partial demerger of Ferrovie dello Stato Italiane S.p.A. to Rete Ferroviaria Italiane S.p.A., which is described in paragraph 5 “Extraordinary transactions” of the separate financial statements.

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

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

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

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

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

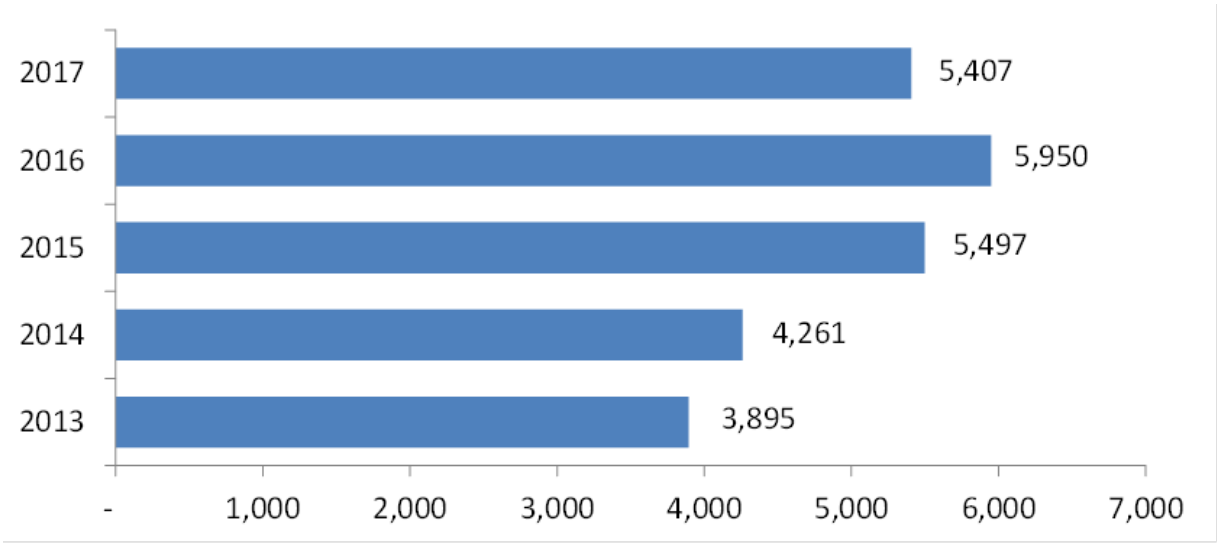
Equity shows a €119 million decrease, mainly due to the profit for the year (€231 million), net of the dividends paid to the MEF (€300 million) on 19 October 2016 and the derecognition of the extraordinary reserve after the demerger with Rete Ferroviaria Italiana S.p.A. (€50 million).

Investments

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

FS Italiane group contributed to this trend by investing significantly, in line with its investment plan, leading to an average capital expenditure (gross of contributions)/depreciation ratio that has constantly remained at more than 1 from 2012 to date.

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



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

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

Investments in infrastructure

In particular, €4,409 million was invested in RFI S.p.A.'s national railway network, broken down as follows:

- 50% for safety, technology and efficiency, including €398 million (roughly 9% of total spending) for cutting-edge technology;
- 50% for works to resolve traffic bottlenecks, traditional/HC network infrastructure development, the completion of the Turin-Milan-Naples HS line (€218 million) and large construction works.

In 2017, definitive designs consisted of:

- distancing system to increase capacity at the Florence hub (HD ERTMS);
- distancing system to increase capacity at the Rome hub (HD ERTMS);
- computerised interlocking system unit at Trieste Campo Marzio.

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

- the new Arcisate – Stabio line, the first to cross the transborder pass between Italy and Switzerland without a station at the border;
- the new Freto – Quattro Ville Sud operating control line, which is part of the project to expand the Modena hub and the new cargo terminal in Marzaglia on the Bologna – Milano line, enabling cargo trains directed to/from the Marzaglia cargo terminal to directly access the Bologna – Verona line and, from there, the Brennero pass;
- the Bovino – Cervaro operating control line, running for a total of approximately 20 km on the new Bari – Naples line;
- in Sicily, the laying of double tracks from Catania Centrale to Catania Ognina, with the concurrent opening of the Catania Ognina stop for passenger service; the laying of double tracks between Ogliastrillo and Campofelice and the roll-out of the Lercara Diramazione – Castronuovo route;
- the opening of the L'Aquila – Sassa NSI, L'Aquila – San Gregorio, Manfredonia Ovest, Picanello, Cansano and Europa, Bazzano, Bergamo Ospedale, L'Aquila Campo di Pile stops;
- roughly 115 km of unmanned lines were rolled out, bringing the total to around 12,786 km, out of 16,787 km of lines.

A series of projects were launched in 2017 to integrate the former railways, as planned in RFI S.p.A.'s - and, in general, FS Italiane group's - 2017-2026 business plan.

The regulations applicable to the former railways were revised with a decree law containing a series of rules on the safety of regional railways, the possibility of qualifying some of them as lines of interest for the national railway network and, lastly, the right for the concerned regions, the regional network operator and RFI S.p.A. to reach agreements on construction projects or to take over management (Decree law no. 50 of 24 April 2017, converted into Law no. 96 of 21 June 2017, consisting of "Emergency measures on financing, initiatives for local bodies, additional projects for areas affected by earthquakes and development initiatives", including article 47 "Railway transport projects" of interest to the former regional railways).

RFI S.p.A. therefore began a series of activities to begin the process of integration with the main former railways throughout Italy. Specifically:

- on 19 June 2017 an agreement was signed with the Umbria region and Umbria LPT e Mobilità S.p.A. to enable RFI S.p.A. to carry out, on behalf of Umbria LPT e Mobilità S.p.A. and in its name, the activities necessary for the infrastructural work to restore/upgrade certain section of the network in accordance with the 2014-2020 Development and Cohesion Plan (Interministerial economic planning committee resolution no. 25 of 10 August 2016), for a total of €51 million;
- on 22 June 2017, an agreement was signed with Ferrovie Sud Est e Servizi Automobilistici S.r.l. appointing RFI S.p.A. as technical entity for the design, management and performance of bargaining procedures, management with third parties, maintenance work oversight, works planning and oversight and technical/administrative inspection assistance;
- on 11 December 2017, RFI S.p.A. signed a programme agreement with the Emilia Romagna region and FER to implement article 47 of Legislative decree no. 50 of 24 April 2017, as converted by Law no. 96 of 21 June 2017, for the redevelopment and rationalisation of the Emilia Romagna regional railway network;
- on 15 December 2017, RFI S.p.A. signed a procedural agreement with the Umbria region and Umbria LPT e Mobilità S.p.A. governing RFI S.p.A. succession in the management of the Umbrian regional railway infrastructure pursuant to article 47.4 of Decree law no. 50 of 24 April 2017, as converted into Law no. 96 of 21 June 2017.

Innovative train speed protection technologies

The breadth and widespread application of new technologies on Italian railway lines are illustrated below:

in km

	2017	2016	Change
CCS, CCS-HS, CCS-M and CTC (remote operation controls)	12,786	12,625	161
TSCS (train speed control systems)	12,210	12,083	127
DSS (driving support systems)	3,892	4,014	-122
ERTMS (interoperability on the HS/HC network)	709	704	5
GSM-R telecommunications (which can be used for emergency calls)	11,445	11,384	61

Extraordinary Commissioner

The "2018 Budget Act" extended the term of office under Decree law no. 133 of 2014 for the appointment of RFI S.p.A.'s CEO as the Commissioner for the construction of works on the Naples – Bari and the Messina – Catania – Palermo railway line to 31 December 2020.

With ordinance no. 28 of 20 March 2017, the Commissioner approved the definitive design of the Palermo - Catania - Messina route: laying of double tracks on the Bicocca – Catenanuova section.

With ordinance no. 29 of 24 March 2017, the Commissioner approved the emergency provision of executive design services pending the agreement of the contract for the executive design and performance of works to build the change to the Naples – Cancello line.

Ordinance no. 30 was issued on 12 April 2017, approving - including for the purposes of environmental compatibility, urban planning and the approval of the conditions for appropriation and the statement of public utility - the definitive design of the "North interconnections on the existing line between Rome – Naples, via Cassino, in the municipality of Maddaloni" (pursuant to the joint provisions of article 1 of Law no. 164 of 11 November 2014, as amended and integrated, article 167.5 of Legislative decree no. 163/2006, as amended and integrated, and articles 10 and 12 of Presidential decree no. 327/2001, as amended and integrated).

In early September, with ordinance no. 32, the Commissioner approved the definitive project for Lot 1 Frasso Telesino - Telese and Lot 2 Telese - San Lorenzo Maggiore and, with ordinance no. 33, the Commissioner approved the definitive design of Lot 1 Apice – Hirpinia.

RFI S.p.A.'s work specifically for the reorganisation and development of the station network, consisted of the following:

- 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. In 2017, this project involved 50 of the 620 stations identified as the busiest, i.e., those with approximately 80% of the passengers in the entire network, and with the most development potential in terms of infrastructure and services.
- 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 - where the supply of infrastructure is expanded, improved and

made widely and easily accessible to all through the integration and availability of information generated and managed by digital technologies. The Smart Station project has included the introduction of advanced technologies at the station, like *WI-life*, the remote management of non-railway systems in stations and turnstiles to improve safety. During the year, technical studies were conducted to begin these projects and establish the methods for the work and a €40 million investment project began ("Smart Station - Turnstiles 2.0") to close off the stations and install turnstiles.

These two projects are closely linked and prioritise the scope of the network's 620 busiest stations (14 stations in the Grandi Stazioni network, 103 in the Centostazioni network and 503 in the RFI network). They will be carried out over the entire term of the plan.

At the 14 largest railway stations (where retail activities have been entrusted to Grandi Stazioni Retail S.p.A. for management), RFI S.p.A. invests specifically in extraordinary maintenance (not including commercial areas) and work to meet legal obligations. At the end of 2017, the cumulative percentage of completion of this work equals 96% of the total amount of the work for which RFI S.p.A. is responsible.
On the other hand, the redevelopment of 103 medium-sized stations, which began in previous years, has reached approximately 84% of the total spending for which RFI S.p.A. is responsible.

The new stations for high speed trains where passenger service has begun are Torino Porta Susa, Reggio Emilia, Bologna Centrale and Roma Tiburtina, as well as Napoli Afragola in June 2017.
The new stations for high speed trains currently being designed and/or built are: Firenze Belfiore and Vesuvio Est.

Investments in railway transport

In 2017, Trenitalia S.p.A. invested €940 million in railway transport, with 39% of these investments directed towards the purchase of rolling stock, 10% to recondition material already used in operation, 15% to technologically update vehicles, for IT systems and to maintain and develop maintenance plants and the remaining 36% for routine maintenance.
The details and main investments are described below by business segment:

- long haul passenger transport (€369 million): eight high speed "*Frecciarossa 1000*" trains were delivered (€192 million), bringing the operating fleet to a total of 49 trains at the end of 2017. To expand the HS fleet, a project began in the year to purchase 17 V250 trains for the Adriatic line and the Transversal (Turin-Verona) route. The first trains are slated to begin operating by the end of the year (approximately €0.2 million). IT updates to the ground and on-board systems, as well as to certain sales support systems continued in order to increase the number of seats available on the HS electric "*Frecciarossa 1000*" trains running on the HS Turin-Naples line, making it possible to use the ETR1000 double trains (around €3 million). Work is underway to restructure and upgrade maintenance plants in order to create integrated maintenance hubs for HS fleet maintenance and reconditioning, particularly at the Naples and Milano Martesana plants and the new Turin shunting maintenance system (approximately €8 million). During the year, €141 million was invested in routine maintenance on rolling stock;
- universal passenger transport service (€118 million): the investments mainly consisted of making seven Z1 towed carriages semi-automated (approximately €42 million), reconditioning 20 Intercity carriages (roughly €12 million) and upgrading the E402A locomotives to E401 (around €4 million). The work on plant entailed strengthening maintenance sites and making them safer (approximately €10 million). Routine maintenance work also continued (around €47 million);
- regional passenger transport (€371 million): three new electric "*Jazz"* trains (roughly €20 million), six new diesel "*Swing*" trains (around €19 million) and four electric "*Flirt"* trains for the autonomous province of Bolzano (approximately €12 million) were delivered. Additional deliveries included 41 double-decker "Vivalto" carriages (around €65 million). In addition, 56 medium haul carriages (approximately €7 million) and two low floor carriages (around €3 million) were put back into operation after receiving face lifts to increase comfort and update to safety standards. The Infotainment system upgrade on TAF trains was extended to another 17 trains (roughly €4 million) and the rolling stock exterior revamping project continued on 53 Minuetto trains, 69 double decker carriages and 38 locomotives. As part of the renewal of the transport regional fleet, contracts took effect for the purchase of 39 high capacity electric "*Rock"* trains (approximately €34 million) and 47 medium capacity "*Pop"* trains (around €14 million) for Emilia Romagna, while the purchase of 27 "*Swing"* trains was authorised, 13 of which will be sent to the regions where the service contracts are ending. Work continued on the Veneto maintenance network; in particular, efforts continued to upgrade the Mestre current maintenance plant (roughly €0.6 million) and the upgrading of the Verona full train maintenance plant was approved. The latter will lead to cost savings, the lease of the vacated facilities and a reduction in the resources used for shunting and maintenance (approximately €0.5 million). Around €154 million was allocated to routine maintenance of rolling stock in the year;
- IT investments in various business segments: activities continued on the new "Dynamic Maintenance Management System" (DMMS) to make the maintenance process more efficient based on predictions (approximately €6 million), while the "IT Crash Programme" began, 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 €3 million). Additional investments were made to adjust, change and develop management control systems to measure the effects on results of new projects and facilitate management decisions with a series of support tools (roughly €3 million).

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

NEW MATERIAL	no. of vehicles
Locomotives	
Long Haul Passenger Transport	-
Regional	-
Carriages	**41**
Long Haul Passenger Transport	-
Regional: double decker	41
Trains	**21**
Long Haul Passenger Transport	
Frecciarossa *trains*	8
Regional	
Jazz	3
Swing trains	6
Flirt trains	4

RECONDITIONED MATERIAL	no. of vehicles
Locomotives	**41**
Long Haul Passenger Transport	3
Regional	38
Carriages	**193**
Long Haul Passenger Transport	-
ES City	
InterCity (Universal service)	39
Semi-automation of Z1 tows	27
Regional	
Double decker	69
Medium haul	56
Low floor	2
Cargo: Carriages	
Trains	**70**
Regional	
TAF trains	17
Minuetto trains	53

Investments in road transport

Busitalia group and its subsidiaries continued implementing the significant road transport fleet renewal plan during the year. The main deliveries to date include:

- 1 tour bus in Tuscany and 34 LPT buses in Umbria;
- 29 LPT buses in Veneto;
- 25 LPT buses in Campania;
- 12 *FreccialLink* buses to expand this service;
- 1 bus to be used to replace train service.

Investment funding

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

In accordance with that established by the Interministerial economic planning committee ("CIPE") in resolution no. 4 of 2012, the railway infrastructure operator (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)

On 29 May 2017, the outline of the Prime Minister's decree no. 421, allocating the Investment Fund established under article 1.140-142 of the 2017 Budget Act, was issued. It assigned €10.3 billion to RFI S.p.A. for investments in national railway infrastructure. On 1 August 2017, the operator sent the concerned ministry cabinets a new outline of the 2017-2021 Government Programme Contract - Investments signed by the parties, in accordance with the updated financial framework. Next, RFI S.p.A. sent the MIT a new outline of the contract, updated to reflect the CIPE's comments during the preliminary procedure. The CIPE approved this version during its meeting on 7 August 2017. Based on this deed, the contract entails the agreement of additional financial resources of roughly €13.3 billion and financed work in progress worth approximately €66 billion.

Once the Court of Auditors has audited the CIPE's approval and following publication in the Italian Official Journal, the contract approval process will continue with the examination of the contract by the relevant Parliamentary Commissions so they may express their opinion on it in accordance with Law no. 238/1993, and with the subsequent issue of the MIT/MEF interministerial decree approving the contract, which will then be lodged by the Court of Auditors. This approval process has not yet been completed, as CIPE resolution no. 66 has yet to be published, a necessary step before the Parliamentary Commissions may give their approval and for the issue of the interministerial decree.

Decree law no. 148 (the "Tax decree") was issued on 16 October 2017, containing "Emergency financial measures to meet urgent requirements" (converted into Law no. 172 of 4 December 2017), which modified the approval process for annual updates to the Government Programme Contract formalised by Law no. 238 of 14 July 1993. In particular, article 15.2-*bis*

establishes that the MIT must send Parliament disclosure of any updates to contracts that do not entail substantial changes [3]and whose purpose is to receive the financial resources allocated in the Budget Act or other legislation.

On 22 December 2017, the CIPE approved the addendum to the operating plan for the 2014-2020 Development and Cohesion Plan (resolution no. 54/2016), allocating additional resources totalling roughly €2,102 million for railway investments.

Law no. 205 "Government budget for 2018 and long-term budget for 2018-2020" (i.e., the 2018 Budget Act) was issued on 27 December 2017, requiring the MEF to include in its budget the refinancing of a specific fund to be allocated (pursuant to article 1.140 of Law no. 232 of 11 December 2016) to ensure funding for investments and the development of the country's infrastructure, with funds of €800 million for 2018, €1,615 million for 2019, €2,180 million for each year from 2020 to 2023, €2,480 million for 2024 and €2,500 million for each year from 2025 to 2033. The use of this fund is subject to one or more decrees of the Prime Minister, upon the MEF's proposal, in concert with the concerned ministers, according to the plans presented by the government's central administrations.

Until 31 December 2017 and, in any case, until the new deed takes effect, the current 2012-2016 Government Programme Contract – Investments will remain valid, pursuant to article 3.1 of the contract "Term and updates".

Government Programme Contract – Services (GPC-S)

The new 2016-2021 GPC-S approval process was completed in the year, with the Court of Auditors filing the decree approving the contract with the MIT (no. 359 of 12 July 2017). This was the last step in the authorisation process that began in August 2016 with the presentation of the contract for the CIPE's examination.

The "Obiettivo" law

The strategic infrastructure programme provided for by Law no. 443/2001 (known as the "Obiettivo" law), included the following:

- during its meeting on 3 March 2017, the CIPE approved the definitive design of "Fortezza-Ponte Gardena" lot 1 for the laying of quadruple tracks on the Fortezza – Verona line;
- during its meeting on 10 July 2017, the CIPE:
  - approved the definitive design and parts of the definitive design for the change with respect to the preliminary design of the new HS/HC Brescia – Verona line, "Brescia est - Verona lot (excluding the Verona hub)";
  - authorised the start of construction on construction lot 1 of the "Brescia est - Verona (excluding the hub)" functional lot;
  - ordered the design of a solution known as the "Quadruple tracks next to the previous line at the Brescia hub" to replace the "Brescia Shunt" in order to make the HS/HC Milan - Verona line continuous and its presentation to the MIT within 12 months of publication of the CIPE resolution;
- during its meeting on 22 December 2017, the CIPE:
  - authorised the start of work on "Terzo Valico dei Giovi" construction lot 5, with the related allocation of financial resources and a spending cap of €1,508 million; authorised the start of work on construction lot 6 as well, with the related allocation of financial resources totalling €833 million (this allocation is subject to the specific indication of a total of €791 million for lot 6 in the Presidential decree allocating the Investment Fund following the enactment of the Budget Act);

[3] Substantial changes are those entailing costs and requirements that cumulatively or individually for an individual programme or investment plan exceed the forecasts in paragraph 1 of the government programme contracts by 15%.

- approved, with instructions and recommendations, the definitive project solely for the Verona – Bivio Vicenza (excluding the Verona Est hub) functional lot 1, with a spending cap of €2,713 million, and authorised the start of construction on Verona – Bivio Vicenza construction lot 1 and functional lot 1, with a spending cap of €984 million;
- approved, with instructions and recommendations, the definitive project for functional lot 1 of the Termoli - Lesina (Ripalta-Lesina) railway line.

Group projects/transfers of public funds relating to 2017

millions of Euros

	RFI	Ferrovie dello Stato	Trenitalia	Grandi Stazioni	Mercitalia Logistics	Mercitalia Rail	Mercitalia Intermodal (formerly Cemat)	Busitalia group	Total
Operations									
Government Programme Contract	975.6								975.6
Other government grants	90.9				0.5	4.4			95.8
EU grants						0.2	0.1		0.3
From local public bodies								7.8	7.8
Sundry grants from others							3.9		3.9
Investments									
Governments grants	2,567.1	31.9		29.0					2,628.0
From local public bodies			16.5						16.5
From the EU	46.4								46.4
Total	**3,680.0**	**31.9**	**16.5**	**29.0**	**0.5**	**4.6**	**4.0**	**7.8**	**3,774.3**

Research, development and innovation

Development activities

The group's development activities generated investments of €33.2 million, incurred entirely by RFI S.p.A., with 87% in traffic safety technologies, 11% in studies and testing on new components and systems, while the remaining 2% was directed at environmental eco-compatibility projects.

Below is a summary of the main activities carried out in 2017 in connection with projects that began in the year and previous years:

- completion of the executive design, with the construction of prototypes and outfitting of test sites for four cameras with monitoring/alert systems to protect the railway bed from rapidly falling masses (including large objects falling, narrow and widespread landslides and sink holes); work is underway to adjust the management system and experimental devices before the observation stage begins in the first few months of 2018;
- start of activities to carry out projects with alarm netting for falling masses to be used in railway operations and the preliminary studies for its construction are being completed;
- start of activities for the testing and use of drones to inspect railway bridges and monitor infrastructure, in certain cases using BVLOS (Beyond Visual Line of Sight) technology, which will be used on some 100 sites;
- completion of the design and construction of prototypes for the new slow-forged rail ends for RFI S.p.A.'s switches;
- completion of the development and standard check of the vertical load measurement system tare trolley to tare the dynamic load measurement systems installed on cargo traffic generation plant;
- fine-tuning of the roller bench and development of predictive diagnostics to detect the deterioration of train movement associated with the derailment of cargo carriages;
- installation, with the related approval for commissioning, of seven multi-functional portals for detection of temperature increases and the start of fires and obstacles in the structure gauge;
- start of construction on two post-earthquake management systems:
    - a tool to generate earthquake "affected and shaken areas" maps, manage train traffic after an earthquake and organise teams to perform checks;
    - an experimental earthquake early warning (EEW) system with the installation of an accelerometric network on a pilot section to slow and stop trains in the event of earthquakes.

Research

The following research projects were carried out in 2017, mainly by RFI S.p.A.:

- "Performance analysis of the laser, radar and loop systems used to monitor that there are no vehicles on railroad crossings", conducted with the institute of Communication Technologies, Information and Perception of the Sant'Anna School in Pisa;
- "Architecture for safety-critical applications", training offered with the "Ulisse Dini" Mathematics and Computer Department at Università degli Studi in Florence;
- "RFI platforms project-development of logic for the computerised interlocking systems", research conducted with Fondazione Bruno Kessler in Trento;
- "Research for the domain analysis and definition of specific requisites for the automated URV vehicle to monitor HS/HC railway lines for critical issues" with the Mechanical Engineering Department of the Politecnico University in Milan.

Furthermore, a "technological demonstrator" project began, worth roughly €10 million, for which the construction and provision of three computerised interlocking systems are in progress.

Finally, an electronics workshop was set up for testing at the Firenze Osmannoro site and the four master agreements were prepared for research in the fields of embedded systems, software engineering, mechanical and diagnostics solutions and, with the inter-university consortium CINI, involving the most distinguished Computer Engineering Departments of Italy's premier universities for a five-year period.

Innovation

To support the group's systemic innovation process, an Innovation & Knowledge Management platform was designed in 2017 to manage the group's best ideas by transforming them into innovative pilot projects conducted using flexible and rapid prototyping techniques, while also supporting the open innovation model by engaging external stakeholders, such as universities and innovative start-ups or launching collaborative projects as part of national or European programmes, like Horizon 2020.

To this end, the group's partnerships with leading universities and research bodies, the Milan Politecnico, SDA Bocconi, CEFRIEL and Fondazione Ricerca e Imprenditorialità have proved strategic. It has also signed a partnership and innovation agreement with Enel relating to electrical mobility solutions and smart cities.

In 2017, the group met with over 150 start-ups in the fields of cyber security, smart building, smart working, predictive maintenance, fleet management, IoT and AI. These meetings led to four pilot projects with FS Italiane group companies.

Lastly, the "extended customer experience" project, which is nearing completion, will lead to the implementation of the digital & customer centricity view, one of the main pillars of the business plan.

Context and focus on FS Italiane group

Macroeconomic context

The year 2017 saw moderate and widespread global economic expansion, in both industrialised countries and emerging markets. The most recent estimates show world domestic product up 3.5% (+0.6% more than in the previous year), as economic activity grew at a high rate in the second half of the year and was accompanied by annual average growth in international trade of nearly 5%.

International trade data	**2017**	**2016**
GDP (% change on previous year)		
World	**3.5**	**2.9**
Advanced countries	**2.3**	**1.6**
US	2.3	1.5
Japan	1.7	0.9
Eurozone	2.4	1.8
Emerging countries	**4.5**	**3.8**
China	6.8	6.7
India	6.6	7.4
Latin America	0.7	(1.1)
International trade	**4.9**	**1.7**
Oil (USD per barrel)		
Brent	54.8	45.1

Source: Prometeia, December 2017

Global economic growth is expected to remain substantially stable in 2018, despite the uncertain political situations in the Middle East and North Korea.

The US economy stood out among industrialised countries, posting year-on-year growth of 2.3% in the wake of solid domestic demand, despite the violent hurricanes it suffered at the end of the summer, which negatively impacted many components of GDP. Trump's economic and tax plan implemented at year end should spur new investments and improve labour market conditions, with gradual wage increases in the short and medium term, encouraging the consolidation of economic activity in 2018 as well.

Among the major industrial economies, Japan reported its longest uninterrupted growth trend - having expanded for seven consecutive quarters - in 16 years (+1.7% year-on-year), as exports have performed strongly, contributing, together with the increase in capital investments, to offsetting the drop in private consumption. Overall, the growth rate in advanced countries was 2.3%, compared to 1.6% in the previous year.

After a few rocky years of alternating expansion and contraction, emerging countries are recovering at present (+4.5%) thanks to the improved economic conditions in raw materials exporter countries. Among these, Brazil and Russia stand out, where political improvements and better oil prices have contributed to upwards revisions of growth forecasts.

In China, economic activity continues to grow rapidly, coming to 6.8% year-on-year (overperforming the government's growth target), driven by consumption which holds strong and the sound real estate market. The five-year economic plan was laid out at the Communist Party's National Congress in October and provides for a series of reforms focused on the quality and sustainability of growth.

Eurozone economic data	**2017**	**2016**
GDP (% change on previous year)		
Eurozone	2.4	1.8
Germany	2.5	1.9
France	1.9	1.1
Italy	1.6	1.1
Spain	3.1	3.3
Inflation (% change on previous year)		
Eurozone	1.5	0.2
Germany	1.7	0.4
France	1.2	0.3
Italy	1.2	(0.1)
Spain	2.0	(0.3)

Source: Prometeia, December 2017

The Eurozone's economic expansion remains solid and extends throughout the various countries and sectors. Average annual GDP growth was 2.4%, boosted by private consumption, investments and exports, which benefited from the widespread global recovery. The strong performance of the labour market, with the lowest unemployment rate since 2009 (9.1%), and low inflation continue to sustain household disposal income. At the same time, improvements in corporate earnings and favourable credit conditions are supporting the recovery of investments.
Foreign trade and the replenishing of stocks drove the GDP growth rate (+2.5%) in Germany, which remains the Eurozone's locomotive. Corporate investments continue to recover at a sound rate (1.5%), although they have slowed somewhat, and they are still one of the most dynamic components of demand. The growth in France was more moderate (+1.9%), fueled by domestic demand and the strong performance of private investments.
Spain, the Eurozone's most rapidly expanding economy, also reported GDP growth of over 3% in the past three years, driven by domestic demand and especially investments.

The Italian economy's growth rates rose dramatically in 2017, as they benefited from the expansive economic policies and favourable international context, with positive impacts on domestic demand and exports.

	2017			
Italian economic data	**Q1**	**Q2**	**Q3**	**Q4**
GDP (% change on previous year)	**0.5**	**0.3**	**0.4**	**0.4**
Domestic demand	0.2	0.8	0.2	0.5
Spending by households and private not-for-profits	0.7	0.2	0.3	0.1
Public administration spending	0.4	0.2	0.1	0.2
Gross fixed investments	(2.2)	1.1	3.0	1.0
Construction	0.8	(0.3)	0.3	0.2
Other durable goods	(4.7)	2.4	5.3	1.6
Imports of goods and services	**0.7**	**1.6**	**1.2**	**0.9**
Exports of goods and services	**1.8**	**0.1**	**1.6**	**0.7**

Source: Prometeia, December 2017

In particular, GDP grew 0.5% and 0.3% in the first half of the year (the first and second quarters, respectively), mainly sustained by, in terms of market demand, the sharp rise in household spending and, in terms of supply, the rally in the service sector. The most recent estimates show that GDP growth reached roughly +0.4% in the second half of the year.

These trends led to year-on-year GDP growth of 1.6%, exceeding the government's expectations of +1.5%, although it underperformed other EU countries. Growth in consumption fueled economic activity and was in turn supported by the positive data on the labour market and disposable income, only partially limited by the modest rise in consumer prices. After a slight contraction at the start of the year, investments rallied strongly, benefiting from both the improvement in economic forecasts and the positive effects of the ECB's continued expansive monetary policy on the credit market.

In line with economic growth, the labour market continued to perform well, exceeding forecasts as it benefited from the reforms of recent years. The employment rate rose 1.5% (source: ISTAT (national statistics institute), November 2017) year-on-year, bringing the unemployment rate to 11%, down around 1% on the previous year.

In this context of cyclical growth, inflation in Italy remains weak. After the slight dip in 2016 (-0.1%), it grew 1.2% (source: ISTAT, December 2017), due to transport, food and service price increases in particular.

The outlook is favourable overall. 2018 will begin well and, barring any sudden and unexpected changes, the group expects to continue growing at the current rates.

Market performance and focus on FS Italiane group

Market performance

In 2017, nearly all segments of the Italian transport market continued to show signs of consolidation.

The logistics segment also posted sound results, with revenue up 1.8% on the previous year, boosted by the rise in cargo traffic and the economy's positive performance.

Cargo transport by air showed robust growth of 9.6% on 2016, with transported tonnes of slightly more than 1 million, confirming the upwards trend of the past two years. The Milano Malpensa hub, where over 50% of all cargo transport by air transits, remained the country's largest hub, with growth of 7.4%. Next was Roma Fiumicino, with approximately 180,000 tonnes. Heavy vehicle motorway traffic also showed substantial growth, with around 16 billion vehicle-km from January to October 2017, up 3.9% on the same period of 2016. Container transport by sea showed a general rise of 5.4%. The main Italian ports with the strongest results were Trieste and Genoa, up 26% and 16%, respectively (the data on Genoa refer to the first nine months of 2017).

The passenger air transport sector continued to grow, with some 175 million passengers, up 6.4% on 2016. The most significant growth was seen in the international passenger segment, particularly within the EU, up 8.5%. The Rome airport complex (Roma Fiumicino and Roma Ciampino) remain the number one hub in terms of the number of passengers, with traffic substantially the same as in 2016. Light vehicle motorway traffic also showed growth, producing approximately 55 billion vehicle-km, up 1.9% (January-October 2017).

Recent estimates show that the number of sea transport passengers at Italian ports totalled around 10.2 million. The top port by passenger volumes was Civitavecchia, with roughly 2.2 million passengers, followed by Venice, with 1.4 million.

In the road transport sector, following bus transport deregulation, the medium and long haul bus service market is growing rapidly, with the number of routes between Italian cities and between Italian and European cities on the rise. Approximately 150 companies are authorised to operate on this market, and they are mainly small and medium size. In Italy, service initially focused on connecting the north and south and in areas less well-served by the railway networks. It has since expanded to cover transversal lines (east-west connections crossing the peninsula), to the Adriatic coast and between northern and central Italy, and is now extensive. This strategy is reflected in the connections offered by Flixbus, the bus company with a market share of around 25%, which consist of some 50 inter-regional lines (18 north-south, 20 north-central and 12 east-west) and 19 international routes.

The medium and long haul bus market covers roughly 12% of total demand for medium and long haul collective transport, with growth of 15-18% in the past two years, partly due to successful market strategies, such as offering new services at accessible prices. Sector analyses show that the average distance travelled ranges from 250 to 300 km.

Focus on the management of domestic railway infrastructure

The infrastructure managed by FS Italiane group companies in Italy and abroad covered roughly 17,560 km in 2017, with the national railway infrastructure managed by the subsidiary Rete Ferroviaria Italiana S.p.A. accounting for 16,787 km. This network consists of fundamental, complementary and hub lines, as follows:

- fundamental lines with high traffic density, covering 6,497 km;
- complementary lines, which make up a dense network of regional connections and interconnections with the main lines, covering a total distance of 9,337 km;
- hub lines, which are located in major metropolitan areas for a total distance of 953 km.

Of these lines, 9,091 km are single track and 7,696 km double track. In terms of how the network is powered, over 12,000 km (7,619 km of which are double track lines) is electrified, while 4,765 km are diesel lines. The total track distance is around 24,000 km, with the HS lines running for 1,467 km. All network lines are equipped with one or more train speed protection systems, which makes the railway infrastructure managed by Rete Ferroviaria Italiana S.p.A. one of the safest in Europe. In particular, the lines on the new HS/HC network feature the ERTMS/ETCS, the standard European signalling system.

TOTAL TRACK LENGTH (KM)

2017	2016
24,483	24,435

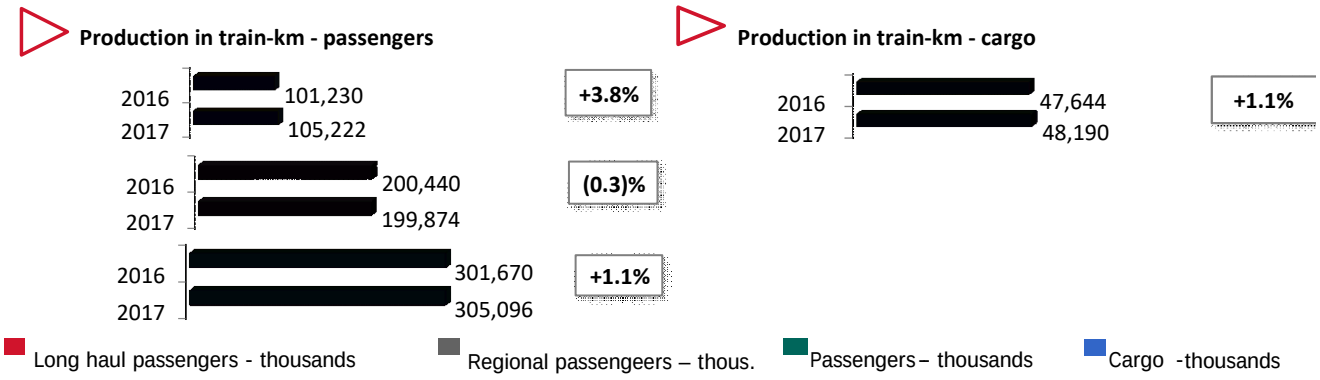
LENGTH OF THE RAILWAY NETWORK (KM)

2017	2016
16,787	16,788

39 railway companies have been authorised to carry out transport operations on the Rete Ferroviaria Italiana S.p.A. network with the necessary licence issued by the MIT. 32 of these railway companies have active licences and safety certification issued by ANSF, the National Agency for Railway Safety.

Total production in 2017 on the network operated by Rete Ferroviaria Italiana S.p.A., including “Other service lines”, came to approximately 354 million train-km, with non-FS Italiane group railway companies accounting for roughly 22.5%.

In addition to the network operated by RFI S.p.A., FS Italiane group manages 474 km of Ferrovie del Sud Est e Servizi Automobilistici S.r.l. (FSE S.r.l.) lines in Italy. The FSE S.r.l. network, which is 32% electrified and is almost entirely single track, crosses the provinces of Puglia, with eight lines: Bari-Taranto, Mungivacca-Putignano, Martina Franca-Lecce, Novoli-Garigliano, Casarano-Gallipoli, Lecce-Gallipoli, Zollino-Garigliano and Maglie-Otranto, offering approximately 3.2 million train-km per year. The group’s remaining infrastructure, consisting of the roughly 300 km operated by Netinera group in Germany, also part of FS Italiane group, also consists of 60 passenger stations. 2017 production totalled roughly 50 million train-km.



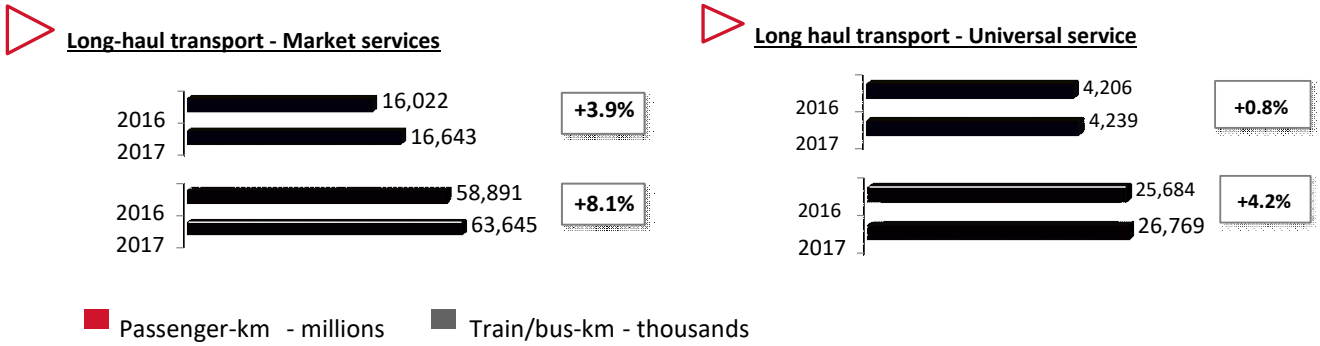
Where necessary, comparative data have been restated.
(*) "Other service lines" that cannot be attributed to one specific service category are not included.

Focus on the group's passenger and cargo traffic

FS Italiane group's transformation from a national transport company to a European mobility company through the systemic integration of the entire transport system led to positive results in its satisfaction of demand again in 2017.

The group's satisfaction of demand for long haul railway transport operations in 2017 grew 3.2%. Trenitalia S.p.A. – which, in this sector, performs nearly all its services in Italy – and the Greek railway company TrainOSE SA, which the group acquired in the second half of the year, contributed to this performance. Total production rose by roughly 6.9% to around 90 million train-km, with market services making up 70% of production.

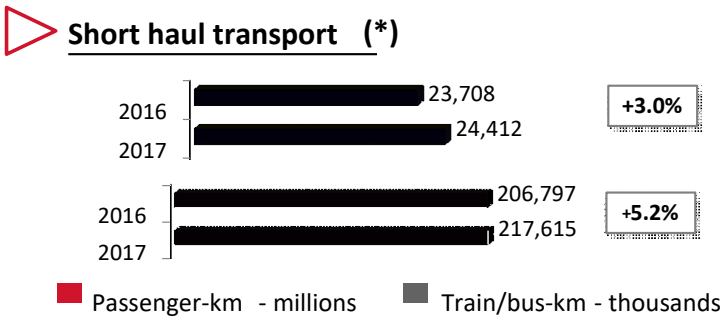
Trenitalia S.p.A. largely drove the increase in demand for long haul railway transport services provided on the market (+3.9%), particularly with its *Frecciarossa* brand. On the other hand, the universal long haul railway service showed a slight year-on-year increase in traffic (+0.8%), due to - as mentioned earlier - the acquisition of TrainOSE SA, which offset the decrease in Trenitalia S.p.A.'s national service (-4.8% in terms of passenger–km). To face the downwards trend in demand for transport that has affected Trenitalia S.p.A.'s long haul universal services in Italy over the past two years of contract extension and without any changes to the terms and conditions, on 31 July 2017, the MIT, the MEF and Trenitalia S.p.A. signed a new contract for universal *Intercity* day and night service covering the 2017-2026 ten-year period. This contract provides for a plan to relaunch the service based on higher quality standards in terms of punctuality, regularity and cleanliness, a sweeping update of the rolling stock fleet and technological upgrades, such as the installation of sophisticated video surveillance systems on board trains to increase passengers' sense of security. The universal *Intercity* offer consists of 108 daily connections, with approximately 40,000 passengers per day in 2017, for an annual total of around 15 million passengers.



(*) Includes the group subsidiaries' traffic abroad

After having revised connections between large cities with HS connections and substantially contributed to the growth and competitiveness of the country's production system, FS Italiane group has made it one of its main targets in the 2017-2026 business plan to relaunch regional and local public transport by promoting modal integration and shifting the balance from road to rail transport. The most important step in this direction has been the roll-out of some 250 new regional trains in the past two years and the planned arrival of another 450 new trains. The regional train fleet will, in this way, be 70% updated and mainly consist of more comfortable, more sustainable and more accessible trains with a positive impact on customer satisfaction.

Demand met by the group's regional railway transport services grew 3.0% in 2017 on the previous year in terms of total Italian and foreign traffic volumes, with the growth in foreign traffic benefiting from the acquisitions that were carried out or completed in 2017. Passenger satisfaction with comfort, cleanliness, punctuality, on-board information and safety has also improved. Production grew as well, to an annual volume of approximately 218 million train-km.

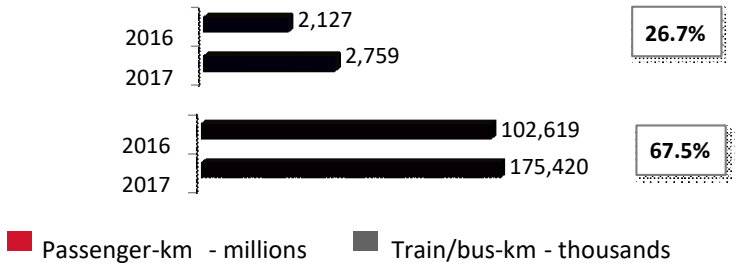


Where necessary, comparative data have been restated
(*) 2017 traffic data reflect the acquisitions of the year, as they include the domestic traffic of Trenitalia S.p.A., Busitalia group and Ferrovie Sud Est e Servizi Automobilistici S.r.l., and the traffic abroad of Trenitalia c2c Ltd, TrainOSE SA and Netinera group. 2016 traffic data refers to Trenitalia S.p.A., Busitalia group and Netinera group.

International non-railway local public transport, which in 2016 already consisted of Netinera group's operations in Germany, expanded during the year with the acquisition of Qbuzz BV, owned by Busitalia-Sita Nord S.r.l., which operates in the Dutch market with bus and tram services. In Italy, Busitalia-Sita Nord S.r.l. manages local public transport in major cities – Padua, Florence, Perugia and Salerno – representing, together with ATAC and ATM, one of the country's major players, with production of just over 110 million bus-km and approximately 200 million passengers per year. In addition to providing local public transport services, Busitalia-Sita Nord S.r.l. jointed the long haul road transport sector with the *Busitalia Fast* service, offering daily connections in 15 Italian regions and over 90 Italian and German cities with a fleet of 60 last generation buses. The integrated *Freccialink* service (bus + Trenitalia S.p.A. *Freccia* service) completes Busitalia group's offer,

connecting major cities like Siena, Perugia, L'Aquila, Potenza and Matera to the HS railway network, with production of roughly 900,000 bus-km. Lastly, in 2017, the group's local public transport service expanded to include Ferrovie Sud Est e Servizi Automobilistici S.r.l.'s road transport services ensuring connections to over 130 municipalities in the region of Puglia, integrating the same companies railway services. The complete domestic and international offer of Netinera group, Ferrovie Sud Est e Servizi Automobilistici S.r.l., Busitalia-Sita Nord S.r.l. and its subsidiaries totalled around 175 million bus-km in 2017.

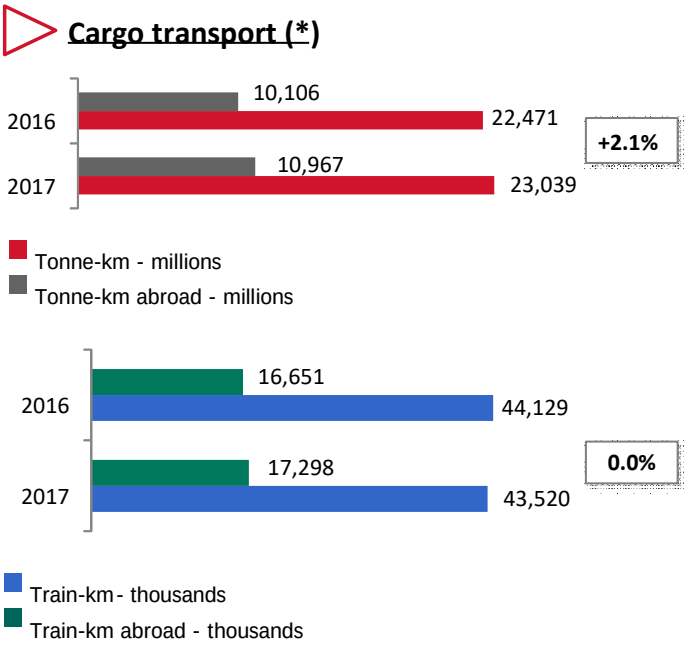
Road transport



With respect to cargo transport, FS Italiane group has generated and is pursuing, with the creation of the Mercitalia hub headed by the sub-holding company Mercitalia Logistics S.p.A., a new business model consisting of the development of integrated cargo transport and logistics transport solutions at the best market conditions. Within the hub, the rail service, which benefits from the expertise and professional experience of the subsidiary Trenitalia S.p.A.'s cargo business unit, performed well in this first year, partly due to the integration with other group companies.

Cargo traffic volumes measured as tonne-km showed growth of 2.5%. This increase was significantly driven by traffic abroad, particularly that operated by the subsidiary TX Logistik AG. The total railway cargo transport offer decreased slightly (-1.4%) on 2016, although sound results were achieved in terms of streamlining the overall cargo transport segment by improving service quality while boosting productivity.

Cargo transport (*)



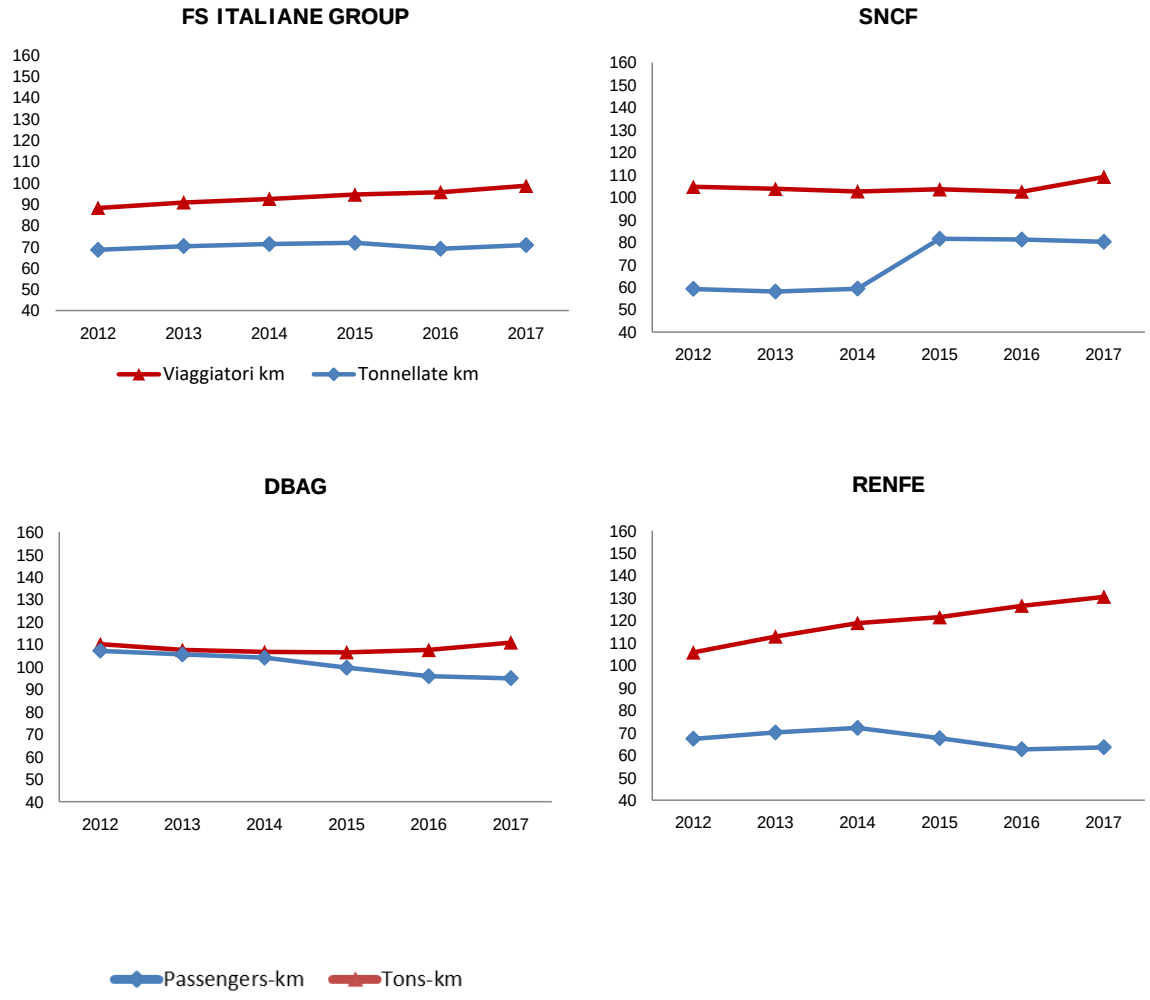
(*) Includes foreign traffic data.

Traffic of main European railway companies

The European economy's sustained growth rate, with GDP up 2.4%, growth of approximately 3% in industrial production and unemployment of 9.1%, had positive repercussions demand for mobility as well.

In the cargo transport segment, the most recent data available, collected by Union Internationale des Chemins de Fer (UIC), show cargo traffic of the most important European railway companies rose by roughly 1% in terms of tonne-km. In particular, the Spanish company Renfè SA posted a 1.4% increase, while French SNCF and German DB AG decreased approximately 1%. The Polish operator, PKP SA, stands out among Eastern European companies, with significant growth in traffic volumes of 9.8%.

In the passenger segment, the average increase in traffic volumes was 4.5%: among the leading railway companies, France's SNCF posted growth that was higher than average, while Germany's DB AG and Spain's Renfe showed growth of around 3%.



Developments in European legislation

Developments in Italian legislation affecting the group are summarised below.

- **Fourth Railway Package.** With respect to the execution measures and delegated measures of the "Fourth Railway Package", on 15 August 2017, the European Commission's Delegated Decision (EU) 2017/1474 was published in the EU's Official Journal, establishing the objectives of all technical specifications for railway interoperability in accordance with article 5 of Directive (EU) 2016/797 relating to the interoperability of the European Union's railway system;

- **Mobility Package.** On 31 May 2017, the European Commission presented the package of measures for the transport sector named the Mobility Package. The proposals cover: i) motorway tolls; ii) automated tolling systems; iii) road transport regulations; iv) vehicle hires without drivers for cargo transport; and v) labour conditions for heavy vehicle drivers, their work hours and tachograph.
  On 8 November 2017, the European Commission adopted the second tranche of the legislative proposals in the Mobility Package. The proposals include: i) new rules on alternative fuel infrastructures; ii) a proposed directive on non-polluting vehicles; iii) new standards for the CO2 emissions of cars and vans; iv) the revision of Regulation 1073/2009 on the bus transport market and Directive 92/106 on combined transport.

- **Cyber security.** On 13 September 2017, the European Commission presented a package of legislative measures on cyber security for all Network and Information Systems sectors, including transport. The European Parliament and Council are examining the text of the measures.

- **Regulation no. 1371/2007.** On 27 September 2017, the European Commission adopted a proposal to reform regulation no. 1371/2007 on the rights of railway transport passengers. The most significant changes of the proposal, which will be examined by the European Parliament and Council in accordance with the ordinary legislative procedure, relate to: i) a specific regulation for cumulative tickets including railway and other forms of transport; and ii) a regulation of the definition of liability in the event of "force majeure" and the reinforcement of the rights of people with reduced mobility.

- **Recast Directive.** With respect to the execution measures and delegated measures of Directive (EU) 2012/34 (the "Recast Directive" which creates a single European railway space:
  - the European Commission's Delegated Decision (EU) 2017/2075 was published in the EU Official Journal on 14 November 2017, replacing appendix VII to Directive (EU) 2012/34 relating to the procedure for the assignment of railway infrastructure capacity;
  - the European Commission's Implementing Regulation (EU) 2017/2177 was published in the EU Official Journal on 23 November 2017 relating to access to service plant and the related activities. This regulation implements article 13 of the Recast Directive in the first railway package and will apply as from 1 June 2019, except for article 2, which will instead apply as from 1 January 2019.

- **Juncker Plan**. On 12 December 2017, the European Parliament voted to adopt the regulation which extends and strengthens the European Fund for Strategic Investments (the "Juncker Plan"). This plan, in effect as from 1 January 2018, was extended until the end of 2020 and increases planned investments to €500 billion.

Developments in Italian legislation

Developments in Italian legislation affecting the group are summarised below.

- **Law no. 1 of 5 January 2017 "Ratification and execution of the Agreement between the Italian government and the French government to begin definitive work on the transborder section of the new Turin-Lyon railway line, in Paris on 24 February 2015, and the Additional Protocol, with an Attachment, in Venice on 8 March 2016, with the annexed Regulation of contracts adopted in Turin on 7 June 2016".** This Law ratifies the Agreement between the Italian and French governments to begin definitive work on the transborder section of the Turin-Lyon railway line. In particular, it ratified the last three deeds necessary to begin the work: (i) the 2015 agreement concerning the start of work on the transborder section of the new Turin-Lyon railway line; (ii) the additional protocol of 2016, which updates the cost of work established in January 2012; (iii) the contract regulation, which extends Italian anti-mafia rules to the assignment and performance of the contracts for the Turin-Lyon line, subject to French law pursuant to the 2012 agreement.

- **Legislative decree no. 3 of 19 January 2017 "Implementation of Directive 2014/104/EU relating to specific rules applicable to lawsuits to claim compensation for damage in accordance with national law for violations of the competition rights of member states and the European Union".** This decree, to reinforce the tools available to damaged parties, introduces mechanisms for acquiring evidence that gives the judge the power to ask the parties, third parties and antitrust authorities to present information useful in the case concerning the dispute for the compensation of damage arising from antitrust violations, to enable the damaged parties to resolve the inconsistent information that currently make it difficult to claim compensation for damage. The decree also governs the validity, in the claim for compensation for damage, of the definitive decision with which the Antitrust Authority of another member state assesses a violation of antitrust law. It therefore governs the statute of limitations applicable to claims for compensation for damage, the joint and several liability of parties in violation, the quantification and valuation of the damage, concentrating jurisdiction for these disputes, including collective claims, with the three corporate sections (Milan, Rome and Naples).

- **Legislative decree no. 41 of 17 February 2017 "Measures for the harmonisation of national legislation on sound pollution with Directive 2000/14/EC and Regulation (EC) no. 765/2008, pursuant to article 19.2.i), l) and m) of Law no. 161 of 30 October 2014".** The measure is intended to streamline regulations on the sound emitted by machines operating outdoors, with specific regard to those imported from non-EU countries and sold in the retail trade, making the importers in the EU liable in this respect and thereby filling a legislative gap and ensuring more security for users. The measure also aims to simplify the authorisation and certification procedures, including a revision of the certification bodies' requirements. Lastly, the penalty system is reinforced, assigning ISPRA (the Italian institute for environmental protection and research) more power for assessments and checks.

- **Legislative decree no. 42 of 17 February 2017 "Measures for the harmonisation of national legislation on sound pollution pursuant to article 19.2.a), b), c), d), e), f) and h) of Law no. 161 of 30 October 2014".** The measure is intended to harmonise national legislation on sound pollution with Directive 2002/49/EC on the determination and management of environmental sound, with the specific aim of reducing the number of EU sound pollution violation procedures pending against Italy, by shortening the time needed to send sound maps and related action plans, while ensuring the public is informed at the same time. The measure also definitively resolves any critical aspects relating, in particular, to the application of value caps, coordination between the various planning tools and the assessment of the sound impact in the infrastructure design stage, to contain sound pollution and safeguard the population. Furthermore, it establishes that the transport infrastructure operators' accruals to cover the costs to remedy sound pollution, which they must currently recognise annually, are not necessary if they present a report with justification, sent to the Ministry of the Environment, showing that there are no further expenses to remedy sound pollution. This obligation for the national railway infrastructure operator RFI S.p.A. does not apply if the financing of the planned works to contain and mitigate sound is fully covered by the funds provided for in the Programme Contracts.

- **Law no. 19 of 27 February 2017 "Conversion, of Decree law no. 244 of 30 December 2016, containing the extension and definition of terms. Extension of the deadline for the exercise of legislative proxies into law, with amendments".** On 27 February 2017, Law no. 19 was issued, converting Decree law no. 244/2016 into law, extending and defining the terms. The law also provides for, *inter alia*:
  - a one-year extension (to 7 October 2017) of the deadline to comply with fire prevention regulations;
  - the deferral to 1 January 2018 of the effectiveness of the reform of the rate component structure of the electricity system charges applied to non-domestic customers;
  - the extension of Rete Ferroviaria Italiana S.p.A.'s 2012-2014 Government Programme Contract - Services until the approval of the new 2016-2021 Contract and in any case until and not past 30 September 2017. The 2016-2021 Government Programme Contract - Services took full effect on 2 October 2017 following the Court of Auditors' registration of Ministerial decree no. 359 of 12 July 2017 whereby the MIT approved the deed. With this step, the authorisation process that began in August 2016 was completed with the presentation of the Contract for the CIPE's examination.

- **Legislative decree no. 38 of 15 March 2017 "Implementation of master decision no. 2003/568/GAI relating to anti-corruption and anti-bribery in the private sector".** The measures provides, in particular, for:
  - the amendment of article 2635 of the Italian Civil Code, establishing that, in the acceptance of bribes, the criminally responsible parties, following the amendment, include not only those in senior management or control positions, but also those working with directive duties at private bodies or companies. In addition, "external" parties are punishable for the same crime, i.e., those offering, promising or giving cash or other undue benefits;
  - the introduction of article 2635-*bis* of the Italian Civil Code, which covers bribe soliciting and inducement between private individuals;
  - the amendment of Legislative decree no. 231 of 8 June 2001 relating to the liability of legal entities with respect to bribery between private individuals.

- **Law no. 49 of 20 April 2017 "Conversion of Decree no. 25 of 17 March 2017, containing Emergency measures for the repeal of accessory labour provisions and the amendment of provisions on joint and several liability on contracts into in law".** The measure amends the provisions on joint and several liability on contracts, subject to the referendum request for repeal. In particular, regulations applicable to joint and several liability between the customer and the contractor of works or services in relation to the remuneration, including post-employment benefits, pension contributions and insurance premiums owed to employees in the contract performance period. Substantially, the measure eliminates the possibility, for collective contracts, to depart from the principle of joint and several liability between the customer and contractor. It also eliminates the benefit of prior attachment of the contractor's assets and, consequently, the requirement that executive action may be taken against the customer or employer only after the unsuccessful attachment of the contractor's assets or those of any sub-contractors.

- **Decree law no. 50 of 24 April 2017 "Emergency measures on financing, initiatives to support local bodies, aid to areas affected by earthquakes and development measures".** The measure provides for, *inter alia*:
  - Local public transport measures, introduction the following measures:
    - the stabilisation of the Fund for the financing of local public transport in ordinary-status regions, so as to rescind the previous funding mechanism based on excise taxes on petrol and diesel;
    - the renewal of rolling stock, providing for its acquisition including through the lease of rolling stock for railway transport and the hire of road vehicles no more than 12 years old without drivers. The companies assigned the local public transport service may access the negotiation and acquisition system managed by the national acquisition units;
  - regional transfers to provinces and cities for the assigned functions. For the 2017/2020 four-year period, a share of 20% of the national fund for government grants to cover local public transport costs has been assigned to the regions, provided that they, by 30 June of each year, certify that they have disbursed to the provinces and cities the resources for the functions they have been assigned.
  - Measures for railway transport. The article includes various provisions of interest:
    - it requires a more rapid technological and infrastructural upgrade of the regional railways to EU and national standards, assigning RFI S.p.A. responsibility for the technological projects on the aforesaid regional lines, within the limits of the available financial resources allocated for these purposes and as agreed with the governments/regions. The regional lines to receive the government grants will be identified by decree of the MIF, in concert with the MEF, considering their characteristics and relevance with respect to the national network. Furthermore, agreements and contracts between the regions and RFI S.p.A. may govern the company's takeover of the management of regional lines and the performance of various projects, including work in addition to the technological upgrade and those subject to government grants;
    - it recognises the available resources already approved by the CIPE and disburses a portion of the residual funds to Grandi Stazioni Rail S.p.A. for new projects or the completion of works;
    - for Ferrovie del Sud Est e Servizi Automobilistici S.r.l., it specifies that the €70 million grant approved in the 2016 Budget Act but not yet disbursed, will be used to cover liabilities, including prior year liabilities, and to meet the financial requirements of the company's infrastructure;
    - it provides for the payment, to Trenitalia S.p.A., of the resources allocated in the MEF's budget to meet its obligations for the public railway transport service it provided in Sicily in 2014 and the interregional services that it has performed since 2014;

- preliminary work needed to ensure compliance with the schedule for the subsequent start of works on the new Turin-Lyon line, pending the finalisation of the CIPE's related resolution;
- Emergency measures to promote competition and combat local public transport ticket evasion. The article affects the organisation of local and regional local public transport, identifying the procedures for the determination of mobility usership by the regions and autonomous provinces; changes were made to the ART's duties; tools to combat ticket evasion were reinforced;
- Emergency measures on the company reorganisation. These measures authorise the MEF to transfer its equity investment in ANAS S.p.A. to Ferrovie dello Stato Italiane S.p.A.. Furthermore, they provide that the transfer will take place via the contribution of ANAS S.p.A. to FS Italiane S.p.A. subject to the finalisation of the 2016/2020 Government Programme Contract between the government and ANAS S.p.A. and a sworn opinion on the ANAS S.p.A. dispute, earmarking €700 million previously allocated by the CIPE for its settlement.

- **Legislative decree no. 100 of 16 June 2017 "Integrations and corrections to Legislative decree no. 175/2016, Consolidated regulations on companies in which the government holds an interest.** This legislation amends the consolidated regulations on companies in which the government holds an interest, providing for, *inter alia*:
  - the inclusion, in the introduction, of reference to the agreement reached during the Unified Conference, in order to avoid constitutional invalidity pursuant to Constitutional Court ruling no. 251/2016;
  - the amendment of article 1 (Object), paragraph 5, of Legislative decree no. 175/2016, whereby the provisions of the decree apply, only if explicitly provided for, to listed companies and companies that have issued, at 31 December 2015, financial instruments, other than shares, that are listed on regulated markets, as well as the investees of such companies, unless they are, not via listed companies, controlled or held by public administrations;
  - the amendment of Legislative decree no. 33/2013 concerning the "Reorganisation of regulations on the right to access information and disclosure, transparency and reporting obligations for the public administration", excluding from the scope of application listed companies and companies that have issued, at 31 December 2015, financial instruments, other than shares, that are listed on regulated markets, as well as the investees of such companies, unless they are, not via listed companies, controlled or held by public administrations.

- **Legislative decree no. 104 of 16 June 2017, implementing Directive 2014/52/EU on the environmental impact assessment of certain public and private projects pursuant to articles 1 and 14 of Law no. 114 of 9 July 2015.** The purpose of this decree is to amend the current regulations applicable to the procedures for environmental impact assessments and evaluation of whether procedures are subject to environmental impact assessments, to make these procedures faster and more efficient.

- **Law no. 96 of 21 June 2017 "Conversion of Decree law no. 50 of 24 April 2017, containing emergency measures on financing, initiatives to support local bodies, aid to areas affected by earthquakes and development measures into law".** This law converted Decree law no. 50/2017, providing for, *inter alia*:
  - local public transport measures:
    - regulation of the criteria to determine the remuneration and considerations to use in tenders for the assignment of local and regional public transport services and the procedures to define tariff scales, repeating certain provisions taken from the "Madia Decree" which was not published after the Constitutional Court declared it unconstitutional;

- the assignment of an extraordinary grant of approximately €46 million to the Umbria region for its liabilities to Busitalia – Sita Nord S.r.l.. The grant is divided into €20 million for 2017 and €26 million for 2018. This measure will be financed using the 2014-2020 Development and Cohesion Fund resources;
- other provisions of the "Madia Decree" were used, with the provision that the service contracts signed on or after 31 December 2017 must prevent the regional or local transport service operator from using petrol or diesel M2 or M3-category motor vehicles with anti-pollution characteristics classified as EURO 0 or 1; furthermore, the same service contracts must require that the vehicles used for local public transport have electronic passenger counting systems; lastly, regional and local public transport contracts signed on or after 31 December 2017 must establish that the operator bears the cost of maintaining and updating rolling stock and systems, except for extraordinary maintenance on plan and publicly owned infrastructure. This provision also requires that the service contracts bind the companies to allocate at least 10% of the contractual consideration to updating the vehicle fleet in accordance with a financial plan that they prepare;
- specification of the Fund measures for the acquisition of regional and local public transport vehicles, adding energy upgrade to the vehicles among the purposes of the Fund, which will be carried out as decided with the MIT;
- establishment of the segregation of regulation, steering, organisation and control duties from management of the regional and local public transport service. Furthermore, various provisions relating to the legal and financial treatment of rail, tram, ferry and suburban bus personnel were repealed with the renewal of the labour agreement for the LPT sector;
- the free, tax-exempt transfer to the concession-holding companies (former government management) of vacant properties, works and railway plant no longer in use and no longer usable for railway operations;

- railway transport measures. There are various provisions of interest:
  - with respect to the methods by which regional railway networks are technologically updated, the regional lines qualified as national railway infrastructures, as already provided for by article 47.5 of Decree no. 50/2017, must be identified in agreement with the concerned region;
  - Ferrovie del Sud Est e Servizi Automobilistici S.r.l. is to be transferred to Ferrovie dello Stato Italiane S.p.A. considering FS Italiane S.p.A.'s industrial characteristics and assets, so as to ensure the continuity of work, services and the business itself;
  - the authorisation of preliminary activities for the start of work on the Turin-Lyon railway line was confirmed;
  - €20 million was allocated for 2018 to update the braking system on cargo carriages;
  - passenger railway connections between Sicily and the Italian peninsula by sea may use speed boats, covered by the resources previously allocated for this purpose in the current Government Programme Contract - Services between Rete Ferroviaria Italiana S.p.A. and the government;
  - provisions were introduced for cargo transport by rail and at ports, establishing that the resources for 2018 and 2019, totalling €100 million per year, were allocated to MIT with the European Commission's authorisation and that the MIT will allocate them to the railway companies with the same mechanism as that pursuant to Decree law no. 185/2015. Furthermore, it establishes that each port authority may decrease the concession fees in the areas used for terminal operations;
  - establishment of a €2 million Fund for 2017, 2018 and 2019 each to train personnel involved in railway operations, with specific regard to the cargo train drivers. These resources will be assigned by MIT decree to the railway companies, provided that at least 70% of trained personnel is hired and that personnel pay nothing;

- road transport provisions, consisting of, in particular: a) refinancing of €35 million in grants for 2018 to implement products that improve the intermodal chain and relieve traffic congestion on roads, entailing the establishment, start and operation of new sea services for combined cargo transport or the improvement of services on existing routes arriving at or departing from Italian ports; b) refinancing of €20 million in grants for 2018 for intermodal railway transport services arriving at or departing from logistics hubs and ports in Italy. In addition, the infrastructure operator must use the resources in article 1.294 of Law no. 190 of 2014 (cargo transport incentives), which have not been allocated to the railway companies, as investments to improve national railway connections to traffic generation and activation hubs or to updating shunting engines. These resources will be included in the Government Programme Contract - Investments between Rete Ferroviaria Italiana S.p.A. and the government, highlighting how they will used;
- emergency measures to promote competition and combat ticket evasion in local public transport. Certain provisions of the "Madia Decree" on local public services were repeated. Furthermore:
  - the fine imposed on passengers who fail to show valid tickets to ticket control agents is cancelled if the passengers can demonstrate, based on the appropriate documentation, that they had a pass or ticket registered to their name that was valid at the time of the check;
  - ticket control agents are given public officials status within the limits of their duties and may assess and challenge the other public transport violations indicated in title VII of Decree no. 753 of 1980, which entail an administrative fine;
  - the provisions repeat part of the content of the "Madia Decree" relating to transport service monitoring by national or regional consumer associations, which may send complaints about the main disservices to the national observatory for local public transport policies, and they also include rules on ticket refunds in the event of serious inefficiencies;
- emergency measures on company reorganisation, providing for the MEF's transfer of the equity investment in ANAS S.p.A. to FS Italiane S.p.A.. Furthermore, ANAS S.p.A. is to be transferred through a share capital increase by Ferrovie dello Stato Italiane S.p.A. based on a contribution in kind to be carried out within 30 days from the occurrence of certain conditions established in the same article. Furthermore:
  - if ANAS S.p.A. signs out-of-court or settlement agreements for disputes with contractor companies, ANAC must approve them in advance;
  - the spending review rules for entities included in the ISTAT list no longer apply as from the transfer of the ANAS S.p.A. shares;
  - within the scope of the authorised activities, ANAS S.p.A. must focus specifically on the static nature of bridges, viaducts and overpasses;
  - the resources allocated to ANAS S.p.A. and used to complete the Salerno-Reggio Calabria motorway must integrate the resources previously allocated and included in ANAS S.p.A.'s 2016-2020 Government Programme Contract;
- changes to the public contracting code. Article 211 of the public contracting code, relating to pre-litigation opinions attributed to ANAC, was amended, establishing that ANAC may take legal action against calls for bids and other general acts and measures relating to contracts with a significant impact on any contracting station that violate public contract regulations. In addition, ANAC has the right to express an opinion, including its reasons, against a regulation passed by a contracting station that it finds in serious violation of the public contracting code within 60 days of when it learns of the violation. Furthermore, if the contracting station does not agree with ANAC's opinion, it has the right to appeal with the administrative court within the 30-day term given by ANAC.
- earthquake safety measures on the A24 and A25 motorways. To start work immediately on updating the A24 and A25 motorways to earthquake safety standards, Strada dei Parchi, the company assigned management of the A24 and A25

motorways in Abruzzo may defer payment of the motorway considerations for 2015 and 2016, equal to annual instalments of €55,860,000 each, including default interest. Furthermore, the payment of the assignee's deferred consideration to ANAS S.p.A., totalling €111,720,000, may be paid in three instalments, each amounting to €37,240,000, by 31 March 2028, 2029 and 2030, plus accrued interest calculated at the legal rate;

- productivity bonuses. Companies that involve workers equally in the labour organisation may recognise a 20% reduction in the rate applicable to the employer's share of contributions for invalidity, old age and survivors, up to a share of benefits that may not exceed €800.

- **MIT decree no. 125 of 14 July 2017 Regulation containing the identification of beneficiaries, the proportionate calculation of assistance and the methods and procedures to implement the measures provided for by article 1.648/649 of Law no. 208/2015.** This regulation establishes, in article 1.649 of Law no. 208 of 28 December 2015, the methods and criteria for the disbursement of grants to intermodal and transborder railway transport services arriving at or departing from logistics hubs or ports in Italy, in order to support the full development of the intermodal transport system.

- **Law no. 123 of 3 August 2017 Conversion of Decree law no. 91 of 20 June 2017 containing emergency measures for economic growth in Southern Italy into law with amendments.** The legislation includes the following provisions of closest interest to the group:
  - local public transport provisions. With respect to LPT workers, the rule in article 27.12-*quinquies* of Decree law no. 50/17 is eliminated, which repealed Royal decree no. 148 of 8 January 1931 (railway and tram workers' contract) and Law no. 1054 of 1960 (extension of the contract to suburban bus service workers). Furthermore, calls for bids for the regional and LPT service must include, when the operator changes, the "seamless transfer of all personnel from the outgoing operator to the succeeding operator, excluding managers". The public transport service operators may entrust activities for the prevention, assessment and challenging of violations with travel regulations to parties, including third parties, who may be qualified as "ticket control agents", upon verifying that other employees requiring reassignment have already been effectively transferred to these positions. Finally, when a new operator takes over the service, the national labour agreement and second-level or local agreement applied to the outgoing operator will be applied to the new operator's personnel;
  - work group to reorganise regulations applicable to interregional public bus services. This legislation amends article 27 of Decree law no. 50/2017, restoring the possibility for joint ventures whose parent's core business is not transport to operate these services. Furthermore, the provisions establish "a work group to identify the principles and criteria for the reorganisation of regulations applicable to interregional public bus services". The work group must be established by MIT decree, in concert with the MEF.

- **Law no. 124 of 4 August 2017 Annual antitrust law.** This law provides for, *inter alia*:
  - the obligation for the regions to introduce clauses in the local public transport service contracts signed on or after 31 December 2017 that require service operators to offer users a remote ticketing service on a dedicated website or face specific sanctions;
  - as for the protection of scheduled transport service users, the obligation for concession operators and operators of scheduled passenger transport services by road, rail or sea to inform passengers, before the end of their journey, of

how they may access the service charter for information on the circumstances in which they have the right to receive refunds and indemnities. In addition, it obliges concession operators and operators of scheduled passenger transport services to allow passengers to claim refunds immediate after their journey and by merely showing their ticket, and to guarantee that the procedure is more efficient and simplified, which may include the use of new technologies for ticket purchase and issue processes;

- the introduction of a proxy for the government to revise the regulations applicable to public road service not operating according to a specific schedule;
- for road vehicle hire without drivers, the possibility for companies providing passenger transport by hiring buses with drivers and nine or more seats to use vehicles owned by another company by signing a hire contract;
- with respect to sustainable mobility and the development of smart cities, a proxy for the government to exercise within 12 months of approval of the Law for the regulation the installation of "black boxes" on transport vehicles, for the purposes of creating technological platforms for integrated urban development;
- the establishment of a national logistics monitoring system.

- **Law no. 128 of 9 August 2017 Measures on the establishment of tour railways by re-using lines that are no longer used or being disposed of in areas of particular natural or archaeological interest.** The objective of the law is to "safeguard and exploit railways of importance for their culture, landscape and attraction for tourists, including railway routes, stations and the related artwork and adjacent elements, as well as historic rolling stock and that used for tours authorised to run on the lines and the use of railcycles".

- **Law no. 163 of 25 October 2017 Government proxy to implement European directives and other EU measures – 2016-2017 European delegated law**. The government was given legislative proxy to implement European directives and master decisions and to meet the obligations directly connected to the implementation of such European legislation, including the aforementioned Fourth Railway Package. The directives to be implemented in Italian legislation include:
  - European Parliament and Council Directive (EU) 2016/797 of 11 May 2016 relating to the interoperability of the European Union's railway system (implementation deadline: 16 June 2019);
  - European Parliament and Council Directive (EU) 2016/798 of 11 May 2016 on railway safety (implementation deadline: 16 June 2019);
  - European Parliament and Council Directive (EU) 2016/2370 of 14 December 2016 amending Directive 2012/34/EU concerning the opening of the national passenger railway transport service market and railway infrastructure governance (implementation deadline: 25 December 2018);
  - Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU with respect to the mandatory automatic exchange of information in the tax sector (implementation deadline: 4 June 2017);
  - Council Directive (EU) 2016/1164 of 12 July 2016 containing measures against tax avoidance with a direct impact on the functioning of the domestic market (implementation deadline: 31 December 2018);
  - Council Directive (EU) 2016/2258 of 6 December 2016, amending Directive 2011/16/EU with respect to the tax authorities' access to anti-money laundering information (implementation deadline: 31 December 2017);
  - European Parliament and Council Directive (EU) 2016/943 of 8 June 2016 on the protection of confidential know-how and commercial secrets against the acquisition, use and disclosure of violations (implementation deadline: 9 June 2018).

  Furthermore, the legislation provides for the updating of national legislation to the following regulations:

- European Parliament and Council Regulation (EU) no. 596/2014 of 16 April 2014, relating to market abuse (text amended during the Senate examination);
- European Parliament and Council Regulation (EU) 2015/2365 of 25 November 2015 on the transparency of financing transactions via securities and re-use and amending Regulation (EU) no. 648/2012 (text amended during the Senate examination);
- European Parliament and Council Regulation (EU) 2016/425 of 9 March 2016 on individual protection devices.

- **Law no. 167 of 20 November 2017 Provisions for the implementation of obligations arising from Italy's membership in the European Union - 2017 Europe law.** The 2017 Europe law, which consists of 30 articles amending or integrating provisions currently applicable to Italian legislation in order to align it with European law, contains a variety of provisions affecting the following sectors: free circulation of goods, people and services; justice and security; taxation; labour; health protection; environmental protection; energy and renewable sources; and other provisions.

  The provisions of direct interest to the group include article 19 of Law no. 167/2017, which significantly amended the previous legislative framework on the special rate regime - applied to RFI pursuant to Presidential decree no. 730/1963 - for the procurement of electrical energy used for traction. These amendments are summarised below:

  a) a new scope of application for the special rate regime, no longer based on the nature of the transport services but rather on the type of infrastructure on which the services are provided. The new special rate regime's scope of application excludes services provided on railway infrastructure powered at 25kV of alternating current. This definition has therefore extended the range of services eligible for the special rate regime, as it now covers the services provided on the market using infrastructure powered at 3 kV of continuous current, which were previously excluded;

  b) until the reform of general system costs takes effect, currently scheduled for 1 January 2018, the higher costs borne by the railway companies pursuant to article 29 of Decree law no. 91/2014 (as presently amended by Law no. 167) are only reduced by the offsetting effect of the special rate regime's new scope of application, while the entire railway system is already receiving the benefits of the "single virtual point" up to consumption of 5,000 GWh (the limit established by the Agreements with FS-ENEL (see note 2));

  c) replacement of article 29 of Decree law no. 91/2014 with the new law, with retroactive effect as from 1 January 2015.
- **Law no. 179 of 30 November 2017 Protections for whistleblowers on crimes or irregularities in public or private employment**. This law, which introduces the concept of whisteblowing in Italy, covers the reporting of illegal activity in the public administration or private companies by employees who learn of it through their employment. Its main objective is to ensure workers are adequately protected. The new rules amend article 54-*bis* of the Unified Public Employment Act, establishing that employees who report illegal conduct that they learn of through their employment to the entity's anti-corruption manager, the national anti-corruption authority or the ordinary legal or accounting authority may not be - for reasons associated with the reporting - subject to sanctions, demotion, dismissal, transfer or other organisational measures that have a negative impact on their working conditions. The new regulations require whistleblowers to be rehired if they have been dismissed and the elimination of any and all discrimination or retaliation. The burden of proof that the discrimination or retaliation against the whistleblower are due to reasons not related to the whistleblowing lies with the administration. ANAC, having heard the Data Protection Authority, will prepare guidelines on the procedures for the presentation and management of whistleblowing reports and promote the use of encryption tools for the content of reports and the related documentation in order to protect the whistleblower's identity.

- **Law no. 172 of 4 December 2017 Conversion of Decree law no. 148 of 16 October 2017 containing emergency financial measures to meet urgent requirements; Amendment of regulations on the prescription of crimes following remedy into law, with amendments.** This law contains a wide range of tax and other measures. Those directly affecting the group are included in article 15 (increase in RFI S.p.A.'s Government Programme Contract) and article 15-*ter* (measures to protect and improve rail and sea safety):
  - the amendment of Law no. 238 of 14 July 1993 containing provisions applicable to the transmission of the programme contracts signed with RFI S.p.A. to Parliament in order to establish that none of the programme contract updates are subject to the opinion of Parliamentary Commissions when they do not entail substantial amendments and their substantial purpose is to receive the financial resources allocated by the budget act or other legal measures. Substantial changes are those entailing costs and requirements that cumulatively or individually for an individual programme or investment plan exceed the forecasts in the government programme contracts by 15%. In these cases, having heard the CIPE's opinion, the MIT sends Parliament disclosure; (paragraph 1-*bis*);
  - the allocation of €4.5 million to support cargo railway transport (article 15.1-*septies*). In this respect, the purpose of the provision is to recover, even only partially, the reductions in the 2017 allocation, which originally amounted to €100 million (article 1.294 of Law no. 109 of 23 December 2014 to support logistics and railway transport operators). The reductions totalled €4.1 million (article 13.1 of Decree law no. 50/2017) and €5 million under this measure (article 20.5.a);
  - a change in the railway safety system of isolated railway networks (which will be subject, as from 2019, to the system pursuant to Legislative decree no. 162 of 2007, which previously excluded them). The provision also affects liability for accidents involving isolated railway networks, as well as liability with respect to national waterways and transport using fixed plant, and authorises ANSF to hire personnel to perform its duties (article 15-*ter*).

- **Law no. 198 of 4 December 2017 Ratification and execution of the agreement between Italy and France to implement the Alpine rail motorway service signed in Luxembourg on 9 October 2009.** This service, which began on a test basis in 2003, and was progressively extended, is devoted to the transport of cargo and dangerous cargo between Orbassano and Aiton, via the historic Fréjus tunnel using lowered carriages to transport articulated lorries, lorries, containers, trailers, semi-trailers and tractors. It will be funded using the resources allocated by article 1.654 of Law no. 208/2015 (2016 Stability Act). In particular, it authorises expenditure of roughly €29 million to cover the 2013-2018 period for services performed by Trenitalia S.p.A.. The same provision also provides for a €10 million grant for 2018-2022 to offset the costs of providing the railway service comprising the Alpine rail motorway service. These amounts will be assigned to the awardees of the services following public tender.

- **MIT decree of 19 December 2017.** This decree defines the operating methods and criteria for the allocation of the resources pursuant to article 47.11-*quinquies* of Decree law no. 50 of 24 April 2017 to the railway companies for the training of personnel involved in railway operations, with specific regard to the cargo train drivers.

- **Law no. 205 of 27 December 2017 Government budget for 2018 and long-term budget for 2018-2020.** This legislation includes the following provisions of closest interest to the group:
  - sterilisation of the increase in VAT and excise tax rates. In particular, it sterilises the increase in VAT for 2018, with the tax burden redistributed and deferred to 2019;

- tax subsidies on local public transport passes in the form of deductions for up to 19% of the cost. Furthermore, the reimbursements or costs incurred by employers for the local, regional and interregional local public transport tickets of employees and their family members (i.e., "LPT coupons") are not considered in the calculation of wages;
- increase in tax deductions for depreciation. The measures in effect for "super fiscally-driven depreciation" and "hyper fiscally-driven depreciation" were extended and the list of goods eligible for "hyper fiscally-driven depreciation" was expanded;
- tax credits for training costs in the field of 4.0 technologies. This provision introduces a tax credit for 2018 for employee training costs in the technologies covered by the 4.0 National Enterprise Plan; expenditure of €250 million was authorised for 2019 to implement the measures;
- sustainable mobility experimentation. The provision provides for the allocation of up to €100 million for each of the years from 2019 to 2033 using the resources pursuant to article 1.613 of Law no. 232/2016, already included in the fund pursuant to article 1.866 of Law no. 208-2015 (Fund for the purchase or hire of LPT vehicles), to finance experimental and innovative sustainable mobility projects included in urban sustainable mobility plans. The projects must encourage the introduction of road vehicles that run on alternative fuels and the related support infrastructure, as well as watercraft, and must be presented by municipalities and cities. A MIT decree, in concert with the Ministry for Economic Development and the MEF establishes how the resources are to be used.
- allocation of the national fund for government grants to cover local public transport costs. With the introduction of a new paragraph (2-*bis*) in article 27 of Law decree no. 50 of 2017, the law requires that, beginning in 2018, a MIT decree, in concert with the MEF and with the prior agreement of the Unified Government and Regions Conference, will change the percentages in effect for the allocation of the national fund for government grants to cover local public transport costs (Ministerial decree of 11 November 2014), based on the impact of the changes in the fee to access the railway infrastructure introduced by Rete Ferroviaria Italiana S.p.A. as from 1 January 2018, in accordance with the criteria defined by the ART;
- first aid on passenger trains. The law requires passenger trains to ensure adequate first aid for passengers;
- pension and welfare measures for workers with physically challenging duties and incentives to develop complementary pension schemes. The provisions adjust the pension requirements to longer life expectancy and provide for specific incentives for workers with 12-hour shifts in industrial production processes;
- increase in the fund for asbestos victims. Health and safety in the workplace regulations have, *inter alia*, increased the Fund for asbestos victims pursuant to paragraph 241 of the 2008 Finance Act (Law no. 244/2007) by €27 million for 2018, 2019 and 2020 each, with a corresponding reduction in the planned structural resources of INAIL (national insurance institution for accidents in the workplace) to finance investments and training in occupational health and safety. In addition, no additional tax will be applied in the same three-year period to insurance premiums paid by the companies for sectors in which workers are exposed to asbestos.
- extension of the time off for violence suffered by domestic workers. Legislation extends the amount of time off for female victims of violence who are domestic workers. Similarly, these provisions also establish that workers who take legal action to claim discrimination through harassment or sexual harassment may not be subject to sanctions, demotion, dismissal, transfer or other organisational measures that have a negative impact on their working conditions. They must be rehired if they have been dismissed and any and all discrimination or retaliation must be eliminated. Furthermore, changes in duties and any other forms of discrimination or retaliation against the claimant must be eliminated;

- additional measures to support exports and internationalisation. The law integrates regulations on SACE S.p.A. insurance to support exports and the internationalisation of the Italian economy;
- assignment of motorway concessions. The public contracting code was amended with respect to the assignment of concessions (article 177 of Legislative decree no. 50/2016), requiring holders of motorway concessions that have been directly assigned the contract to outsource 60% of the work, services and supplies, rather than 80%, as generally provided for;
- fund for the scrapping of cargo carriages. The law establishes, in the MIT's budget, a fund to financing the scrapping of cargo carriages with €4 million for 2018, 2019 and 2020 each to promote sustainable mobility and the updating of rolling stock;
- logistics and transport partnership. The law establishes a partnership for logistics and transport with the MIT to perform studies and provide advice and monitoring for the creation of government policies and strategies in the logistics and transport sector;
- national government assistance database (paragraph 402-*quater*). The law amends the regulation governing the national government assistance database by amending article 10 (which requires that individual assistance not subject to the EU Commission's issue of granting or authorisation measures is considered as granted when recorded in the national government assistance database in the fiscal year following that when the beneficiary receives it) and, for tax assistance, postponing to 2018 the start date of the application of the national government assistance database regulations in Ministerial decree no. 115/2017;
- payment of public administrations. The law reduces, as from 1 March 2018, the €10,000 threshold to €5,000 over which the public administration and companies in which the government holds a controlling interest must electronically check whether the beneficiary has outstanding taxes due based on the notification of one or more notices from the tax authorities for a total amount less than or equal to that amount before making payment; at the same time, the law increases from 30 to 60 days the term for which the public entity holds payment of amounts due to the beneficiary up to the amount of the liability reported by the collection agent, enabling attachment by the latter;
- Investment fund. The fund pursuant to article 1.140 of Law no. 232 of 11 December 2016 (Fund for the country infrastructural investments and development) was refinanced with €800 million for 2018, €1,615 million for 2019, €2,180 million for each of the years from 2020 to 2023, €2,480 million for 2024 and €2,500 million for each of the years from 2025 to 2033. These resources are allocated to, *inter alia*: transport, roads, sustainable mobility, road safety; various infrastructure; land protection, hydrogeological instability, environmental clean-up and reclamation; high-tech industrial activities and support for exports; earthquake risk prevention; investments in urban redevelopment and hinterland safety; reinforcement of infrastructure and means for public order, safety and first aid; elimination of architectural barriers; by 15 September of each year, each Ministry must send the Prime Minister's office, the MEF and the relevant Parliamentary Commissions a specific report on the monitoring of progress of financed projects and the effective use of the aforementioned resources;
- rapid mass transit. The law extends the possibility of using the fund resources pursuant to article 1.228 of Law no. 190 of 2014 to improve the local public transport service offer in cities and finance rapid mass transit, including rolling stock;
- fund for intangible capital, competitiveness and productivity. The law establishes a fund in the MEF's budget to encourage the development of intangible capital, competitiveness and productivity;

- disclosure of tenders in the event of sub-contracts. To ensure transparency with respect to contracts, the law requires the disclosure of tenders for sub-contracts by publishing them in the paper newspapers with the highest national circulation and on websites;
- extension of the commissioner's term of office for the Naples-Bari railway section. The law extends the RFI S.p.A. CEO's term of office as commissioner pursuant to article 1.1.1 of Decree law no. 133 of 2014 to 31 December 2020 for the construction of works on the Naples-Bari railway section;
- A22 Brennero-Modena motorway infrastructure. The law amends the recent regulations governing the assignment of the A22 Brennero-Modena motorway infrastructure under article 13-*bis* of Decree law no. 148/2017, requiring the concession-assignee pay, with the issue of the government budget, by 15 November of each year, €160 million for 2018 (rather than the current €70 million) and €70 million per year from 2019 to 2024 and, in any case, up to the value of the concession, which may not be cumulatively less than €580 million, and specifying that the MIT will sign the concession agreements for the A22 Brennero-Modena motorway infrastructure by 30 September 2018;
- ANAS S.p.A. disputes with contracting companies following the recognition of claims for additional compensation or for compensation for damage. The law amends article 49.7 of Decree law no. 50/17, which authorised ANAS S.p.A., for 2017, 2018 and 2019, to settle disputes with contracting companies following the recognition of claims for additional compensation or for compensation for damage. In particular, in article 49.7 of Decree law no. 50 of 2017, it eliminates ANAC's prior opinion on ANAS S.p.A.'s financial assessment of each transaction as part of the dispute settlement procedure. It also added paragraph 7-*bis* to article 49 of Decree law no. 50/17 requiring ANAC to conduct a prior analysis pursuant to article 213.1 of the public contracting code (Legislative decree no. 50/16) that ANAS S.p.A.'s procedure for out-of-court agreements and/or settlement agreements. In addition, new paragraph 7-*bis* establishes that the methods by which the prior analysis is to be conducted will be defined in a specific agreement signed by ANAS S.p.A. and ANAC, which will also identify the documentation subject to analysis;
- redistribution of the resources in the "investment fund". The proposal redistributes the allocations to the projects over the years (with the same amount of total resources assigned to each project). The projects mainly relate to the MIT: "mass rapid transit", "fund for central administration projects", "elimination of architectural barriers", "grants to ANAS S.p.A. to update structures", "grants to ANAS S.p.A. to take over roads no longer in use", "recovery plan for public housing and the public housing institute", "grants to Ferrovie dello Stato Italiane S.p.A." (RFI S.p.A. grants of €20 million).

ART regulations

The content of the main Transport Authority ("ART") regulations in 2017 is summarised below:

- **Regulation no. 18 of 9 February 2017**. With this regulation, the ART approved the "Regulation measures to ensure the cost effectiveness and operating efficiency of the railway shunting services." These measures are applicable to the 13 railway districts specified in the resolution.

- **Regulation no. 30 of 2 March 2017**. With this regulation, the ART completed the survey commenced with regulation no. 130/2016 to gather information on the analysis of regulations on the medium and long haul bus transport service market, reserving the right to subsequent decisions, including with respect to the adoption of additional initiatives within its scope of responsibility concerning the medium and long haul bus transport service market.

- **Opinion no. 1 of 24 March 2017.** The ART sent to MIT - pursuant to article 15.2 of Legislative decree no. 112/2015 - its opinion on the 2016 update to the 2012-2016 Government Programme Contract - Investments. After providing certain specific observations on the update, the ART reports is forward-looking comments in view of the upcoming programme contracts which will need to, *inter alia*, comply with the guidelines for the evaluation of investments in public works and highlight the functional connection and consistency between the Government Programme Contract and the sales plan.

- **Opinion no. 2 of 24 March 2017.** The ART sent to MIT its opinion on the reorganisation of interregional public bus services. This opinion was based on the survey it conducted to gather information on the structure and current orientation in the sector, which showed how the deregulation of the interregional public bus service sector is complete. The ART highlighted the inadequacy of current regulations with respect to the new structure of the sector.

- **Regulation no. 48 of 30 March 2017.** With this regulation, the ART approved "the regulation defining the methodology for the identification of public service fields and the most efficient financing methods". This regulation, consisting of six measures, identifies the individual stages in process used by the relevant parties to define the public service.

- **Regulation no. 49 of 6 April 2017.** With this regulation, the ART adopted "guidelines on the quantification of ART's pecuniary administrative sanctions".

- **Regulation no. 58 of 6 April 2017.** With this regulation, the ART extended the term to 15 December 2017 for the completion of the procedure to establish the minimum service quality standards for national and local passenger railway transport with public service funding, which began with regulation no. 54/2015.

- **Regulation no. 69 of 18 May 2017**. With regulation, the ART began a procedure to adopt a regulation for the criteria used to define efficiency targets for regional railway transport service management. The procedure is scheduled to end on 31 March 2018.

- **Regulation no. 76 of 31 May 2017.** With this regulation, the ART published the report on the outcome of its survey to gather information on the impact of innovative methods introduced for train operation on the passenger transport service retail market within the open access premium segment. In the report, ART highlighted - *inter alia* - how the use of double-trains in the open access premium segment, considering the current overall service offer, had a neutral impact on the market and a positive impact on users (future reduction in travel times and increase in the number of seats offered). Furthermore, with respect to the consumption of energy for traction, the ART noted that double-trains increase the costs borne by the infrastructure operator, which are not adequately offset by tariffs.

- **Regulation no. 78 of 31 May 2017**. With this regulation, the ART took sanctions against Rete Ferroviaria Italiana S.p.A. for alleged gaps in the information provided to the ART as part of the survey of the open access premium market (works to reinforce infrastructure: tracks dedicated to double-trains and the increase in maximum speed on lines to over 300 km/h).

- **Regulation no. 88 of 27 June 2017**. With this regulation, the ART began a public consultation on the outline of the regulation to establish the minimum service quality standards for passenger railway transport (national and regional), entailing public service obligations, with respect to: availability of transport services and seats, regularity and punctuality, passenger information, commercial accessibility, relationships and customer care, cleanliness and comfort of the vehicles and infrastructure open to the public, accessibility for people with reduced mobility, travel and passenger safety. The procedure, originally scheduled to end on 15 December 2017, was extended to 31 January 2018 with regulation no. 146/2017.

- **Regulation no. 114 of 21 September 2017.** With this regulation, the ART ordered that the toll applicable to the Bivio Casirate - Bivio/PC Roncadelle railway section on the Milan-Brescia line - from roll-out to 31 December 2017 - will be the toll for HS network sections determined by Rete Ferroviaria Italiana S.p.A. instead of the toll for the traditional network.

- **Regulation no. 121 of 5 October 2017.** With this regulation- as part of the procedure for the definition of regulatory measures to ensure fair and non-discriminatory bus station access conditions, which began with regulation no. 91/2017 - the ART prepared an outline of the regulation and called a public consultation to gather observations from the concerned parties. The outline considered in the consultation consists of seven measures (relating to the criteria for access to capacity, space and services, tariffs, physical accessibility, public information, documentation available to carriers and monitoring), to be applied at the bus stations that the local bodies responsible for planning transport identified as essential facilities. The procedure is scheduled to end on 29 March 2018.

- **Regulation no. 125 of 19 October 2017**. With this regulation, the ART took sanctions against RFI S.p.A. for the assignment of routes to Trenitalia S.p.A. after the deadline in the network prospectus and without using the ASTRO platform.

- **Regulation no. 126 of 19 October 2017.** With this regulation, the ART took sanctions against RFI S.p.A. for violation of the transparency and disclosure obligations in the network prospectus and violation of the principles of fairness and non-discrimination, in connection with the infrastructure access conditions for the operation of double trains and the rise in speed to over 300 km/h.

- **ART, Antitrust Authority and National Anticorruption Authority joint report of 25 October 2017.** On 25 October 2017, the ART, Antitrust Authority and National Anti-corruption Authority (ANAC) sent the regions, the MIT, the MEF, the autonomous provinces of Trento and Bolzano and the Unified Government-Region Conference a joint report on the procedures for the direct assignment of regional railway transport services. This report - despite acknowledging that the direct assignment (and in-house assignment) is a type of awarding of railway transport service contracts provided for by current legislation - noted that the decision to deviate from a public procedure implies specific disclosure and justification obligations, with specific regard to cases in which third parties deliver expressions of interest in the direct assignment procedure.

- **Regulation no. 129 of 31 October 2017.** With this regulation, the ART began a procedure to revise regulation no. 49/2015, containing measures for the preparation of calls for bids and agreements for tenders for the exclusive assignment of local public transport services by road and rail and to define the criteria for the appointment of the judging panels. This

revision was necessitated by the ART's new duties under Decree law no. 50/2017 (definition of criteria on which basis entities can define lots that are larger than those ordinarily defined, definition of service contract outlines in the event of the in-house or direct assignment of contracts, general rules on the transfer of personnel from outgoing operators to incoming operators, etc.) in addition to updating the aforesaid regulation no. 49/2015 to the new regulations introduced by Regulation (EU) no. 2338/2016 (Fourth Railway Package), which amended Regulation (EC) no. 1370/2007 concerning the public passenger transport services by road and rail. The procedure is scheduled to end on 20 December 2018.

- **ART regulation no. 138.** With this regulation, on 22 November 2017, the ART established the need to begin a procedure to revise the tariff plans subject to regulations nos. 75/2016 and 80/2016 to implement the rulings of the Piedmont regional administrative court which admitted, although only partially, the appeals lodged by the railway companies operating in the cargo transport sector against the two administrative measures indicated above. Pending the conclusion of the proceedings, the ART expressly provisionally confirmed the effects of regulations nos. 75/2016 and 80/2016, as it was necessary to maintain the tariff plans established for the minimum service package services and the services outside the minimum service package. However, at the same time, the ART required RFI S.p.A., which complied, to adjust such tariff plans by 30 November 2017. The procedure is scheduled to end on 28 June 2018.

- **Regulation no. 140 of 30 November 2017**. With this regulation, the ART approved the instructions and requirements for the "2019 network prospectus" presented by RFI S.p.A. and for the preparation of the "2020 network prospectus". Since certain instructions and requirements are intended to optimise the transparency and effectiveness of the information in the prospectus, they must be applied to the "2018 network prospectus" as well, by updating it.

- **Opinion no. 11 of 30 November 2017.** The ART sent the MIT - pursuant to article 15.2 of Legislative decree no. 112/2015 - its opinion on the outline of the new "2017-2021 Government Programme Contract - Investments between the MIT and RFI S.p.A." (opinion no. 11/2017). In general, the ART highlighted the need to plan investments and the related financing for compliance with the principles of efficiency, effectiveness, cost effectiveness, transparency, accounting segregation and reporting, and to ensure access to information relevant to the planning process and the consultation of applicants, including potential applicants, before the plan approval phase. To this end, only those investments for which the MIT's "Guidelines for the evaluation of investments in public works" have been followed in advance should be included, and the functional connection and consistency of the Government Programme Contract and the sales plan should be described.

- **Regulation no. 152 of 21 December 2017**. With this regulation, the ART adopted - as part of the procedure that began with regulation no. 77/2017 and following the consultation on the outline of the regulation deed under regulation no. 127/2017 - specific technical/regulatory and economic provisions to integrate the principles and criteria regulating access to the national railway system. Moreover, specific disclosure and transparency obligations for the Infrastructure Operator were established with respect to its network development and reinforcement plans over at least five years, indicating, for each project/test, the sources of financing and any repercussions on the operating costs of the minimum access package and other services. Furthermore, new pricing criteria were defined for: i) certain sub-components of the minimum access package; ii) the supply of electricity for traction – until the Infrastructure Operator can use the "virtual gauge" (an algorithm for calculating the electrical energy absorbed by the various types of trains) and the Infrastructure Operator adopts a rate scale that is more closely correlated with the actual energy consumption of each train. Lastly, it established the obligation

for the Infrastructure Operator to publish - by 26 January 2018, and within the scope of the extraordinary update of the 2019 network prospectus - the new rate system for the 2018/2019 schedule to implement the aforementioned principles and criteria and which will be applied to services as from 1 January 2019.

- **ART resolution no. 156.** As part of the procedure for the adoption of a deed governing methodologies and criteria to ensure fair and non-discriminatory access to port infrastructure, which began with resolution no. 40/2017, the ART issued resolution no. 156 on 22 December 2017 containing an outline of the deed consisting of the initial regulatory measures (concession of port areas and quays, authorisation to perform port operations and services, rate oversight, incentive schemes attached to the concession fees and regulatory accounting criteria) and called a public consultation to gather information from the concerned parties. The procedure is scheduled to end on 31 May 2018.

Report on corporate governance and the ownership structure

Introduction

This section of the directors' report provides a description of the key corporate governance policies that Ferrovie dello Stato Italiane group ("FS Italiane group") follows and which the parent, Ferrovie dello Stato Italiane S.p.A. ("FS Italiane S.p.A."), has defined. Furthermore, this section meets the specific disclosure requirements of article 123-bis of Legislative decree no. 58/1998 - Consolidated Law on Finance (Report on corporate governance and the ownership structure) with respect to the information required by paragraph 2.b[4]. 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

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

- build and manage railway transport infrastructure;
- carry out cargo and passenger transport activities, mainly by rail, including the promotion, implementation and management of initiatives and services in the transport sector;
- directly or indirectly carry out any other activity that is instrumental, complementary or connected to the above, expressly including customer services and activities aimed at enhancing the value of its assets used in the performance of the activities covered by its by-laws. [5]

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

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

In this context, the parent FS 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

[4] 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 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 article 123.1/2 , except that required by article 123.2.b, i.e., information on the main characteristics of its risk management and internal control systems.

[5] On 29 December 2017, the shareholders, following the MEF's contribution of its entire investment in ANAS S.p.A., resolved to amend article 3.1 of the by-laws ("Object"), which is therefore; "3.1, The company's purpose is: a) the construction and management of infrastructure networks for domestic and international rail, road and motorway transport; b) the performance of passenger and cargo transport operations, including the promotion, implementation and management of transport initiatives and services; c) the performance of all other activities that are directly or indirectly instrumental, complementary or connected to the above, explicitly including customer services and activities to develop the assets owned for the performance of the operations in letters a) and b)". This amendment was registered with the Company Registrar on 10 January 2018.

(i.e., investment management, shareholding control, etc.) and other business activities, 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 is organised into central divisions to ensure that processes function transversally throughout the group for the definition of strategies and sharing of decisions.

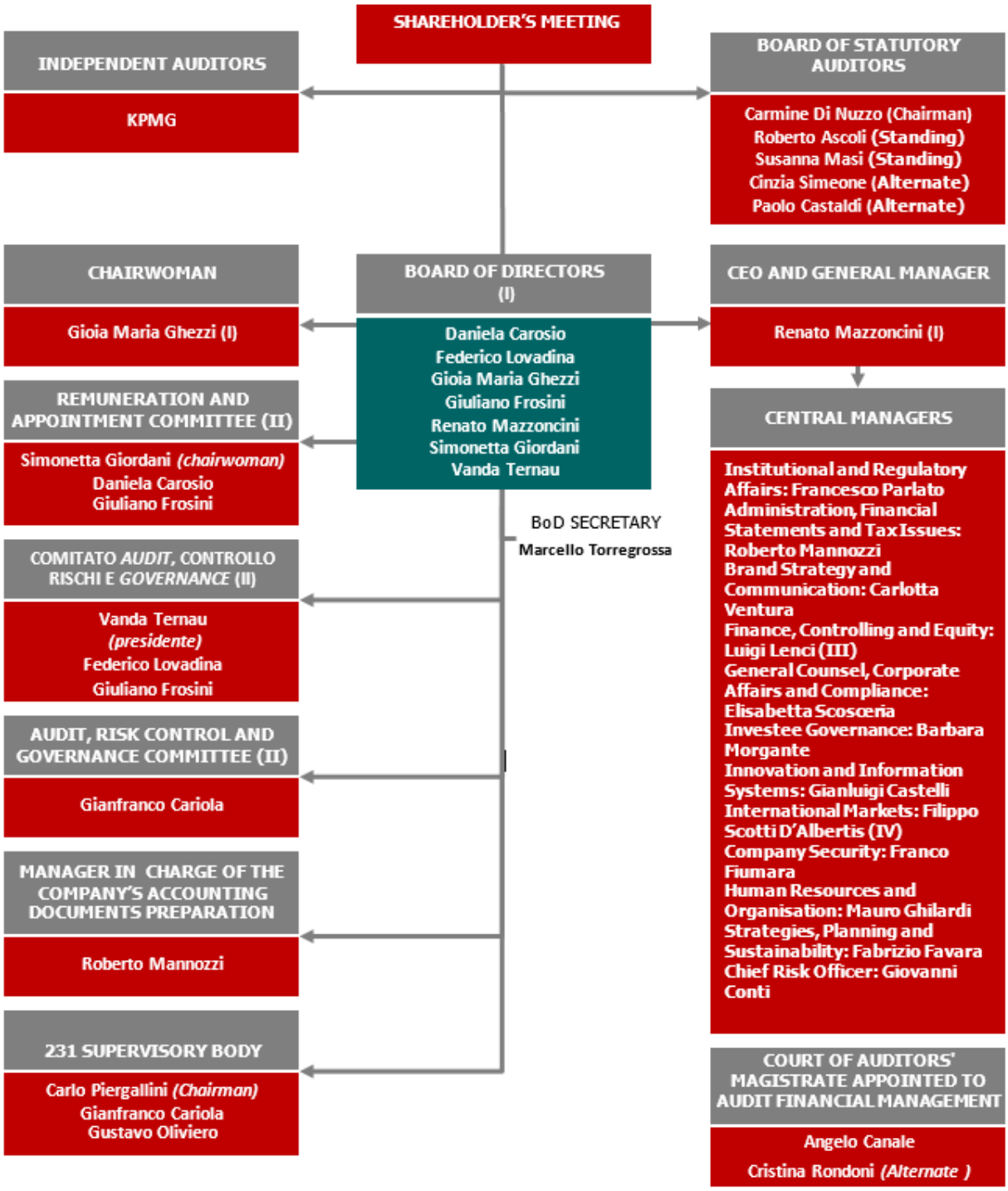
The corporate governance structure of FS Italiane S.p.A. and its main subsidiaries is organised according to the traditional system: the shareholder appoints a board of directors (which is responsible for management and is currently comprised of seven directors) and a board of statutory auditors (which 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 audit FS Italiane S.p.A. attends the meetings of the board of directors and the board of statutory auditors, integrating the corporate governance system.

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

At 31 December 2017, FS Italiane S.p.A.'s share capital amounted to €36,340,432,802.00 and was fully paid up[6].

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

[6] With the MEF's contribution of the entire investment in ANAS S.p.A. (see above), Ferrovie dello Stato Italiane S.p.A.'s share capital increased from €36,340,432,802.00 to €39,204,173,802.00 with effect from 18 January 2018.



(I) Following the resignation of all members of the board of directors with effect from 1 January 2018, on 29 December 2017, during the extraordinary meeting held to resolve upon the contribution of the MEF's investment in ANAS to FS Italiane S.p.A. and to enable the MEF to take the most appropriate decisions with respect to the company's governance, the shareholders appointed the following members of the board of directors for three years (2018, 2019 and 2020), as from 1 January 2018: Gioia Maria Ghezzi (Chairwoman), Renato Mazzoncini, Giovanni Azzone, Simonetta Giordani, Federico Lovadina, Francesca Moraci and Vanda Ternau.
During the meeting held on 10 January 2018 following the shareholder's decisions of 29 December 2017, the board of directors re-appointed Renato Mazzoncini as CEO.
(II) On 10 January 2018, the board of directors approved the establishment of the Audit, Risk Control and Governance Committee and the Remuneration and Appointments Committee, comprised as follows: *Audit, Risk Control and Governance Committee*: Vanda Ternau (Chairwoman), Giovanni Azzone (member) and Francesca Moraci (member); *Remuneration and Appointment Committee:* Giovanni Azzone (Chairman), Simonetta Giordani (member) and Federico Lovadina (member). All members of both committees are non-executive and independent.
(III) With service order no. 151/AD of 19 December 2017, Stefano Pierini was appointed head of Finance and Equity with effect from 1 January 2018.
(IV) Appointed with service order no. 150/AD of 6 November 2017; the previous head of International Markets was Carlo Carganico (*ad interim*).

The shareholder's meeting

FS Italiane S.p.A.'s sole shareholder is the Ministry of the Economy and Finance. Four shareholder's meetings were held in 2017 (two extraordinary and two ordinary meetings).

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

Composition and appointment

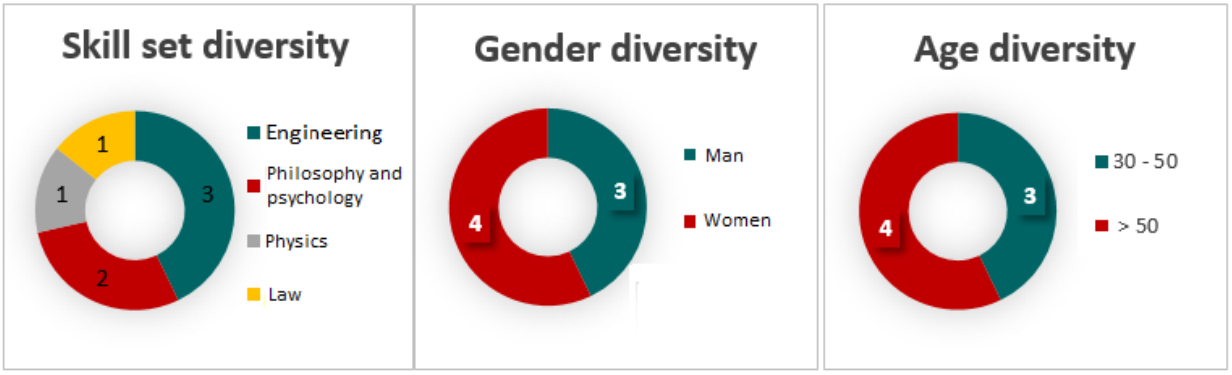
Pursuant to article 10 by the by-laws, the board of directors (also referred to as the "BoD") is made up of three to nine members appointed by the shareholder.

In order to accept directorship of FS Italiane S.p.A., candidates must meet the specific professionalism and honourableness criteria set out in the by-laws (article 10.6) and the MEF's requirements, particularly those established in the aforementioned Directive of 24 June 2013. Furthermore, the same article of the by-laws establishes 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.

On 27 November 2015, the shareholder set the number of directors as seven and appointed, in accordance with the aforementioned MEF directive of 24 June 2013, the following members of the board of directors - with a three-year term of office and, in any case, until the date of the shareholder's meeting called to approve the financial statements as at and for the year ending 31 December 2017 - Gioia Maria Ghezzi (Chairwoman), Renato Mazzoncini, Daniela Carosio, Giuliano Frosini, Simonetta Giordani, Federico Lovadina and Vanda Ternau. [7].

During the meeting held on 1 December 2015, the new board of directors appointed Renato Mazzoncini as CEO and General Manager in order to align FS Italiane group corporate governance policies to those of other listed and unlisted groups in which the MEF holds an interest[8]. The Chairwoman was assigned the specific powers described below at the same meeting.

The diversity of board members in 2017, in accordance with article 10 of Legislative decree no. 254/2016 is illustrated below.



Five members of FS Italiane S.p.A.'s board of directors are non-executive, four of whom are also independent, in accordance with the board's assessment - although it is not formally obliged to do so - of representations and information submissions of the same members, with reference to the self-governance code for listed companies approved by Borsa Italiana.

[7] See the note on the previous page (I).
[8] See the note on the previous page (I).

Duties and roles

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

The board of directors is responsible for managing the company and carrying out all operations necessary to achieve the business object. Under the by-laws, FS Italiane S.p.A.'s board of directors also resolves on certain matters otherwise reserved for the extraordinary shareholder's meeting (such as mergers and partial demergers of companies that are at least 90% owned from/to FS 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 board of directors also approves bond issues.

The Chairwoman 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 Chairwoman or CEO believe a meeting is necessary or whenever the majority of its members or the board of statutory auditors present a justified written request. The board met 13 times in 2017.

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

In particular, the BoD:

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

The Chairwoman and CEO have separate powers of representation of FS 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* [9], Risk Control and Corporate Governance Committee and the Remuneration and Appointment Committee. The establishment of the latter was most recently confirmed by the BoD's resolution of 1 December 2015. The committees' composition, functioning and duties are governed by specific regulations approved by the BoD.

[9] See the note on page 83 (II)

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

  As defined in the aforementioned BoD resolution of 1 December 2015, the members of this committee are: Vanda Ternau [Chairwoman], Giuliano Frosini and Federico Lovadina. They are all non-executive and independent directors. This committee is responsible for supporting, by presenting proposals and advising, the BoD's assessments and decisions concerning the internal control and risk management system, the approval of periodic financial reports, assessments of the board's size/composition, the company's and the group's [10]corporate governance and social responsibility.

- *Remuneration and Appointment Committee*

  This committee's members are Simonetta Giordani [Chairwoman], Daniela Carosio and Giuliano Frosini, who are all non-executive directors and most of whom are independent. This committee is responsible for supporting, by presenting proposals and advising, the BoD with respect to, *inter alia*, the criteria for the appointment of key management personnel, as well as the boards of directors and boards of statutory auditors of FS Italiane S.p.A.'s direct subsidiaries, the co-option of FS Italiane S.p.A.'s directors, remuneration guidelines and policies, the incentives for group managers and directors with special duties in strategic companies and the remuneration of FS Italiane S.p.A.'s CEO and Chairwoman, pursuant to article 2389.3 of the Italian Civil Code (should the Chairwoman receive executive powers).[11]

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

Directors' fees

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

The approved fees for FS Italiane S.p.A.'s Chairwoman and the CEO for any duties they have on the BoDs of FS Italiane group companies are paid to FS Italiane S.p.A. directly. [12]

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

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

[10] See the note on page 83 (II)

[11] See the note on page 83 (II)

[12] On 15 December 2017, the CEO was appointed Chairwoman of the board of directors of Nugo S.p.A. and did not accept any other positions in the group during 2017.

were linked to the achievement of objective and specific annual targets, which the BoD defined upon the proposal of the Remuneration and Appointment Committee.

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

In accordance with the MEF Directive of 24 June 2013 and in compliance with current legislation on the gender quotas and following sound 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. informed 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 the Treasury Department could verify that the appointment criteria and procedures were complied with.

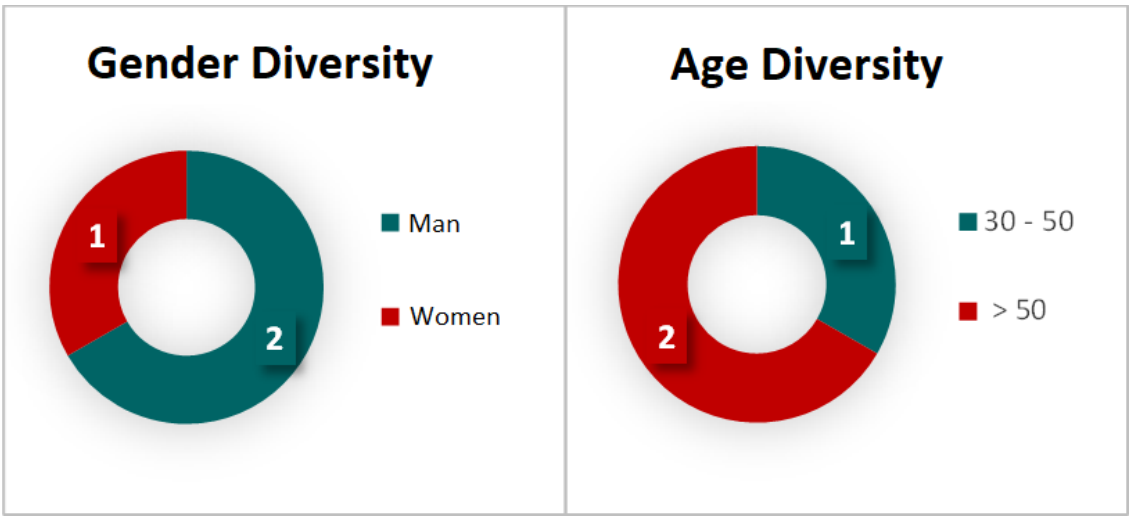
Board of statutory auditors

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.

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

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

The diversity of the members of the board of statutory auditors in 2017, in accordance with article 10 of Legislative decree no. 254/2016 is illustrated below.



As for their qualifications, one standing statutory auditor is an employee of the MEF and the other two boast solid professional experience, while one of them holds a position with the public administration. Both alternate statutory auditors are MEF employees. All standing and alternate statutory auditors have university degrees in Economics and Trade and are registered with the roll of chartered accountants.

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

When FS Italiane S.p.A. was attributed the public interest entity status as described above, pursuant to article 19 of Legislative decree no. 39/2010, the parent's board of statutory auditors also became the "Internal Control and Audit Committee", with responsibility for monitoring financial reporting, the efficiency of the internal control, internal audit and risk management systems, the 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 2017, FS Italiane S.p.A.'s board of statutory auditors met 16 times and the statutory auditors participated in four shareholder's meetings and at 13 BoD meetings.

The internal control and risk management system

The internal control 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 functional 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, and cannot eliminate all the risks in each management and control process.

FS Italiane S.p.A. uses the internationally recognised CoSO framework to analyse and assess the ICRMS.

The ICRMS provides for three levels of control:

1. control level 1: 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 functioning 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 continuing operations.

2. control level 2: 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 functioning of controls (for main risks). Control level 2 also supports 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 the level 2 controls.

3. control level 3: to provide independent and objective assurance on the adequacy and effective functioning 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

A project to create a new organisational and functional structure for the group's Internal Audit Department was completed in 2017.

The new structure provides for the following, in particular:

- Internal Audit Departments 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 overlooking the objective of effectively overseeing their own ICRMS;
- coordination by the FS Italiane S.p.A.'s Central Internal Audit Department of the group 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 Chairwoman of the board of directors and functionally to the CEO and also to the Internal Audit Committees, if they have been 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 organisation's efficiency and effectiveness. It also helps the organisation to pursue its targets through a professional and systematic audit approach, which generates added value as it is aimed at assessing and improving control, risk management and corporate governance processes.

Accordingly, the Internal Audit Department is responsible for:

- verifying the ICRMS' operations 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.

The Internal Audit Department includes all functions, units, processes and/or sub-processes and IT systems relating to risks with the consequent objectives of:

- efficiency and effectiveness of business processes;
- reliability of financial reporting;
- compliance with laws, regulations, the by-laws and application 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

While management and the structures specialised in risk monitoring continue to play a crucial role in risk management (as they are responsible for control level 1 monitoring), over time, 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., the Risk Management, Anti-Bribery & Corruption, Compliance and the Manager in charge of the Company's accounting documents preparation). In this context, group Risk Management/Chief Risk Officer (CRO) coordinates and manages the overall business risk management process.

It is the Central Risk Management/CRO's mission to design, implement and govern the integrated enterprise risk management model, ensuring the identification, classification, measurement, assessment and continuous monitoring of risks to support the optimisation of controls and strategic and operational planning with the end aim of generating value for the group.

The risk assessment process entails mapping processes and related objectives, identifying and assessing risks and the related controls and including any proposals for improvements to contain risks.

The group uses the Risk & Control Self Assessment (RCSA) method, which entails the active involvement of process owners and their closest colleagues in the identification and assessment of the risks related to their processes.

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

In 2017, with various organisational measures, the group's Central Risk Management/CRO, reporting directly to FS Italiane S.p.A.'s CEO, was reinforced further with the creation of specialised level 2 structures. Furthermore, a process began to strengthen the subsidiaries' Risk Management Departments in order to increasingly support the business with the risk management process.

Lastly, in 2017, the parent decided to strengthen the model already in place by developing the integrated risk management framework further for systematic control over the current and potential risks to which the group is exposed.

Compliance

Established with organisational measure no. 133/AD of 2 May 2016, the Compliance Department monitors regulations and national and international best practices with which the companies' and group's internal rules must comply, ensuring and providing the concerned units with information on legal precedent for the initiatives and strategies pursued by FS Italiane S.p.A. In addition, when these regulations and best practices undergo significant changes, with the support of the relevant company units, the Compliance Department assesses the related compliance risk and the opportunities arising from the introduction of new laws and regulations, as well as their implications on the organisation, strategies and the business. It

monitors that company and group guidelines, provisions and procedures are consistent with legislation by preparing proposals to update them in accordance with legal precedent.

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

In 2007, FS Italiane S.p.A. created the position of Manager in charge of the Company's accounting documents preparation on a voluntary basis, and 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 1 December 2015 upon the CEO's proposal and with the approval of the board of statutory auditors, is Roberto Mannozzi, Head of the parent's Central Administration, Financial Statements and Tax Department. He will remain in office until the approval of the financial statements as at and for the year ended 31 December 2017.

With respect to the professional requisites for the manager in charge of financial reporting and the methods for the appointment of this manager and the revocation of office, article 16 of Ferrovie dello Stato Italiane S.p.A's by-laws and the rules of activities of the the Manager in charge of the Company's accounting documents preparation establish that the BoD shall appoint the Manager in charge of the Company's accounting documents preparation for a period of at least six years with the prior mandatory approval of the board of statutory auditors. The manager may be re-appointed.

The by-laws also establish that Manager in charge of the Company's accounting documents preparation must meet the honourableness requirements for directors and is selected in accordance with criteria of professionalism and expertise from among managers with at least three years of total experience in administration at companies, consulting firms or professional firms.

The board of directors approved the Rules of activities of the the Manager in charge of the Company's accounting documents preparation on 28 July 2015 to give the manager the appropriate means and powers, in proportion to 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 FS Italiane group's organisational and operational complexity, to reinforce and more effectively implement the legislation, FS Italiane S.p.A. 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., Centostazioni S.p.A., Mercitalia Logistics S.p.A. (formerly FS Logistica S.p.A.), Busitalia-Sita Nord S.r.l. and Ferservizi S.p.A.. In February 2018, the subsidiary Mercitalia Rail also created the position of Manager in charge of the Company's accounting documents preparation.

Main characteristics of the risk management and internal control systems in relation to the financial reporting process pursuant to article 123-bis.2.b of the Consolidated 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).

For the group, FS Italiane S.p.A.'s Manager in charge of the Company's accounting documents preparation defines and updates the financial reporting control model, in line with the provisions of aforementioned article 154-*bis* of the

Consolidated finance act and based on the relevant international standards (CoSO Report "Internal Control – Integrated Framework" published by the "Committee of Sponsoring Organizations of the Treadway Commission").

As described earlier, this model provides for a Manager in charge of the Company's accounting documents preparation within the parent and Managers in charge of the Company's accounting documents preparation in the main subsidiaries as well. FS 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 board of directors 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 financial reporting), issues guidelines for the preparation of administrative and accounting procedures and for monitoring that such procedures are adequate and effectively operational and issues certifications on the system of internal controls over financial reporting. The companies' Manager in charge of the Company's accounting documents preparation implement and maintain the financial reporting control system, continuously exchanging information with the parent's manager in charge of financial reporting. The stages and roles in the financial reporting control process are described below.

Following the 262 Model assessment conducted for the group to more closely align it with the best practices of listed companies, in 2015, a new 262 Model was defined, which FS Italiane S.p.A. has already implemented to support the 2015 Certification and which the other Italian companies will implement for the 2016 Certification with respect to the 262 scope. In particular, the model was expanded to cover the following aspects:

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

A project began in 2017 to implement changes to the model, including a few foreign companies.

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

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

The companies that fall within the scope are identified:

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

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

The processes are mapped by the office of the manager in charge of financial reporting or, if one has not been appointed, by the company's administration managers and their staff, in collaboration with the relevant process owners. The processes are mapped based on current organisational documents and/or any practices used within the company. The processes are mapped in the administrative and 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 and accounting procedure is prepared and together with the process owners, the staff of the Manager in charge of the Company's accounting documents preparation assesses the

262 risks relating to the process being mapped using a qualitative and quantitative methodology that is tied to the impact and probability parameters. The controls over such risks are identified and assessed for adequacy, with the identification of any needs for to integrate or improve the design of the controls (at the reporting date, a total of roughly 4,800 controls had been mapped). This is the stage in which 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 operative. The risk assessment is updated at least once a year after the financial statements are published.

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

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

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

In the self-assessment stage, the individual control owners/process owners self-certify that the administrative and 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 for the processes for which they are responsible, certifying the procedure as a whole or the part of the procedure that concerns them.

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

During the *independent testing*, in particular, checks that these controls are efficient, on the basis of audit standards and methodologies and with the coordination of the staff of the parent's manager in charge of financial reporting, 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 the critical results that arose. The staff of the parent's manager in charge of financial reporting 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 agreement) carries out testing activities. Furthermore, the outcome of tests that the independent auditors perform as part of the broader audit process is also considered.

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

Once this process is completed, the parent's manager in charge of financial reporting prepares a report on the activities performed in the period, sends the report to the board of directors when the draft financial statements are approved and issues, in joint statements with the CEO, statements on the separate and consolidated financial statements pursuant to article 154-*bis*. The content of the report is based on the formats defined by Consob (the Italian commission for listed companies and the stock exchange).
Similarly, the Managers in charge of the Company's accounting documents preparation, with joint signature with each company's CEOs, issue Certifications on the financial statements and prepare their Reports for the respective BoDs.
The administration managers of the other companies that fall within "scope 262" (which have not appointed a Manager in charge of the Company's accounting documents preparation) in any case issue similar Certifications on the financial statements with joint signature of their CEOs for internal purposes. In addition to the statements described above, the group's model also provides for internal statements of the adequacy and functioning of the group's and the company's financial reporting control system which are issued by the administration managers and CEOs of the subsidiaries that do not fall within "scope 262", the managers of the parent's central departments and outsourcers of administrative and IT services and all other services that affect financial reporting.
The process to ensure compliance with Law no. 262/2005 as described herein is carried out with the support of the group's MEGA – Hopex information system.

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

Finally, to integrate the Law no. 262/2005 compliance model and, more in general, to strengthen its internal control system, the group has implemented group-wide models for "*SoD – Segregation of Duties*" and "*ITGC - Information Technology General Controls*". The aim of the SoD model is to activate operational controls over processes with specific focus on financial reporting processes, to ensure that responsibilities are well defined and 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 model includes controls over the stages of development and maintenance of application systems, the purchase of software, logical access security, etc.. Each year, the corporate IT functions - for the group's main subsidiaries where the ITGC model has been implemented - issue specific IT attestations to the Managers in charge of the Company's accounting documents preparation /administrative managers on the functioning of financial reporting systems.
FS Italiane group's controls over financial reporting are also extended through training activities, with the periodic involvement of resources operating within the 262 process. The parent's manager in charge of financial reporting organises these refresher courses on developments in the system of internal controls over financial reporting.

Planning and management control system

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

- the Central Strategies, Planning and Sustainability Department (CSPSD) defines the group's business and market strategies and the related planning, monitoring and strategic control process;
- the planning and management control system supports the group's long-term planning process, the operational implementation of strategies (budgeting process), the calculation of actual results and the analysis of such results;
- More specifically, the CSPSD compiles the business plan for the parent and 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 plan implementation;
- the preparation of the parent's and 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.

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 - make it possible to check, with specific focus at the end of each quarter, whether the actions that the structures/companies have taken are consistent with plans and to identify the causes of any changes to take the appropriate corrective action and evaluate the performance of those responsible as part of the management by objectives model.

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 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 and presenting none of the causes of ineligibility provided for by law – to the auditors or entities in the same network.

The Court of Auditors' Magistrate appointed to audit FS Italiane S.p.A.'s financial statements

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

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

Additional information on corporate governance

The code of conduct

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

The updating of the group's code of conduct, which began in late 2016, continued into 2017. The aim is to review the current code of conduct and update it in light of the business plan, reinforcing its anti-corruption rules where necessary.

The board of directors approved the new code of conduct during its meeting on 28 February 2018.

Treatment of corporate information

During its meeting on 13 September 2017, FS Italiane S.p.A.'s board of directors adopted the "Regulation for the internal management and disclosure of insider information and the treatment of confidential information", prepared in accordance with EU regulation 596 on market abuse (the "MAR") which repealed the previous EU legislation and revised the regulatory framework for market abuse to make it more consistent. The aim of the 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 company being held liable for conduct by people within it or related to it constituting the crimes covered by current legislation. Accordingly, the regulation defines the principles, mandatory conduct, roles and responsibilities for the treatment 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 through their position or professional work must comply with the conduct obligations in the regulation.

Following the approval of the regulation, the related "Procedure for the internal management of the log of people with access to insider information" was issued with group measure no. 239/AD of 9 October 2017, signed by the CEO and governing the methods, responsible parties and parties involved in the management of FS Italiane S.p.A.'s insider information log.

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 concerning the control model since 2002, requires FS Italiane group companies to adopt an organisational, management and control model to prevent the illegal conduct covered by Legislative decree no. 231/2001 and establish a supervisory body responsible for monitoring that the models are functional and compliant and propose updates to them.

Supervisory bodies are normally set up as boards[13] 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.

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

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 FS Italiane group (group measure no. 172), leading it to sign the United Nations Global Compact in 2017, the tenth principle of which is to "work against corruption in all its forms".

Confirming this commitment, in 2017, the parent FS Italiane S.p.A. voluntarily adopted a unified anti-corruption framework 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 (approved by FS Italiane S.p.A.'s BoD on 19 December 2017), implementing the anti-corruption policy guidelines (approved by FS Italiane S.p.A.'s BoD on 13 September 2017), 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 – and, for the first year of application (2018), 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 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.

Management plays the central role in governance, considering its knowledge of processes and procedures, its direct relationship with the resources that these processes use, standard monitoring and other prerogatives in connection with its responsibilities.

The Anti-Bribery & Corruption Unit is one of the main functions involved, which, coordinating with other units involved in the model, monitors the ABC system and the implementation of and compliance with the measures that it provides, proposes updates to 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 promotes, together with the relevant department, anti-corruption and framework training and information.

[13] 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.

FS Italiane group's code of conduct requires that anyone who learns of non-compliant conduct or violations of the code by anyone that has a relationship with the group, must immediately inform – in writing and not anonymously – their company's Ethics Committee. The group guarantees the confidentiality of the whistleblower's identity will be protected, except in the cases required by law. Furthermore, the group undertakes to protect whistleblowers from any possible retaliation of any kind as a result of reporting code violations.
In 2017, FS Italiane S.p.A. began preparing a procedure for the management of reports to govern the receipt, analysis and treatment of such reports, regardless of the sender, concerning conduct deemed to be illegal or irregular, having violated the law or internal rules, including the organisational, management and control model pursuant to Legislative decree no. 231/2001, the anti-bribery & corruption management system and the ethical principles of FS Italiane group.

The additional reporting obligations for FS Italiane S.p.A. are those in place with the Supervisory Body pursuant to Legislative decree no. 231/2001, described in the company's organisational, management and control model for violations or fraudulent avoidance of the rules established in the same model.

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

Related parties

FS Italiane S.p.A.'s Manager in charge of the Company's accounting documents preparation has issued a group-level administrative and accounting procedure for related party transactions which must be disclosed in the financial statements. This procedure, along with the other administrative and accounting procedures that were subsequently issued according to the parent's guidelines, 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, all such transactions must always be regulated by contracts and such contracts must establish the transfer pricing methods and explicitly evaluate the fairness of transfer prices with respect to market prices for similar transactions, or, otherwise, they must explicitly state how the terms of the transaction differ from market conditions (with justification for such difference). The procedures also state that intragroup transactions must be carried out on the basis of mutual cost effectiveness and the conditions applied must be defined considering the common objective of creating value for the entire FS Italiane group.
Each FS Italiane group company's key managers, directors, standing statutory auditors and members of the internal control bodies periodically state, through a representation system defined in formal procedures, whether they have carried out transactions with the company for which they work and/or its direct and indirect subsidiaries, and whether such transactions were performed on an arm's length basis.

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*, which carries out advisory activities and sets guidelines within the framework of the principles and rules of FS Italiane group's code of conduct, was set up with group measure no. 50/AD of 30 January 2006 (which was partially amended by group measure no. 107/AD of 31 October 2007), to facilitate the integration of the ethical criteria implemented in relationships with the various stakeholders in decision-making processes, monitor that actions and conduct are compliant with the established rules of conduct and update the code on an ongoing basis.
The Ethics Committee is also responsible for examining the information that it receives, promoting the most appropriate checks, and reporting the results of checks to the relevant company structures so they may act accordingly.

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

The group's *Information and IT System Security Committee*, established with group measure no. 168/AD of 25 November 2013 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 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.

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

The *Antitrust Compliance Committee* was set up with group measure no. 236 of 30 August 2017 following FS Italiane group's decision to adopt, implement and continuously update an antitrust compliance plan. This committee is responsible for defining the guidelines and steering the objectives and developments of the "FS Italiane group antitrust compliance plan", in accordance with the proposals submitted by a specific technical panel. The committee is routinely informed on the status of FS Italiane group companies' application of antitrust and unfair business practice regulations, the progress of any pending proceedings and regulatory developments in the sector. It also reports regularly, via the CEO and General Manager, to Ferrovie dello Stato Italiane S.p.A.'s BoD.

The *Foreign Development Committee* was set up with group measure no. 206/AD of 5 May 2016 and updated in its composition with group measure no. 224/AD of 20 April 2017, for the strategic oversight of development initiatives in the group's interests abroad.

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

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

The *Railway Package Implementation Committee* was set up with group measure no. 244/AD of 24 January 2018 and is, considering the significance of the European delegated law for 2016-2017 on group operations, responsible for conducting a detailed assessment of the new legislation and its effects on FS Italiane group activities, monitoring the development of the implementation of directors in other EU member states and coordinating the preparation of FS Italiane group's positions with respect to the adoption of legislative texts implemented in Italy.

The *231 Steering Committee*, set up with company order no. 536/AD of 28 February 2018, is responsible for steering the work of the 231 team and assessing its proposals. The 231 team was set up in 2017 to provide the parent with permanent, expert, technical support on the updating of FS Italiane S.p.A.'s organisational, management and control model, defined pursuant to Legislative decree no. 231/2001, and to guarantee a periodic flow of information to the CEO and General Manager, the Supervisory Body and other control bodies.

Human rights policies

FS Italiane group is committed to guaranteeing respect for human rights in its operations, in accordance with the United Nations Universal Declaration of Human Rights, and in its transactions with suppliers and business partners, to help create a responsible chain. It prohibits any illegal labour practices and promotes policies to improve the psychological and physical well being of personnel. The detailed information provided below meets the requirements of Legislative decree no. 254/2016 requiring human rights disclosures (article 3.2.e)).

In line with that stated above, in August 2017, the group joined the UN's Global Compact network ("GC"), 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 code of conduct, 231 model and the anti-corruption policy and anti-bribery and corruption management system guidelines.

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.

As a member of the UIC (*Union Internationale des chemin de fer*), in 2011, the group also signed the UIC Declaration on Sustainable Mobility and Transport, undertaking to encourage responsible conduct in line with the ten GC principles.

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

- standard contractual human rights clauses in agreements signed with suppliers (including the requirement that suppliers sign the group's code of conduct);
- an experiment that began in 2017 to assign suppliers participating in group tenders with extra points for their sustainability practices. The scoring criteria also consider suppliers' initiatives to ensure respect for human rights (prevention of child and forced labour, anti-discrimination and support for the fundamental rights of man);
- rights protection for passengers with disabilities and reduced mobility. The group offers an assistance service at 276 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 station assistance network named "Sale Blu", 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.

Sustainability in the group

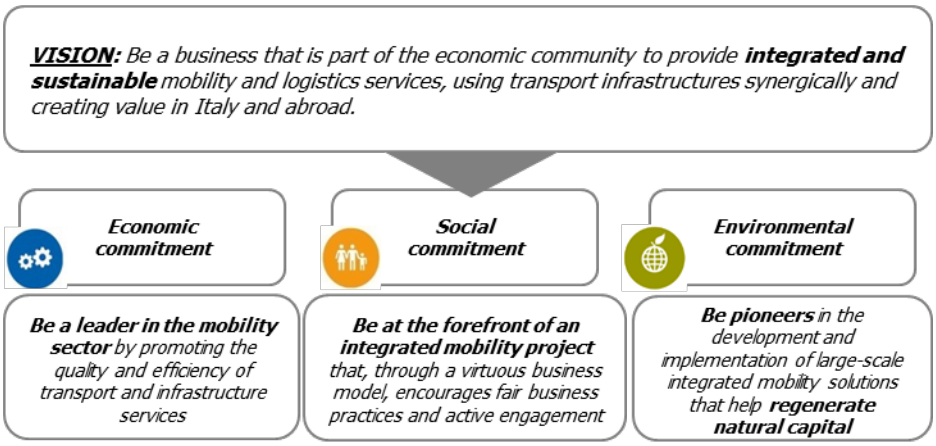
Approach to sustainability

The following information on sustainability in FS Italiane group also meets the provisions of Legislative decree no. 254 of 30 December 2016.

Our vision

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

Its vision is based on three pillars: economic, social and environmental commitments:



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

Our commitments

FS Italiane group strives to transform itself into a mobility company of the future, capable of operating sustainably and meeting the highest standards of ethics and integrity. Demonstrating this commitment, in August 2017, it joined the Global Compact network, whereby it will help create an inclusive and sustainable global economy by integrating the Global Compact's 10 principles in its strategy and day-to-day operations. FS Italiane group is also a member of the UIC, which promotes the railway sector around the world as a solution to the challenges of mobility and sustainable development. In 2011, the group signed the UIC Declaration on Sustainable Mobility and Transport, undertaking to promote responsible conduct in line with the 10 principles of the Global Compact.

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

Lastly, FS Italiane group aims to help achieve the following sustainable development goals as part of the United Nations 2030 Agenda for sustainable development:



Our principles

FS Italiane group has formalised a set of principles – for all stakeholders – underpinning its business policies, code of conduct and vision:

Community



- We dialogue continuously with communities during the design and construction of infrastructural investments.
- We pursue initiatives on current issues and constantly support national events, including through partnerships with foundations, museums and cultural associations.
- We ensure the highest level of safety for our customers, employees and the entire community, by consolidating our risk management and prevention culture.
- We carry out projects and initiatives for disadvantaged people.
- We support employer branding initiatives to develop excellent training and introduce young people to the employment world.





Our people

- We value "human resources as the group's greatest asset", with their value, their differences and their rights.
- We support their professional development through technical/professional and managerial training.
- We believe that recruitment, training, development and career should be merit-based and non-discriminatory.
- We develop tools to improve workers' well being and motivate them and to encourage a healthy work/life balance and integration.
- We consolidate and constantly update prevention measures in accordance with current legislation and with the adoption of OHSAS 18001 certified management systems.

Suppliers

- We integrate environmental and social principles in the procurement of goods, services and works.
- We have designed an evaluation process for the supply chain to strengthen our ability to identify and manage its impacts.
- We guarantee respect for human rights in our operations, in accordance with the United Nations Universal Declaration of Human Rights, and with suppliers and business partners, to help create a responsible chain.





Other stakeholders

- We strive to align our business objectives with social and environmental goals, generating value for the business, stakeholders and all the areas in which we operate, enhancing the positive repercussions and minimising the negative.
- We ensure constant, transparent dialogue with our stakeholders via various channels (the stakeholder panel, relationships with associations/institutions, partnerships, relationships with the media, online newspapers, websites, blogs, etc.).





The environment

- We adopt a group-wide environmental management model that outlines the long-term guidelines and principles that the group companies translate into independent improvement processes. This commitment also entails implementing and certifying environmental management systems or integrated management systems covering all group company processes and operating sites.
- We minimise the impact of our activities on the environment by taking, from the design stage, a life-cycle assessment approach to all processes.
- We encourage our suppliers to improve their environmental performance and, where possible, we guide and support them in their improvement process.



Customers

- We care as much for the quality we deliver as for the quality our customers perceive to improve their experience, promoting intermodal transport and integration with the local area, redesigining stations as mobility hubs.
- We promote a system with door-to-door integration by creating intermodal hubs, signing vehicle-sharing agreements, providing bus-train connections, etc..
- We update all stakeholders on our principles and commitments to improve the services we offer through the service charters.
- We measure customers' perceived quality through periodic customer satisfaction reports, while managing complaints as a way of interacting with customers and monitoring disservices to improve our performance.

The environment

The quality of the environment is a key value on which FS Italiane group has based the mobility project strategies it is pursuing to improve the overall transport system. The information provided below meets the requirements of Legislative decree no. 254.3.2.a).b).c) of 30 December 2016.

In its search for innovative travel solutions, to maximise the benefits of sustainable infrastructure and transport, FS Italiane group aims to create an integrated, intermodal system that seamlessly meets its customers' mobility needs by offering an alternative to the traditional mobility model based on private cars burning fossil fuels. By making the most of railway transport, the backbone of sustainable mobility, the group is striving to create a system of synergies between collective transport, local public transport, sharing mobility services and, in general, all operators capable of reducing the environmental impact of the transport of passengers and goods.

Its approach to improving environmental performance is increasingly geared towards assessing all stages in the life cycle of each process and service, focusing on the quality and operations of its suppliers, proper waste management and the appropriate care for the environmental aspects connected to all group companies' operations. To implement this approach, FS Italiane group pursues a series of measures from the planning to the operating stage, from development to review, to ensure its commitment to reducing environmental impacts is constant.

This commitment has also translated into the implementation and certification of environmental management systems or integrated management systems covering all processes and operating sites, in order to continuously improve group services. The considerable and differentiated range of activities requires the group to carry out structured monitoring in order to retain control over the most significant environmental aspects.

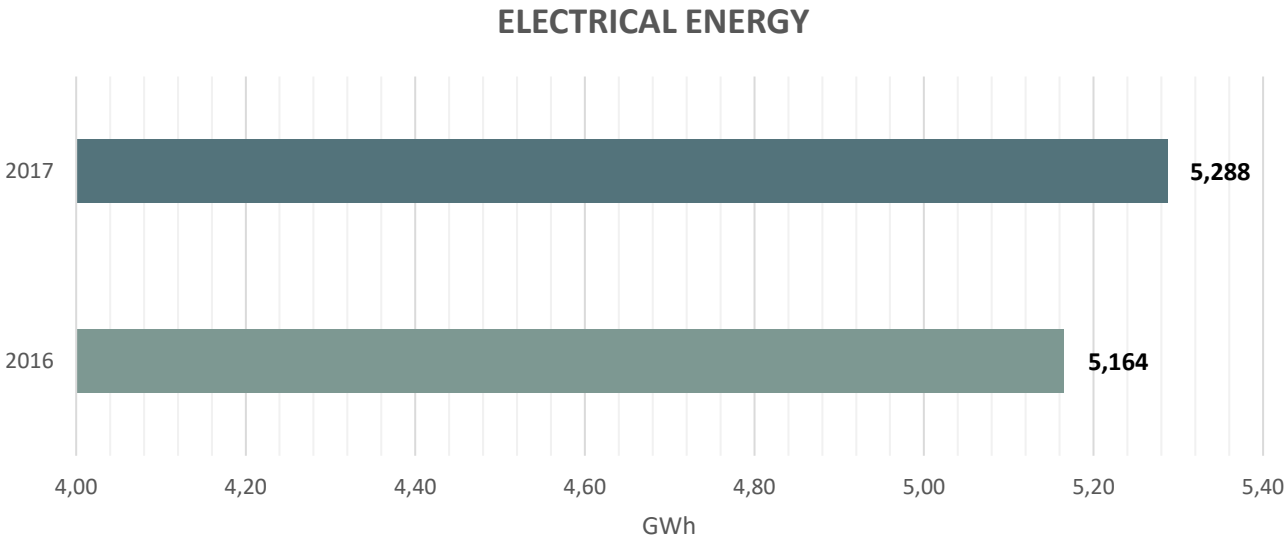
The reporting scope is illustrated by the core business of each company:

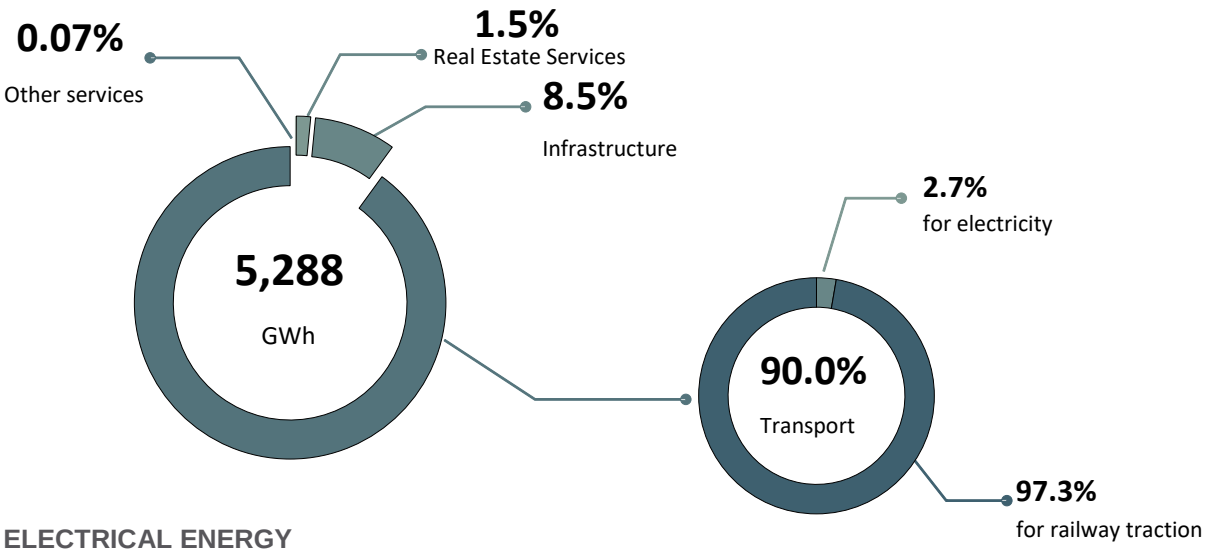
- Infrastructure: RFI S.p.A. and Italferr S.p.A.;
- Transport: Trenitalia S.p.A., Trenitalia c2c, Netinera group, Busitalia-Sita Nord S.r.l., Busitalia Veneto S.p.A., Busitalia Campania S.p.A., Mercitalia Logistics S.p.A., Mercitalia Rail S.r.l., Ferrovie del Sud-Est e Servizi Automobilistici S.r.l.[14], Mercitalia Shunting & Services S.r.l., Terminali Italia S.r.l., TX Logistik AG, ATAF Gestioni S.r.l. and Bluferries S.r.l.;
- Real Estate Services: Grandi Stazioni Rail S.p.A., Centostazioni S.p.A., FS Sistemi Urbani S.r.l. and Ferrovie dello Stato Italiane S.p.A[15];
- Other Services: Ferservizi S.p.A.

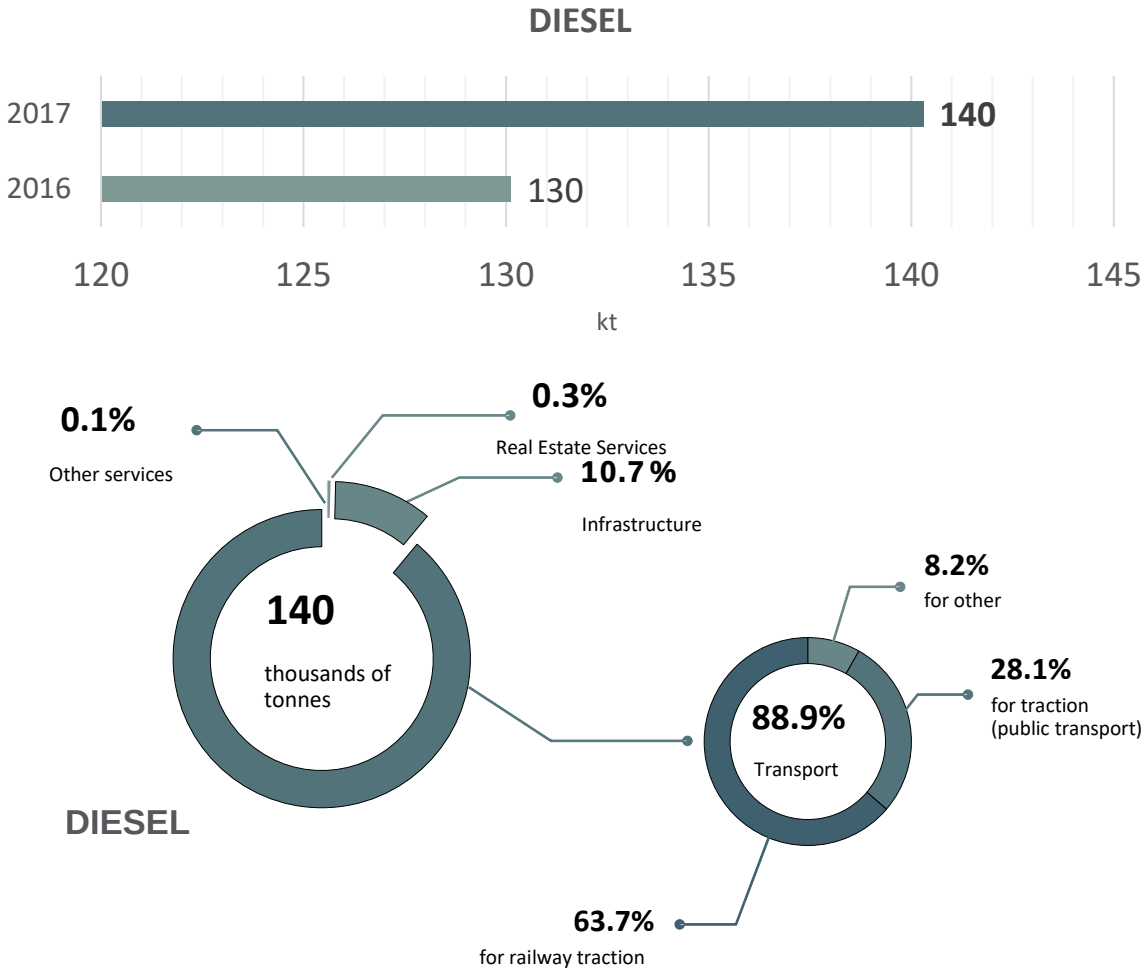
[14] Ferrovie del Sud-Est e Servizi Automobilistici S.r.l.'s environmental aspects are included in "Transport" considering its core business.

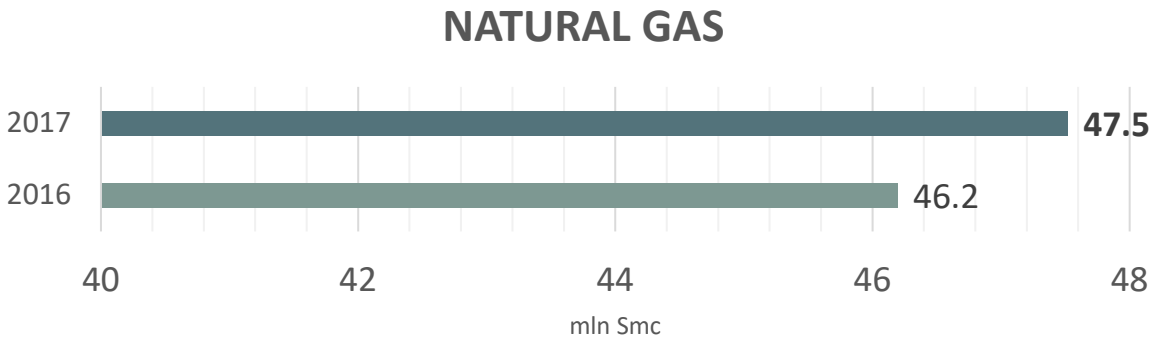
[15] Ferrovie dello Stato Italiane S.p.A.'s environmental aspects are included in "Real Estate Services" because they relate to the company's real estate management activities.

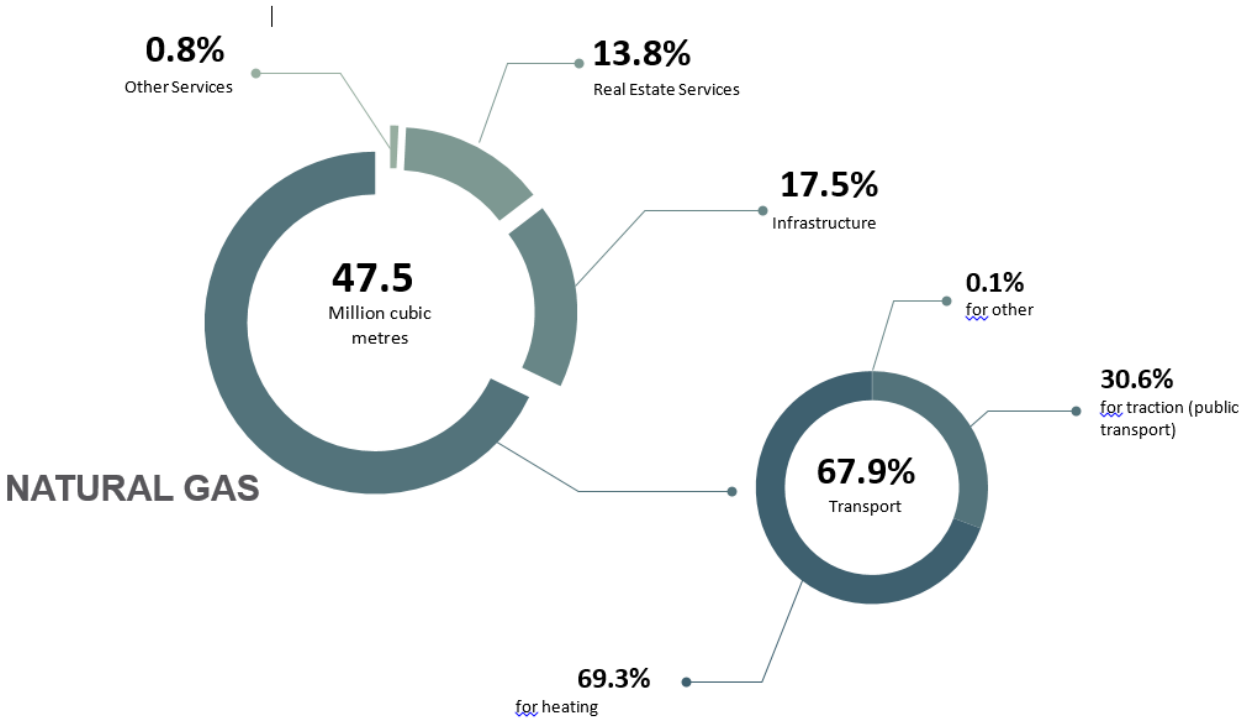
Energy and emissions

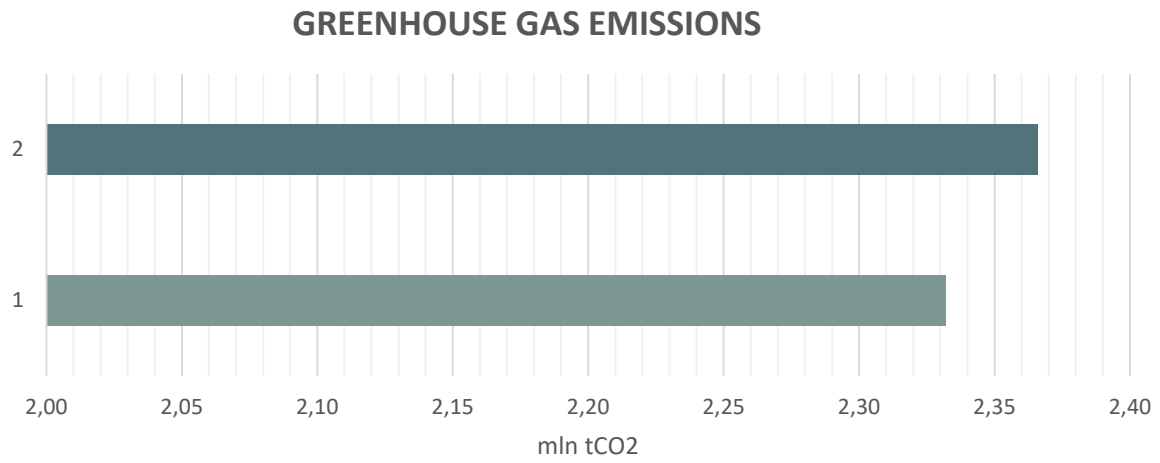


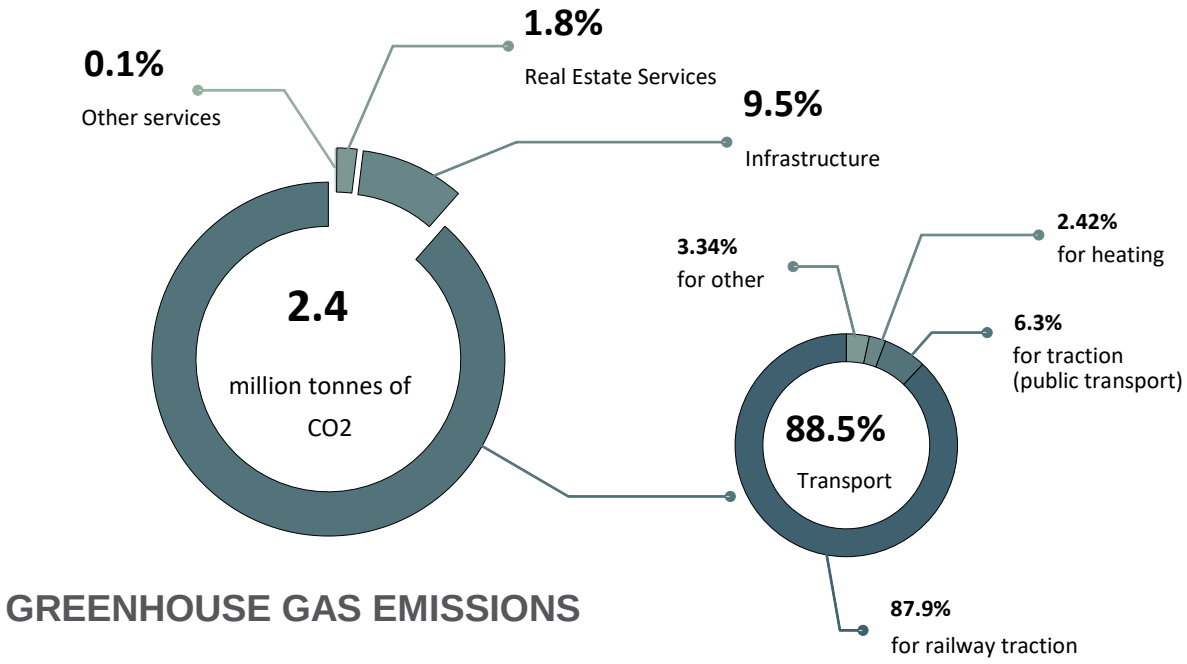



DIESEL
2017
2016
140
130
120
125
130
135
140
145
kt
0.1%
Other services
0.3%
Real Estate Services
10.7 %
Infrastructure
140
thousands of tonnes
DIESEL
8.2%
for other
28.1%
for traction (public transport)
88.9%
Transport
63.7%
for railway traction


NATURAL GAS
2017
2016
47.5
46.2
40
42
44
46
48
mln Smc


0.8%
Other Services
13.8%
Real Estate Services
17.5%
Infrastructure
47.5
Million cubic metres
NATURAL GAS
0.1%
for other
30.6%
for traction (public transport)
67.9%
Transport
69.3%
for heating

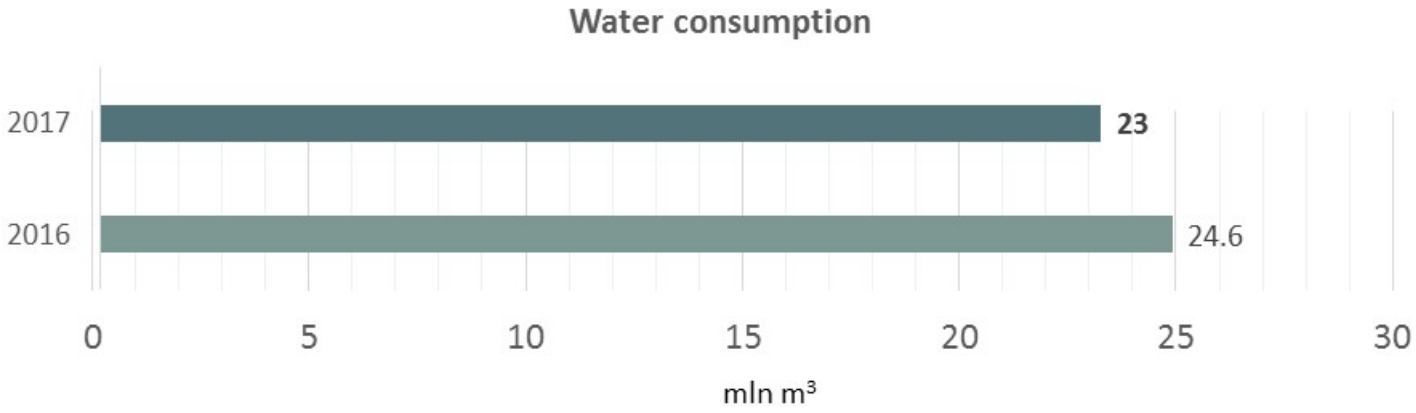


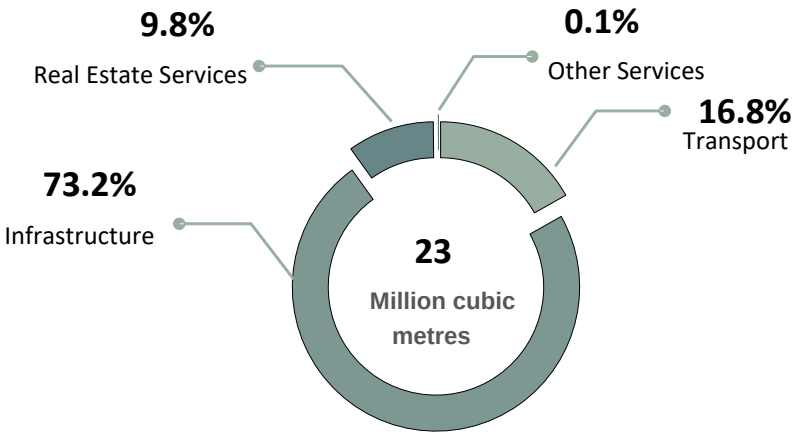


Railway mobility is the group's largest consumer of energy, accounting for approximately 97% of electrical energy consumption and 64% of diesel among all transport companies. Between 2016 and 2017, electrical traction for railway traffic in Italy remained steady with the previous year, while its percentage of total consumption rose as a result of the roll-out of service on the UK market with Trenitalia c2c Ltd, which has expanded FS Italiane group's international transport offer since 2017. Overall, most of the energy consumed is electrical energy, due to the considerable volume of railway operations driven by electricity. This enables the group to immediately benefit from renewable sources, which make up roughly 40% of the electrical energy mix in Italy. Although diesel railway transport accounts for a smaller portion of railway operations, it consumes 57% of total diesel volumes. Road transport has a substantial impact on diesel consumption, as diesel is the main type of fuel used, and on natural gas consumption as well. In particular, road transport accounted for one quarter of the group's diesel and one fifth of its natural gas consumption. Natural gas is mainly used for heating and only marginally for road transport.

Overall, in the 2016-2017 two-year period, the consumption of energy from these sources is up: electrical energy consumption +2.4%, diesel consumption +7.8% and natural gas consumption +2.9%. This trend is mainly due to the increase in transport services as a result of the larger consolidation scope: as reported earlier, additional electrical energy is due to the Trenitalia c2c Ltd railway service in the UK; similarly, a considerable portion of the increase in diesel volumes is due to the road transport services of Busitalia Campania S.p.A. and Ferrovie e Servizi Automobilistici del Sud Est S.r.l..
This trend affects FS Italiane group's greenhouse gas emissions, which amount to nearly €2.4 million tonnes (+0.8% on 2016). As with energy, railway traction, bus traction and water navigation significantly affect (85%) CO_2 production, while the remainder of CO_2 emissions relate to workshops, stations, offices and other operating sites.

Water management



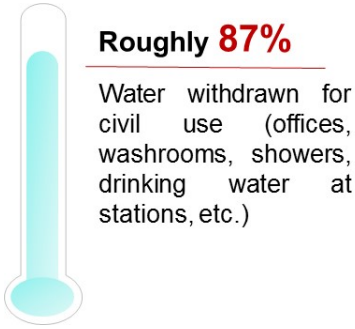


Water consumption

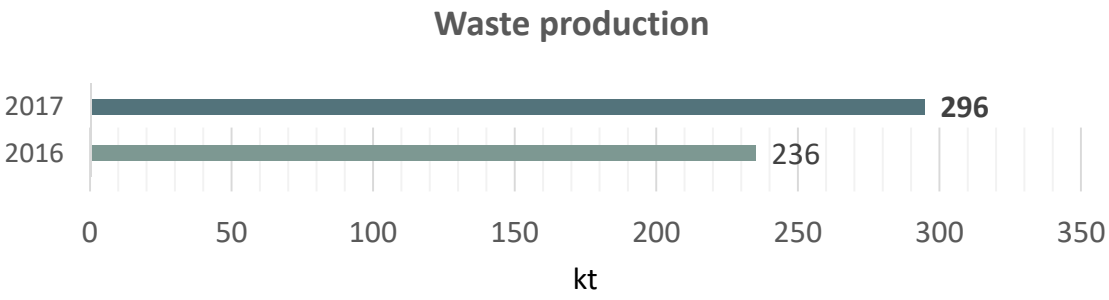
The FS Italiane group companies are increasingly attentive to their use of water. In 2017, they cut water consumption by approximately 7% on 2016, confirming the effectiveness of the water management project slated to continue in forthcoming

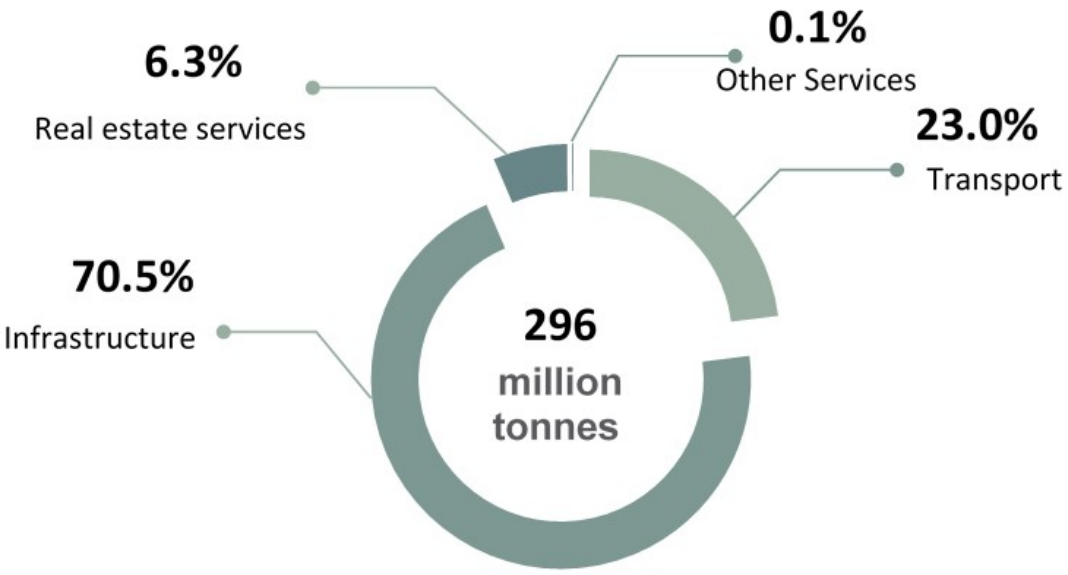
years. Most water consumption is for non-industrial use (roughly 87% of total consumption). The group launches periodic campaigns to spread awareness of responsible practices among water users.

Industrial water use is carefully managed to reduce consumption and ensure efficient collection and treatment of wastewater.



Waste management





Waste Production

The group actively monitors and reduces the quantity of waste produced. Our commitment can also be seen in the continuous improvement of waste collection systems in the services we offer passengers, especially on board trains and at stations. The growth in waste production in 2017 (roughly 25% on 2016) is due to the increase reported by RFI S.p.A., which contributes over 70% of the group's total production, as its updating of tracks in the year generated an increase in waste in the form of iron, steel, cement and wood sleepers. The percentage of special waste sent for recycling remains steady.



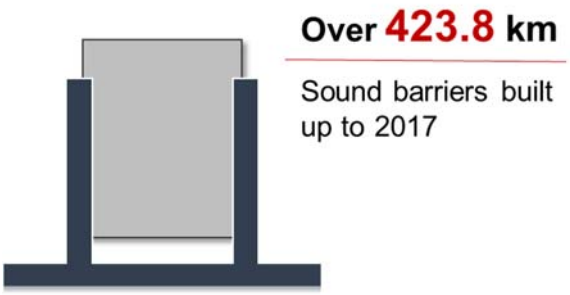
Noise

To prevent or reduce the harmful effects of exposure to environmental noise, FS Italiane group carefully plans and carries out noise mitigation work for its transport, site and plant operations.

The following are the most common solutions that can be used to mitigate noise pollution generated by fixed plants and sites:

- enclosing the noisiest machinery;
- acoustic screens (noise dampening barriers or enclosures with noise dampening treatment);
- scaling of shifts when the noisiest machinery operates and its use during the day.

RFI S.p.A. is continuing its work to install acoustic screens in sensitive areas.



FS Italiane group initiatives and projects

 Energy	FS Italiane S.p.A. issues its first green bond to finance the high-energy efficiency trains Pop, Rock and Frecciarossa 1000. GSE approved its requests for white certificates for the new Pop and Rock regional trains. A remote driver performance monitoring system was installed on the new buses to track their performance and pinpoint improvement areas. Development was completed on the QLIK IT system to monitor Trenitalia S.p.A.'s energy consumption. RFI S.p.A.'s electric substation meter project began, which will include the replacement of obsolete high and medium voltage transformers.
 Atmospheric emissions	The tender was assigned for the supply of electrical energy to 10 FS Italiane group companies, which will include approximately 30 GWh/year from certified renewable sources in Italy. The preliminary analysis and economic/environmental assessment report for the construction of photovoltaic power plants with total power of roughly 200 MW was prepared. Italferr S.p.A. met the contractual environmental sustainability requirements of works in progress and, more specifically, to reduce the greenhouse gas emissions generated by works contracts worth over €30 million. Particulate and nitrogen oxide emissions were reduced with the commissioning of Busitalia-Sita Nord S.r.l.'s new Euro 6 buses, replacing obsolete vehicles.
 Waste	Strengthening of sorted waste collection systems in stations. Waste monitoring and control using dedicated software. Feasibility studies to increase sorted waste collection on board trains and at plant.
 Water	New industrial water treatment and purification systems. Awareness campaigns for a more rational use of water. Remote control of consumption.
 Noise	Soundproofing barrier design and construction. Noise and vibration monitoring campaigns.
 Land and potentially contaminated sites.	Application of BIM (Building Information Modelling) in design. Development and creation of new services for the enhancement of cultural assets and the reporting of archaeological activities.

The group's social commitment

In recent years, Ferrovie dello Stato Italiane group has distinguished itself for its deep commitment to initiatives and projects to relieve social distress in railway areas and redevelop the land for communities. The following information on sustainability in 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 can be especially seen at railway stations. Promoted and managed in collaboration with local bodies and non-profit associations, the help centres are FS Italiane group's answer to the growing social distress and the considerable rise in migration to Europe and Italy in particular, as it is a gateway to Europe. The help centres are "low threshold" information points - i.e. without any filtering of users - created to welcome and 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 to 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 2,919 m² has been granted, with an estimated value of €4,378,500.[16]

In respect to this emergency, since 2016, Ferrovie dello Stato Italiane S.p.A. has granted large spaces to the Milan municipal authorities where the Fondazione Progetto Arca has carried out an important project to provide shelter and orientation to migrants.[17] In December 2017, the 18th help centre was opened in Pisa San Rossore through the "Scambi e binari[18]" project. The approximately 100 m² space provided by FS Italiane group has been used to set up a new gathering place in a highly marginalised and disadvantaged neighbourhood. Other help centres were expanded in 2017 and studies are in progress to expand the Bari and Messina help centres as well.

In addition, following an agreement between the Tuscany regional authorities and FS Italiane group, studies are in progress for the opening of another two help centres in Viareggio and Livorno. Furthermore, the opening of new centres at the Genova Piazza Principe, Terni, Foligno, Cesena and Rovereto stations are also being considered.

[16] Estimating an average of €1,500/m².

[17] A total of 2,450 m² have been granted on free loan to Fondazione Progetto Arca for the "HUB" project.

[18] The help centres are managed by Società della Salute in partnership with the Il Simbolo and Arnera cooperatives.

Network of station help centres		
Bari	Foggia	Pescara
Bologna	Genoa	Pisa
Brescia	Melfi	Reggio Calabria
Catania[19]	Messina	Rome[20]
Chivasso	Milan	Turin
Firenze Santa Maria Novella	Naples	Trieste

The group collaborates closely with ONDS, the Italian observatory for poverty and solidarity at stations, so the help centres can work in synergy. ONDS, which is managed by the social cooperative Europe Consulting Onlus, coordinates all the centres, handles training for help centre workers and performs detailed analyses of social distress[21]. The real-time situation of the online help centres is published on the website www.onds.it, along with useful information for social workers.

In 2017, the group committed roughly €129,300 to activities and projects to help socially disadvantaged people, with repercussions on employment for social workers at the shelters and for the disadvantaged people's gainful employment and reintegration in society.

Welcome centres

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

- the "Don Luigi a Liegro" 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[22] for those seeking asylum and political refugees, managed by the "Centro Astalli" association.

The total surface area granted under free loan agreements for social activities measures 14,118 m², with a total estimated value of €21,177,000. [23]

[19]The group has granted additional areas to Caritas Diocesana. The expansion of the canteen means more meals can now be provided (currently 400 meals a day, with up to 150 people being fed at a time).

[20] After access gates to the train platforms were installed at the Roma Termini station, the help centre moved to Via di Porta San Lorenzo (in the San Lorenzo neighbourhood near the station), where the rooms are larger and already renovated by the group.

The group has granted additional areas to Caritas Diocesana. The expansion of the canteen means more meals can now be provided (currently 400 meals a day, with up to 150 people being fed at a time).

[21]To collect and analyse data, ONDS uses the IT platform Anthology.

[22]The centre has operated in the former Rome shunting site Ferrotel since 2002. In 2017, it hosted 64 people from 18 families. Ten families left the centre and moved into their own homes or continued semi-independently or in group homes.

[23] Estimating an average of €1,500/m².

The total surface area granted under free loan agreements for social activities in 2017 measures 24,037 m², with a total estimated value of €36,055,500.[24] [25]

Reuse of idle real estate assets and railway lines

FS 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, 443 stations have been reassigned for activities to improve the local area or provide public services[26]. Total spaces of roughly 95,318[27] m² have been provided, with a total value of €95,318,000.

Idle railway lines that can potentially be converted into cycling paths span approximately 1,500 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 223 km of idle lines have been converted into cycling paths.

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.

[24] The total surface area has been calculated considering the network of help centres (2,919 m²) and welcome centres (14,118 m²). In addition, the group leases a space (7,000 m² in the Milano Centrale station) to the Museo della Shoah foundation for social and cultural activities for a nominal fee.

[25] The average sales value based on the market rate is €1,500/m². Ferservizi S.p.A. provided the latter figure (unchanged with respect to the previous year) by referring to average market values for properties in large cities that have partially deteriorated and are in areas with low commercial value.

[26] The number refers to stations with at least one free loan agreement in place.

[27] The number refers to buildings granted on a free loan basis. The group also granted yards outside the stations and/or land totalling roughly 4,399,250 m².

Stakeholders

The following is a map of Ferrovie dello Stato Italiane group's stakeholders, prepared pursuant to Legislative decree no. 254 of 30 December 2016.



The stakeholder panel

FS Italiane group is aware that sustainable, long-lasting growth goes hand-in-hand with the ability to create value for the community and all stakeholders, i.e., its ability to meet the interests and expectations of its stakeholders. This is why the group holds a stakeholder panel every year to promote dialogue and interaction with stakeholders and stakeholder involvement. They are invited to discuss hot topics and propose improvements for the business. In turn, FS Italiane group promises to give a specific and transparent answer to every request submitted and to follow up tangibly where appropriate. Stakeholders can check up on the status of proposals on a special page on the FS Italiane website.

Over 200 stakeholders from the different stakeholder categories participated in the four panels held from 2013 to 2016. A total of 85 proposals were gathered and, of these, 52 were implemented, 23 are being implemented and 10 were judged not feasible.

Human resources

The number of group employees rose from 70,180 at 31 December 2016 to 74,436 at 31 December 2017, showing a net increase of 4,256, including 3,789 due to extraordinary transactions. The average number of employees also increased by a similar amount (+3,385 resources).

The detailed information provided below includes that required by article 3.2.d)/e) of Legislative decree no. 254 of 30 December 2016.

With respect to the breakdown of employees by gender, in 2017, the percentage of female employees increased, particularly managers (+14.5%) and blue collars (+23.8%).

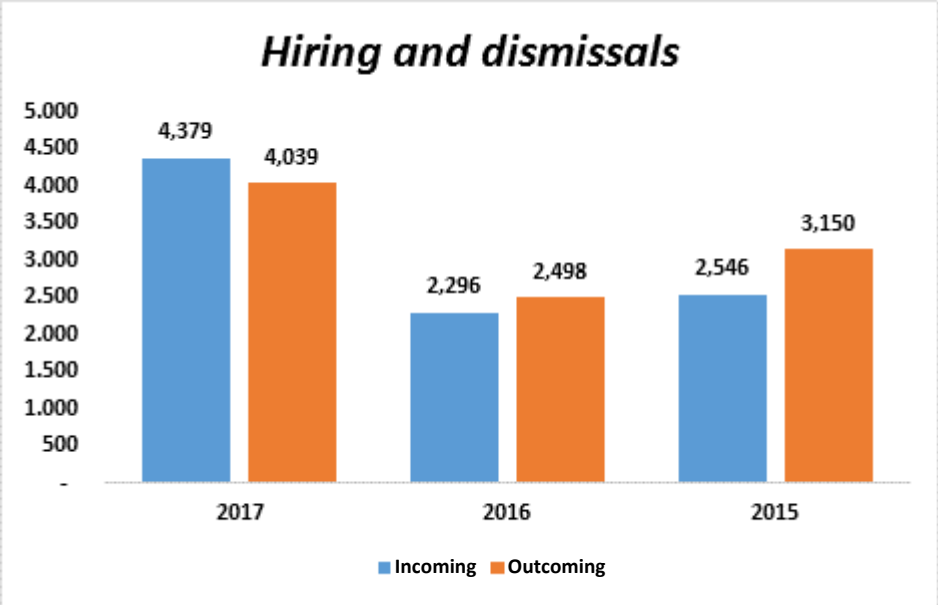
Number of employees of FS Italiane group		
	2017	2016
Managers	**778**	**727**
men	*644*	*610*
women	*134*	*117*
Junior managers	**10,996**	**11,005**
men	*9,142*	*9,173*
women	*1,854*	*1,832*
White collars	**33,948**	**32,117**
men	*26,627*	*25,458*
women	*7,321*	*6,659*
Blue collars	**28,714**	**26,331**
men	*26,714*	*24,715*
women	*2,000*	*1,616*
Total number of employees at 31 December	**74,436**	**70,180**
men	63,127	59,956
women	11,309	10,224
% of men	84.8%	85.4%
% of women	15.2%	14.6%
Average number of the year	**72,441**	**69,056**

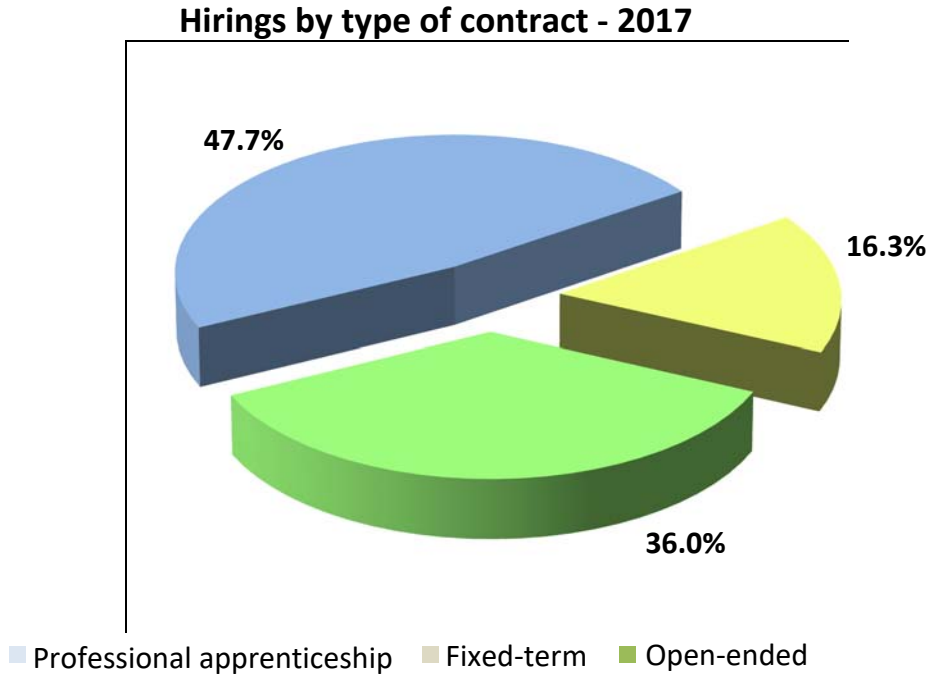
NO. OF EMPLOYEES AT 31.12.2016	**70,180**
Incoming (*) (**)	8,405
Outgoing (**)	4,149
NO. OF EMPLOYEES AT 31.12.2017 (*)	**74,436**

2016 AVERAGE	**69,056**
2017 AVERAGE (*)	**72,441**

(*) 3,789 new employees arrived through extraordinary transactions (corporate acquisitions).

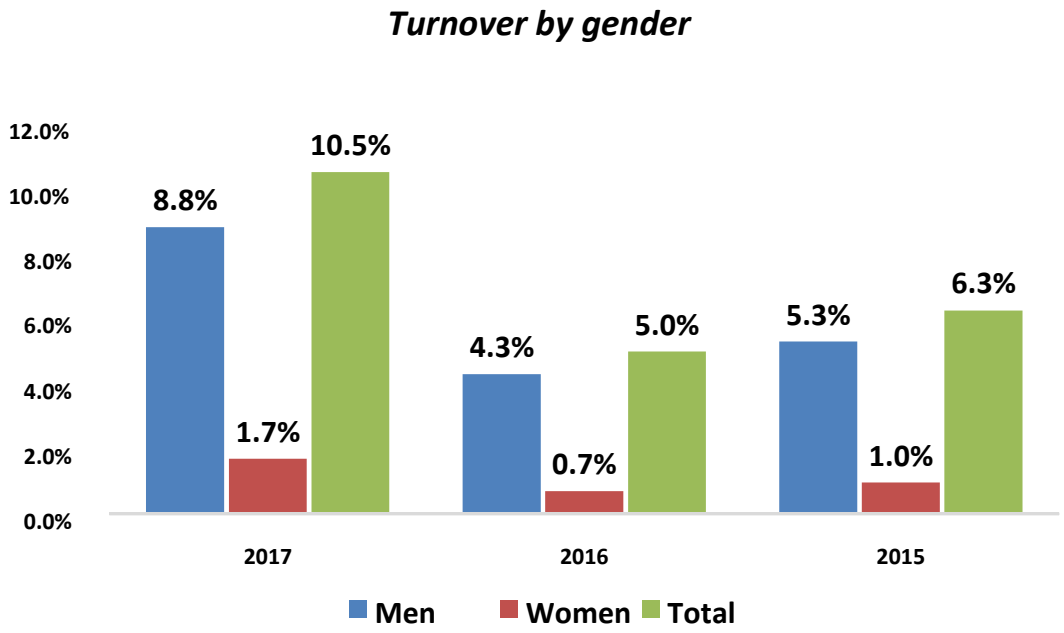
(**) incoming and outgoing employees include employees with fixed-term contracts in the ferry ship sector.



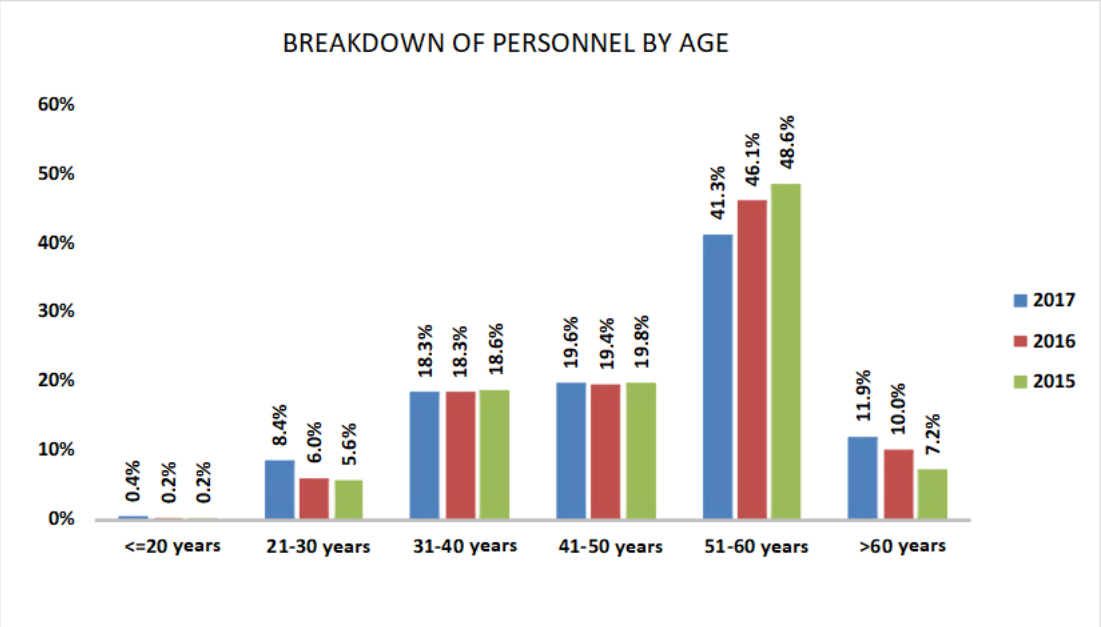


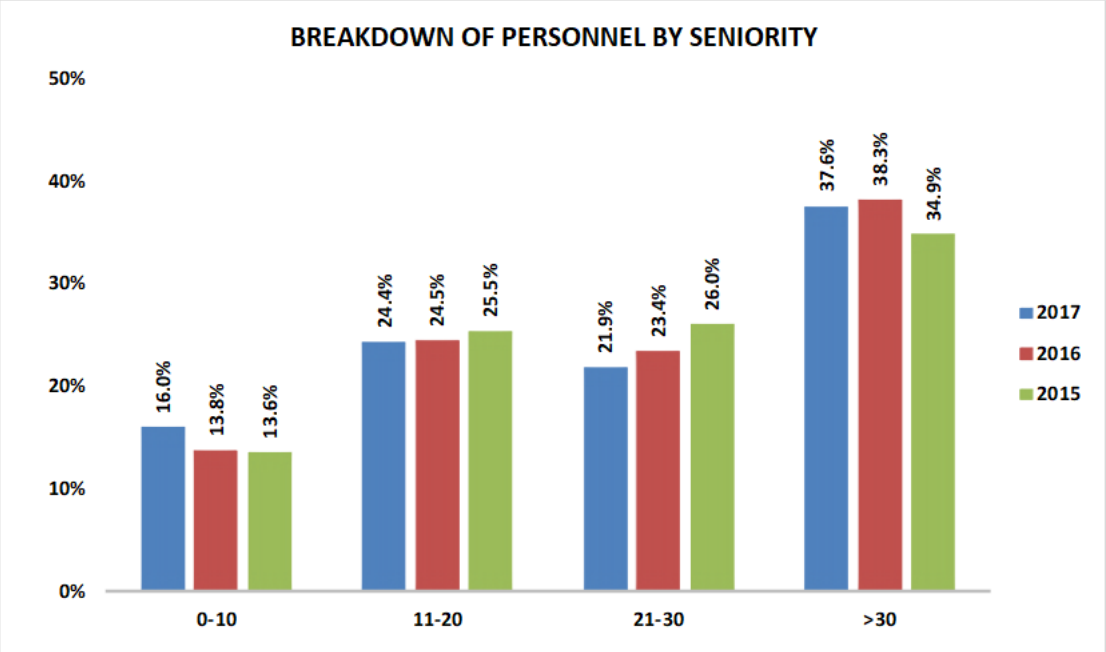
The following graphs show a detailed breakdown of the year's figures[28].

[28] The scope of analysis includes the following companies: FS Holding, RFI, Trenitalia, Ferservizi, Italferr, FS Sistemi Urbani, Mercitalia Logistics, Mercitalia Rail, Mercitalia Transport & Services, Mercitalia Intermodal (formerly Cemat), Busitalia Veneto, Busitalia Rail Service, Busitalia Campania, Grandi Stazioni Rail, Grandi Stazioni Immobiliare and Terminali Italia.

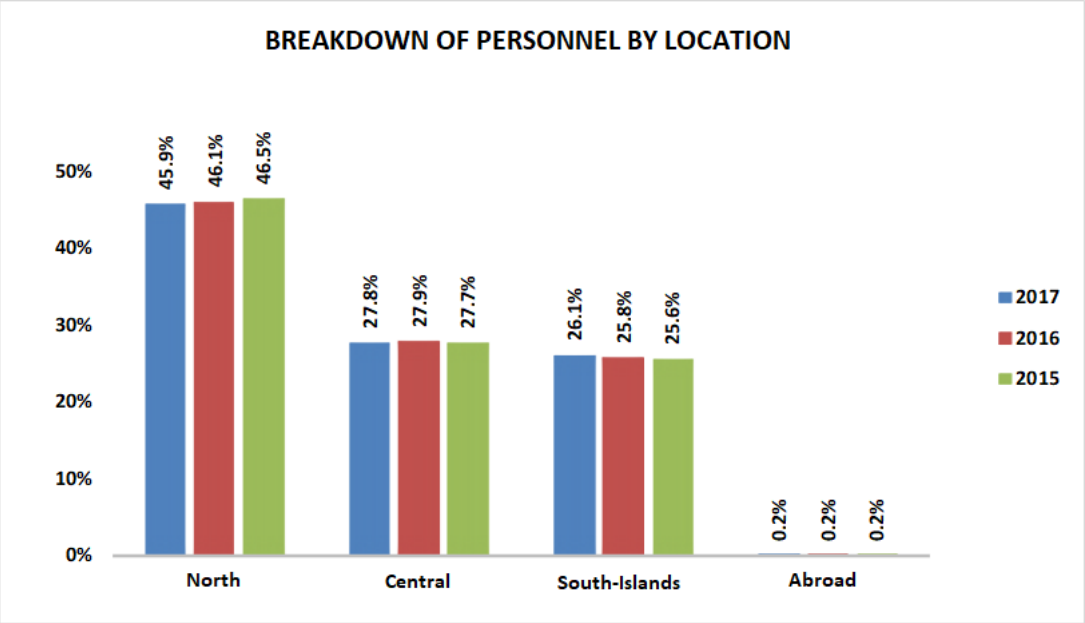


The rate of turnover is 10.5%, compared to 5% in 2016. The increase is due to the larger number of incoming and outgoing employees in 2017.





The average number of years with the company in 2017 is 22.9 years, while the average age is 48.4 years old.



The most common type of contract is open-ended, which is used for 95% of the group's personnel, including apprenticeship contracts as well. As in previous years, all employees are covered by national labour agreements. The national labour agreement applied to the group's non-management employees is that for the Mobility/Railway sector, integrated by FS Italiane group's agreement of 16 December 2016. 1.6% of open-ended contracts are part-time.

Relationships with trade unions and labour law

In 2017, operating instructions were given for the application of the changes to the national labour agreement for the Mobility/Railway sector and FS Italiane group's agreement of 16 December 2016, updating the previous guidelines for the purpose of simplification. The information systems were formatted and updated in accordance with the changes introduced by the national labour agreement for the Mobility/Railway sector and FS Italiane group's agreement of 16 December 2016, in cooperation with the relevant group structures. In addition, group regulations were updated in accordance with the legislative changes, such as the legislation on civil unions. To implement the consequent contractual clause, on 2 May 2017, a pilot agreement was signed for smart working arrangements within the FS Italiane group companies that have offered them.

On 20 July 2017, an agreement was signed with Mercitalia Rail S.r.l. to amend and integrate the working hours clauses for mobile personnel contained in the national labour agreement for the Mobility/Railway sector and FS Italiane group's agreement of 16 December 2016, in order to improve the group's economic and organisational efficiency.

Another agreement was signed on 21 December 2017 for the EUROFER complementary pension fund, allowing the dependants of railway workers participating in the fund to join as well.

Following the issue of the Labour and Social Policy Minister's decree in concert with the Minister of the Economy and Finance no. 99296 of 18 May 2017, published in Official Journal no. 166 of 18 July 2017, concerning the regulation of the fund for income and employment assistance for Ferrovie dello Stato Italiane group companies' personnel, an agreement was signed on 26 October 2017 for the procedure to receive the extraordinary solidarity benefits under the same fund. With this agreement, the parties quantitatively and qualitatively defined the personnel eligible for such benefits and the related methods and determined the procedure for the recruitment of new resources on the market for the generational succession of personnel.

The percentage of group employees who are members of **trade unions** remained substantially the same at 62.95% and group employee **absenteeism** is 8.8%, compared to 8.9%.

	2017	2016	2015
Absenteeism rate	8.8%	8.9%	8.8%

Missed hours due to strikes show a substantial decrease on the previous year. Furthermore, company strikes accounted for 21% of total missed hours, in line with 2016.

	2017	2016	2015
Missed hours due to strikes	57,709	108,776	50,617

Personnel management and development policies

In 2017, work continued to increase efficiency and productivity, which included employee turnover to bring new experts and professionals into the group.

Redundancy was managed with leaving incentives on one hand and, on the other, by using the extraordinary benefits of the fund for income and employment assistance for FS Italiane group companies. Approximately 500 workers benefited from these schemes in 2017.

in addition, following Interministerial decree no. 99296/2017, the group began the procedure for the use of additional benefits drawn from the FS fund for “extraordinary solidarity benefits” which will entail the hiring of around 1,000 young new employees for the operations the group companies Trenitalia S.p.A., RFI S.p.A. and Mercitalia Rail S.r.l., replacing the same number of workers, who will retire.

The group significantly ramped up its use of job postings, efforts that included new policies to develop the group’s resources and know-how. For the purposes of transparency, equal opportunities and professional diversification, employees were given the chance to express their interest in diversification in various fields, with the involvement of over 1,300 people, including managers. This resulted in an updated database for the creation of professional groups within the group to consult for continuous job postings. Out of 92 intragroup job openings, 76 jobs openings were posted, and out of the 47 completed postings, 22 were filled.

Recruitment on the market outside the group, which encompasses international candidates to meet the group’s development needs on foreign markets - in accordance with the principles of fairness, merit-based criteria, transparency and equal opportunities, as always - has focused on top quality recent graduates, not only in the fields of engineering, but in business and law as well, and on specialised experts, to generate value for the group in connection with its targets in the current 2017-2026 business plan. To become known for its innovation to increasingly attract young people in general, rare candidates like those needed in the digital and technology fields and top candidates with digital skills and global mindsets, the group has rolled out new digital tools for pre-screening and evaluation, enabling it to substantially increase the number of candidates eligible for positions at the end of the recruitment process. In 2017, over 440,000 curriculum vitae in the database were considered, including more than 105,000 that were received in response to published ads, creating a pool of recent graduates as attractive candidates. Of these, 240 were selected for positions in the group. 78 newly hired employees were recruited through intense, ongoing collaboration with the network of universities and diversified employer branding activities (over 8,000 young potential candidates were met in the year). In particular, the FS competition was designed, organised and held to attract, involve, train and recruit students and recent graduates who stand to contribute to the mobility sector. Over 2,000 young participants competed on the website and the Facebook page with serious games, digital case studies and share experiences (escape room), 70 of whom were selected for the on-site event. Of these, 28 received “job vouchers” for exponential group recruitment.

Similarly, “professional breeding grounds” that are useful to the business were developed for the professional target, with up to 180 people for expert positions and 22 managerial positions.
Each group company followed its own specific procedure for the selection of operational personnel, in line with the group’s principles guidelines, which consider the candidate’s residence in the region where the job is based as a priority requisite. Specifically to train experts and cultivate potentially attractive pools of candidates to meet future needs for operational personnel within the group, approximately 2,000 high school students were involved in youth initiatives, highlighting the group’s active contribution to developing culture and expertise for the labour market and boosting the country’s economic system and employment rate, with 218 school/work programmes under 55 active agreements.
The group has also expanded its channels for the communication and promotion of professional opportunities in line with international benchmarks to strengthen recruitment and attract new talent, including international talent. In particular, the career website “FSitaliane.it/Lavoraconnoi” – which receives an average of about 197,000 visits per month and around 680,000 page views – was completely revamped with new content and an updated layout. The group also: i) published the English language version of the career website and online app; ii) reinforced the group’s presence on Linkedin with a corporate page (in English); iii) periodically updated the sections on People, Recruitment, Company and Events/News. These efforts resulted in over 120,000 followers for the group.
For top level training to ensure innovation, develop the production system and make school and university training more responsive to business needs, in line with the business plan – also considering the requirements of integrated mobility and jobs in the new digital world, preparing young people for employment and bringing them closer to jobs – the group promoted and conducted many different employer branding and networking initiatives with universities, through ongoing, fruitful contact with young people. It disbursed over 64 scholarships, provided 83 on-the-job training arrangements and held 30 events and seminars to meet, listen, provide work orientation to and recruit young people. All this led it to confirm its number one ranking for the fourth year in a row as the “Best Employer of Choice” among companies where young recent graduates would like to work, based on a statistical analysis of a sample of 2,500 young people representing all Italian recent graduates and considering 101 Italian and international companies.

FS Italiane group’s 2017-2026 business plan requires a comprehensive revision of the managerial and leadership models in the resource and competence management and development systems. In 2017, the revision entailed the review of the current performance management process and model, with two key objectives:

- ensuring consistency with the business plan in terms of the assigned objectives and skills;
- encouraging productivity and motivating the growth and development of resources according to FS Italiane group’s business.

These objectives led to a qualitative and quantitative revision of the current process, generating positive impacts on the development of individuals, teams, companies and the group as a whole.
In this way, the performance management process highlighted the need for personal training and a reinforcement plan through specific on-the-job initiatives to consolidate skills so resources can better perform their jobs. The results of the performance management process will be tangibly used to promote and support development projects, professional experience, job rotation, training plans and to steer and finalise new remuneration policies.
Specifically, the new performance management model will enable FS Italiane group to:

- encourage the personal and professional development of people (heads and workers);
- share the objectives of the 2017-2026 business plan;
- align overall performance with strategic targets;
- provide continuous, differentiated feedback;
- support the development of skills.

In 2017, additional development activities covered:

- assessing participants of interest to FS Italiane group (managers, key junior managers and university graduates: 323 people) and company interest (junior managers and white collars: 426 people) for a total of 749 participants, along with the management of feedback and development plans following the assessments;
- FS Italiane group's annual performance assessment conducted by resource managers using the integrated evaluation system and involving key resource groups (managers, junior managers and university graduates). The performance of 9,169 men and 2,475 women was assessed, representing about 18% of the group's average workforce for the year, up approximately 33% on 2016. 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 improvement areas).

Training

Training is a vital tool in enhancing labour and transforming it, as well as a strategic lever in the strengthening of FS Italiane group companies' know-how and competitive edge. In line with the business plan, in 2017, training contributed to translating strategies into measurable objectives and actions, through strategic pilot projects, and providing all employees with the skills and abilities they need to achieve the business targets, supporting their performance and specialised role.

In 2017, the main group companies provided a total of approximately 431,709 training days to maintain and update technical/specialised skills and develop a stronger culture of safety and operating efficiency.

The focus on customers, the market and competition was significant, while considerable investments were directed at training to support technological innovation and processes, which the companies operating in the relevant businesses have efficiently pursued.

Furthermore, 15,836 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 of the training days for employees only was €6,975,000, €5,781,000 of which was covered by financing for training.

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

- follow through with the innovation and change processes underway;
- consolidate managerial expertise by supporting the performance of people who reach the highest positions and most important responsibilities;
- accompany recent graduates through induction;
- sustain a culture of diversity management, including by focusing sharply on life/work balance issues;
- encourage the spread of a business culture focused on internationalisation.

The group's main pilot and consolidation projects are listed below, which involved FS Italiane group employees in strategic training sessions in 2017.

The cross cultural training_Iran project was launched to support Italian workers abroad. It was the first intragroup project and involved more than 20 Trenitalia S.p.A., RFI S.p.A. and Centostazioni S.p.A. employees who taught railway courses in a new cultural context with many opportunities for about five months. The course was blended (classroom and online lessons) and aimed at helping different cultures come together, encouraging reflection on intercultural skills and the need to develop a new mindset. The project and format will be extended to other international opportunities that are arising.

The Innovation Lab project was offered to about 100 young recent graduates in 2017. It was designed and kicked off in May to conclude the induction process and consisted of six meetings over a four-month period. The aim was to train a new mindset, encouraging our young people to examine successful Italian start-ups. The approach to training was updated to

be more open to innovation, which is crucial in order to ensure the achievement of the challenging targets in the group's new business plan. Flexibility, an ability to innovate, rapid execution and operating agility are the skills the young participants studied. Eight ideas were proposed for new start-ups and two of these are taking shape with support from FS Italiane S.p.A.'s Innovation unit.

Training projects and tutoring on smart work were kicked off for the 200 workers involved in the smart work experiment. This training, which also involved top management, focused on teaching a new managerial concept that entails forcing a mature relationship between people based on trust, commitment to achieve results and willingness to put oneself's on the line. Half days were devoted to health and safety training for smart work employees.

The parent also carried out significant awareness campaigns on cyber security and the new personal data protection regulation for top management of the main group companies. In 2018, classroom and online training will be provided for the rest of company management.

In partnership with the Company Security Department, an analysis began on passengers' perception of security, with 4,000 interviews at stations and on trains. The results of this survey will help accurately integrate 2018 customer experience training plans.

At the end of the year, HR team training began and will continue for all of 2018 to support the implementation of the new performance management process. Management identified 100 people working in the various HR areas, from Management and Administration to Training and Development, who will assist local managers in the various stages of the process, as business partners.

Important group projects continued in 2017, generating significant volumes. In particular:

- induction projects for young recent graduates and experts involved approximately 230 young people in classroom lessons alternating with study tours to instil a knowledge of the group's context and main operating processes.
- managerial training continued to attract management's interest (130 participants) with seminars and webinars on the scenario, market and leadership as part of Ambrosetti's The European House programme;

managerial and development training also included additional leadership programmes for around 150 junior managers heading micro-structures over five training days in a four- to five-month period. The aim was to train them in and develop all human resource management aspects with respect to the objective evaluation of people, training and leading work groups, managing motivation, establishing targets and managing feedback with a view to employee development and support.

Institutional training has focused significantly on training for women returning from maternity leave and their direct supervisors to help create a balance between professional and family life. Approximately 33 women were involved when they returned from their legally-required maternity leave with their supervisors.

Within the scope of diversity training, meetings were held with the HR heads to manage the new welfare website and welfare services for personnel.

In addition, the parent has held meetings, seminars and update workshops and registered on the market for more than 1,300 events in which its Administration and Financial Statements, Audit, Compliance, Risk Management and other employees have participated on health and safety in the workplace and specialised technical courses. The group has also increased its language training, in light of the internationalisation process.

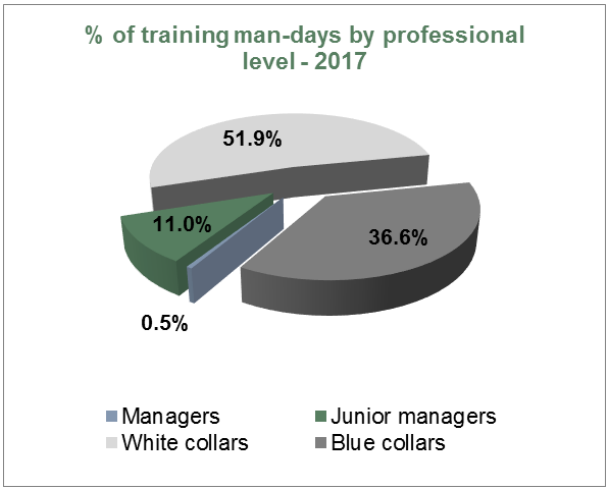
The operating companies focused on the following activities:

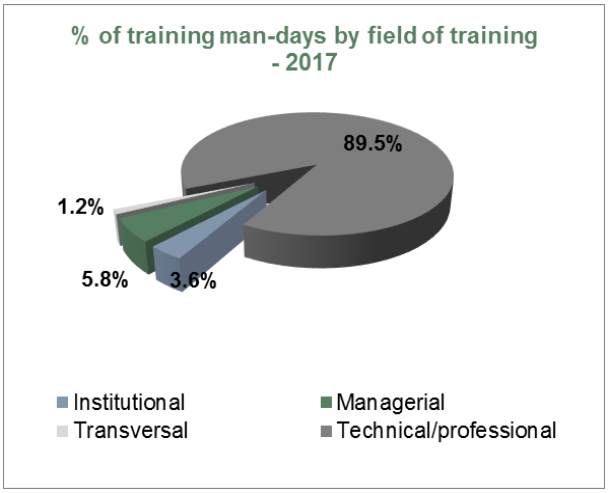
- maintaining and developing train operational safety skills;
- environmental protection training;
- training on roles and key skills in the main production processes;

- general and specific training on legal regulations on health and safety in the workplace and training on the development of a culture of safety and safe behaviour.

In particular:

- RFI S.p.A. kicked off an "Awareness Focus" project to develop and strengthen its entire populations's awareness in routine and emergency situations;
- Italferr S.p.A. managed the BIM project (BIM Introduction Meeting) for a comprehensive view of the BIM methodology and its implementation in operations;
- Trenitalia S.p.A. continued its intense focus on customer and market issues;
- Ferservizi S.p.A. managed a large training project to support the concentration and specialisation of administrative services.





Health and safety in the workplace

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

With the awareness that FS Italiane group's growth must involve all our stakeholders, including contract companies, the third intragroup seminar was held in July: "Contractual requirements and monitoring accidents at contract companies with respect to health and safety". All group company safety managers participated in the seminar, with the aim of comparing best practices for contracts to extend the culture of prevention to the contract companies by implementing good practices and introducing new contractual and organisational requirements. The "Intercompany Health and Safety Panel", in which Italy's largest companies participate (ENI, Enel, Telecom, Poste Italiane, Terna, ANAS, Autostrade per l'Italy, Vodafone, etc.) was held at ENI in 2017 and consisted of a seminar to compare the ways in which relationships with contract companies and suppliers are managed. In this context, FS Italiane group and ENI, a company that shares the objective of improving its occupational safety results, agreed to develop common initiatives to share tools, methodologies and best practices to foster a culture of safety with their respective contractors.

Following the earthquakes on 18 January 2017 and the ensuing emergency, which concerned the Villa Patrizi complex, where the offices of the group and its main companies are based, the earthquake emergency procedure was reviewed, with the involvement of the managers of all companies with offices in the property complex. The emergency procedures were found to be compliant with the relevant current legislation based on the first earthquake suffered and improvement areas

were identified, including, but not limited to, communication methods and operating procedures in the event of an earthquake emergency.

Ministerial decree no. 58 of 28 March 2017 updated the regulatory framework for the seismic assessment of existing buildings. Although the decree does not establish any obligation to conduct earthquake vulnerability assessments on buildings legally classified as non-strategic/relevant, RFI S.p.A. issued preliminary guidelines for seismic vulnerability assessments on non-strategic/relevant buildings where the work is carried out.

The group also participates in the workshop on organisational health, safety and environment models organised by the Sant'Anna school in Pisa. In addition to FS Italiane group, the industrial groups in the Intercompany HSE Panel (Eni, Vodafone, Enel, Terna, Autostrade per l'Italia, IPZS and Saras) also participated, with the aim of analysing and comparing the health and safety in the workplace organisational models. The workshop will cover four topics: leadership styles and extra-role conduct, risk management, the permeability of HSE organisational models and the system of proxies and responsibilities. The project will end in late 2018.

As noted earlier, in 2017, smart work experimentation began. The companies offering smart work arrangements (in accordance with Legislative decree no. 81/2008 and Law no. 81 of 22 May 2017) conducted a risk assessment on smart work activities and prepared a written disclosure indicating the general and specific risks of this type of working arrangement and the prevention measures. The disclosure document was delivered to each of the employees participating in the programme, along with the computer tools they will need to work, following specific training, which included training on health and safety in the workplace.

In 2017, as in previous years, prevention focused on implementing the accident reduction and prevention improvement targets issued with group measure no. 214/2016. The 2017 accident reporting scope was expanded and now includes not only Ferrovie dello Stato Italiane S.p.A., RFI S.p.A., Trenitalia S.p.A., Ferservizi S.p.A. and Italferr S.p.A., but also Busitalia-Sita Nord S.r.l., Mercitalia Logistic S.p.A. and Mercitalia Rail S.p.A..

Based on INAIL data on accidents, currently being determined, the table below shows 2017 data on the companies in the new reporting scope. Considering the railway sector only, on a like-for-like basis, the accident rate continued its improvement trend, with a reduction of approximately 5.2% in 2017, compared to 2016, overperforming the target reduction of 3%, corresponding with a roughly 5% decrease in the frequency rate, compared to the target decrease of 2%. The trend in accidents in transit remains substantially steady.

The following tables illustrates changes in the years.

Accidents indemnified by INAIL[29]: broken down by gender

Year	Total accidents	women	men	Frequency rate[30]	Frequency rate - women	Frequency rate - men
2017[31]	1,186	157	1,029	19.2	17.3	19.6
2016[32]	1,352	173	1,179	22.5	19.9	23.7
2015	1,457	185	1,272	24.1	20.9	24.5

[29] INAIL data under consolidation

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

[31] 2017 reporting scope: FS Italiane S.p.A.-RFI S.p.A.-Trenitalia S.p.A.-Ferservizi S.p.A.-Italferr S.p.A.-Mercitalia Logistics S.p.A.-Mercitalia Rail S.r.l.-Busitalia-Sita Nord S.r.l.

[32] 2016 reporting scope: FS Italiane S.p.A.-RFI S.p.A.-Trenitalia S.p.A.-Ferservizi S.p.A.-Italferr S.p.A.

Passenger railway transport - railway services offered on the market

2017 saw an increase in the product offer in the highly competitive HS market segment, with the competitor pursuing intense pricing and offer strategies.

The group continued to pursue a premium price policy for all products in this segment, offering passengers the long-standing fare structure: Standard, Economy and Super Economy, i.e., a combination of flexibility and convenience. In addition to this range, all the other offers remain in place: Two for the price of one every Saturday and holidays; Children travel free, for families, allowing children under 15 years of age to travel for free; the CartaFreccia Special card for loyal customers, who can travel on Frecce trains with a 50% discount off the Standard fare on Tuesdays, Wednesdays and Thursdays from 11 am to 2 pm; and the CartaFreccia Young and Senior cards for travellers under 26 and over 60 who can travel with a 30% or 50% discount, depending on how far ahead they book their journey. In addition, the special same-day and same-weekend roundtrip fares are still being offered for Frecce trains and promotional prices for same-day roundtrip fares between Rome and Milan, which was extended to Rome and Venice in December 2017, on Frecciarossa and Frecciargento trains.

New HS transport passes were offered in February 2017. They differ based on the day of the week and the time of day when they are used, and are priced accordingly, enabling passengers to choose the pass best suited to their travel needs.

Lastly, campaigns were organised to encourage purchases using online vouchers and discount codes: for specific events and certain times; using the Happy Birthday *FRECCIA* card, Update your consent, Word-of-mouth and prepaid Freccia card campaigns, along with initiatives to encourage passengers to buy single tickets in advance using weekend discounts codes.

In the wake of the previous year's positive results, in 2017, the Frecciarossa sports marketing campaigns were confirmed with the Juventus, Torino, Milan, Inter, Bologna, Fiorentina, Roma, Sassuolo, Lazio and Napoli teams.

In general, the group's qualitative performance can be summarised as follows: 97.9% of medium and long haul trains in the market service segment arrived on time or, in any case, no more than 0 to 15 minutes late (compared to 97.4% in 2016). Customer satisfaction data, again in the market service segment, based on surveys by independent parties, show an improvement in satisfaction with the journey service, reaching 94.4% at year end (93.6% in 2016).

The main developments in the 2017 offer were as follows.

Frecciarossa

The supply and commissioning of new *Frecciarossa 1000* trains were completed in 2017, reinforcing highly profitable sections of the network with an increase in the frequency and seats on the Milan-Rome/Naples and Venice-Rome routes following the roll-out of double *Frecciarossa 1000* trains, i.e., when two trains are connected together, beginning in June 2017.

The new trains also entailed a better allocation of the rolling stock already in use. In particular, the ETR500 trains were used on the backbone line, where demand is most highly saturated, and replaced all *Frecciabianca* trains on the Po Plain line. In addition, geographical coverage was improved with the start of commercial service at the Napoli Afragola station, the reinforcement of the Rogoredo stop, the improvement of connections from and to Arezzo and the extension of the *Frecciarossa* service from Milan-Salerno to Potenza and Taranto.

Secondary services and passenger comfort included the improvement of the WiFi services with the upgrading of ETR500 trains to install new, higher performance 4G modems capable of working on the new LTE bands. In addition, work continued to consolidate the on-board website with the launch of new functions, like Internet navigation for windows mobile devices and new direct internet access from the "*FRECCE*" website app. A new digital news agent service was rolled out on the

"*FRECCE*" website app and a beauty contest was held to select the new content provider with the aim of expanding the entertainment offer on the website and on-board monitors.
98.28% of *Frecciarossa* trains arrived on time or, in any case no more than 0 to 15 minutes late, a slight improvement on 2016 (97.92%). Customer satisfaction data, based on surveys by independent parties, show overall satisfaction with the journey of 95.4% at year end, in line with the previous year (95.2%).

Frecciargento

In 2017, the *Frecciargento* offer was expanded to include service to and from the Puglia region with two daily Rome-Foggia connections and two non-stop Rome-Bari connections, as well as two Rome-Genoa connections (via Florence), thanks to the recovery of *Frecciargento* material generated by the upgrading of the Venice-Rome/Naples/Salerno route from *Frecciargento* to *Frecciarossa* trains. At year end, the Rome-Reggio Calabria connection (via Napoli Afragola) was also expanded from two to four trains per day. In addition, commercial service at the Napoli Afragola station began and new stops were added to already existing ones (Rosarno on the Rome-Reggio Calabria route and Carpi on the Rome-Mantua route), which increased the pool of users with access to this service.
98.6% of *Frecciargento* trains arrived on time or, in any case no more than 0 to 15 minutes late, more or less in line with 2016 (98.6%). Customer satisfaction data, based on surveys by independent parties, show overall satisfaction with the journey of 92.9% at year end (2016: 92.5%).

Frecciabianca

In April 2017, the gradual upgrade of services on the Turin-Milan-Venice/Udine/Trieste axis was completed with the progressive transformation of *Frecciabianca* services into *Frecciarossa,* as mentioned above, by using ETR500 rolling stock. In the second half of 2017, the *Frecciabianca* fleet was upgraded to improve travel comfort and make the train interiors more attractive by refurbishing the bar and lighting system, which was updated from neon to LEDs, for brighter light, energy savings and functional improvements.
97.2% of *Frecciabianca* trains arrived on time or, in any case no more than 0 to 15 minutes late, showing an increase on 2016 (96.3%). Customer satisfaction data show overall satisfaction with the journey of 91.5% at year end (2016: 90.8%).

International service

2017 saw the opening of the Gotthard Base Tunnel, shortening the journey between Milan and Zurich by 37 minutes for Italy-Switzerland *EC* service, bringing the total travel time between the two cities to 3 hours and 26 minutes. The complete offer, which grew to include a new *EC* train connecting Milan and Zurich, expanded further in June 2017 with the new *EC* connection between Zurich and Venice. Through the new partnership with Austrian ŐBB, the international *EN* night service offer, which already included routes from Rome and Milan to Vienna and Munich, now comprises a new international destination: Salzburg.

Freccialink

After the pilot test stage launched in 2016, *Freccialink* service definitively grew with two new routes, particularly for summer traffic (Sorrento-Naples, Piombino-Florence, Gallipoli-Lecce and Cremona-Brescia), focusing on the routes with the highest commercial potential.

Passenger railway transport - universal service

The new service contract for medium and long haul railway services subject to public service obligations was signed with the MIT and the MEF on 19 January 2017, with effect from 1 January 2017 to 31 December 2026. The new service contract provides for the supply of a total of 25.1 million train-km through *Intercity* brand trains.

The *Economy* and *Super Economy* offers for *Intercity* and Night trains continued in 2017 with specific price points.

96.4% of medium and long haul trains falling under the universal service and other services reached their destination on time or less than 15 minutes late, showing an improvement on the previous year (96.1%). Customer satisfaction data show overall satisfaction with the journey of 87.8% at year end (2016: 85.6%).

Passenger railway transport – regional railway service

Most of the public service contracts in place with the regions expired on 31 December 2014 and were renewed in 2016 and 2017 for service continuity. Specifically, in 2017, the contracts with the Basilicata and Molise regions were renewed for nine years (6+3 years from 2015 to 2023), while a service contract with direct assignment of services was signed with the Sardinia region for nine years (from 2017 to 2025). Furthermore, the contract with the Piedmont region was renewed for four years (from 2017 to 2020), the contract with the Calabria region was renewed for three years (from 2015 to 2017) and that with the Fruili Venezia Giulia region was renewed for two years (from 2018 to 2019). A service contract with direct assignment of the service is being negotiated with the Sicily region for 10 years (from 2017 to 2026), while talks continued with the Valle d'Aosta region, with which a bridge contract will presumably be signed for the subsequent assignment of services by tender. At this point, the contract service with the MIT only covers the undivided services in Northeast Italy (mainly Verona-Brennero and Trieste-Venice).

The results achieved in the last two years have given Trenitalia S.p.A.'s customers renewed confidence in the company. Indeed, the commercial offers made have been well received, with customers appreciating the quality of services offered, cost containment and investments in upgrading the fleet and on-board technologies.

The percentage of regional transport trains that arrived within 0 to 5 minutes of the scheduled time was 97.1%, showing a good improvement on the previous year (96.6%).

Customer satisfaction data have progressed substantially. In particular, overall passenger satisfaction reached 83.2% in 2017, compared to 79.6% in 2016. More specifically, the perceived quality of cleanliness on board regional trains improved considerably, rising from 65.6% in 2016 to 73.2% in 2017.

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

- contactless cardholders and users of the related payment system apps can now buy single Leonardo *Express* tickets at the automatic gates at the Roma Termini and Fiumicino Aeroporto stations using the *EMV* (Europay, MasterCard and VISA) service;
- the types of tickets and passes on sale at the indirect sales network (third-party POS) were expanded;
- the use of the single smart card spread to facilitate the integration of the various means of transport, including fares;
- the commitment to anti-evasion and anti-avoidance action continued with personnel on trains and at stations. In addition to personnel on board trains, the national pool of travelling anti-evasion officers remained in place. In collaboration with Polfer (the railway police) and Company Security, they check tickets on board trains.

Cargo railway transport - Cargo service

In 2017, a process began to tangibly relaunch the cargo sector with the creation of a cargo and logistics hub. Accordingly, a customer satisfaction survey was conducted during the year by sending questionnaires to key customers. The results of the survey showed which aspects are perceived as the most satisfactory and which, like customer assistance by personnel, could be improved, although they are above sufficient, like the adequacy of transport vehicles and cargo delivery times.

The Cargo segment demonstrated its focus on customers and service quality by maintaining quality certification in accordance with the new UNI EN ISO 9001:2015 standard and by extending the scope of certification to cover the management and coordination of the Mercitalia hub operating companies to support the group's synergies with cargo customers.

Passenger road transport

FS Italiane group's road transport operations are managed by Netinera group in Germany and in Italy by FSE S.r.l. and, mainly, Busitalia Sita-Nord group (also referred to as the "Busitalia group").

Busitalia group offers urban and suburban transport services in Tuscany, while in Umbria it manages regional road transport and, on behalf of Trenitalia S.p.A., buses to replace trains and alternative mobility services. On the market, Busitalia group provides long haul coaches, vehicle hire with and without drivers, including for tourism and travel agencies. It also offers bus services to and from the Florence airport and *The Mall* outlet.

In Tuscany, Busitalia group continued LPT activities pending the signing of the bridge contract and defined the agreement with the city of Florence and surrounding municipalities concerned (Mugello-alto Mugello and Valdarno Valdisieve) for the "weak network" service, while updating ticket validity and pass tariffs for special user categories (the integrated "Pegaso" ticket and student passes).

In Umbria, the LPT and integrated mobility project launched in 2016 continued in 2017, with work in services, ticketing, infrastructures and mobility information, by:

- completing the expansion of bus services to railway stations;
- completing the fare integration project in Umbria, extending Umbria.GO passes to target commuters. Umbria.GO, launched in 2017, is a pass that lets holders travel anywhere on any vehicle on the entire local and regional public transport network within "fare boundaries" in the Umbria region, using Busitalia Sita Nord S.r.l. (buses, cable cars, regional trains and ferries on Trasimeno Lake), Trenitalia S.p.A. (regional and fast regional trains) and Minimetrò (light rail in Perugia);
- completing the project to launch, in partnership with RFI S.p.A. and Centostazioni S.p.A., monitors providing information on scheduled urban and suburban road transport services at Umbria's main railway stations and on Trenitalia S.p.A.'s services at the bus terminals in Perugia Orvieto.

During the year, the priority in the long haul market service segment was to find ways to improve service quality. This entailed continuous, careful monitoring of the organisation of scheduled bus services to minimise delays, unexpected occurrences or other events and using the customer relationship management form, which profiles customers and measures customer satisfaction while gathering information to optimise the service offer. In addition, the current "*Smartbus*" management software was updated, which enables Busitalia group to analyse all statistical, management, marketing and commercial data, while offering customers the "*Web*", with fast, user-friendly access. The new app is also now available, another quick and easy way of accessing bus services. The training of travelling personnel to ensure high quality standards remains a top priority.

Customers rated their overall satisfaction with LPT services 94.7%. In suburban services (road transport), the macro factor with the highest customer satisfaction score was "safety" with 90.2% in Umbria and 86.5% in Tuscany – "safety" meaning driving safety and safety on board – while the macro factor to be improved was "cleanliness" (65.8% in Umbria and 59.4% in Tuscany). In urban services, the commercial service received the highest customer satisfaction rating (94.9%), while "cleanliness of vehicles and structures" received the lowest, although not too low at 86.7%. A customer satisfaction survey on alternative mobility was also conducted in Umbria (customer satisfaction of 89.6%) and waterway services (98%).

Suppliers

Ferrovie dello Stato Italiane group makes its purchases in accordance with EU Directives, as implemented by the Contracting Code, and its own "Group company negotiations regulation". The detailed information provided below (supplier vetting and evaluation) is also provided to meet the requirements of Legislative decree no. 254/2016.

Suppliers are vetted on the basis of assessments relating to quality, price and other corporate pre-requisites (the supplier's location and nationality are not part of the vetting criteria).

The standard contractual clauses include requirements that the contractor must comply with:

- labour and social security laws, with the application of national labour agreements;
- occupational safety and hygiene obligations;
- the standards in the "group code of conduct".

Since 2013, the group companies have been asked to include a clause on compliance with the group's environmental policy in new contracts, in accordance with the guidelines for the implementation of environmental management systems. Ferservizi S.p.A. handles non-core purchases, i.e., those not directly related to the group companies' core businesses, while the individual companies directly manage core purchases, except in rare cases when Ferservizi S.p.A. handles them.

Suppliers' profile and assessment

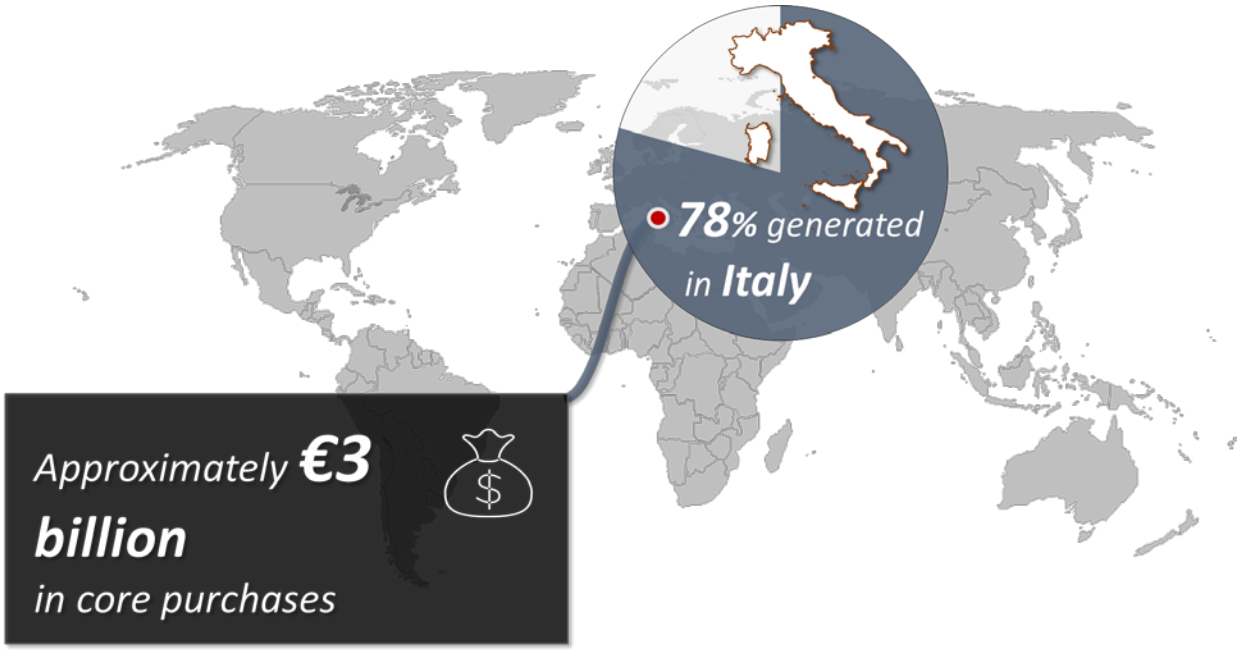
The integration of environmental and social principles in the procurement of goods, services and works is a constant commitment for the group to help improve working conditions and reduce the environmental impacts along the supply chain.

The criteria it most often uses in the vetting of suppliers are:

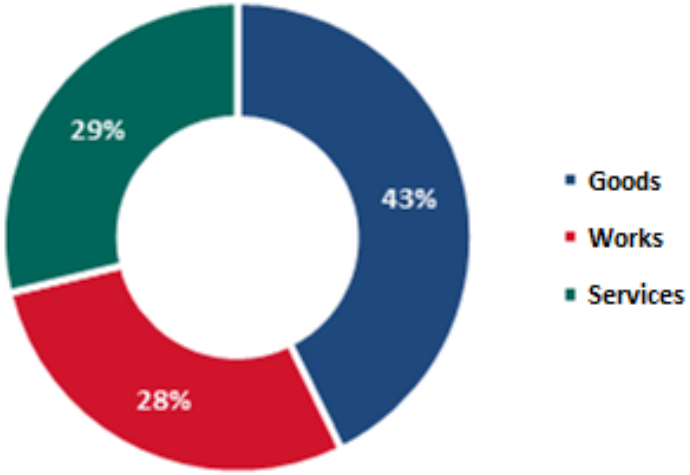
- being ISO 14001, ISO 9001 and OHSAS 18001 certified for the main service and work contracts (e.g., work construction, railway superstructure, rolling stock cleaning, etc.);
- using eco-friendly materials and product certifications (e.g., FSC® and Ecolabel);
- energy consumption (e.g., reducing the energy consumption of electrical devices to below the threshold level and Energy Star 5.0 certification);
- reporting on the protection of health and safety in the workplace.

In 2017, the group companies managed procurement for the core business worth approximately €3 billion, 78% of which from direct suppliers [33]with registered offices in Italy, which directly and indirectly generate income and jobs in the communities where the group operates. In addition to these purchases, Ferservizi S.p.A. signed new contracts worth €225 million for the group's non-core procurement.

[33] Non-group companies with which the group companies have direct relationships.



RFI S.p.A. managed about half of the group's procurement turnover with 45 core suppliers with registered offices in Italy. The group's core purchases are broken down below by type:



Since 2015, the group has pursued a project to understand and improve the sustainability performance of its supply chain, which has included self-assessment questionnaires consisting of over 40 questions in four sections (human rights, the environment, society and health and safety in the workplace), distributed to the companies' strategic suppliers, [34] as well as audits.

[34] Strategic suppliers were identified considering their percentage out of total purchases for 2017.

This process entails the following three stages:



In 2017, the real or potential impacts associated with the group's supply chain were mainly related to electrical energy and fuel consumption, in addition to the raw materials and water cycles. There were no significant adverse events with respect to these aspects. To improve supply chain management, in the second half of 2017, RFI S.p.A. included a new scoring criterion in tenders that rewards suppliers for their sustainability, using the monitoring platform developed by EcoVadis CSR. RFI S.p.A. also joined *Railsponsible*, an initiative that brings together major railway companies to promote sustainable procurement by sharing best practices and virtuous processes.

Main events of the year

The main events of the year are reported below:

- **Trenitalia S.p.A. and the Campania region sign the new regional service contract.** On 17 January 2017 in Naples, Trenitalia S.p.A. and the Campania region signed the new service contract, valid until 2023. Worth a total of over €159 million per year, the new contract provides for the payment of considerations in exchange for a 5% increase in production, an expanded commercial offer, improvements to the fleet, the revamping of high-traffic trains, improved comfort and security with new LED lighting, live video surveillance, infotainment and a people counter.

- **Trenitalia S.p.A. and Hitachi Rail Italy S.p.A. unveil "*Rock*", the new regional train.** On 20 January 2017, production began on the new regional double-decker trains named "*Rock*" that Hitachi Rail Italy S.p.A. is producing for Trenitalia S.p.A.. The master agreement signed by Hitachi Rail Italy S.p.A. and Trenitalia S.p.A. provides for the possible supply of up to 300 trains for a total of approximately €2.6 billion. The new train jumps a generation ahead of the current double-decker trains operating in Italy, thanks to the technological innovation of its components and the optimisation and placement of traction parts on the upper part of the train (making the interior fully available to passengers, who will enjoy the utmost comfort).

- **HS/HC Naples - Bari line: the tender for the Cancello - Frasso Telesino lot was awarded.** On 24 March 2017, the tender for the executive design and performance of work to lay double tracks on the Cancello - Frasso Telesino line and update it to HS was assigned to the joint venture consisting of Impresa Pizzarotti & Co (head of the JV), Itinera S.p.A. and Ghella S.p.A., for a total of €312 million. The line is an integral part of the new HS/HC Naples – Bari connection and the awarding of this lot confirms RFI S.p.A.'s commitment to complete the work in accordance with the targets and schedule established by the "Get Italy Moving" law. The new HS/HC Naples - Bari line, with a total estimated cost of roughly €6.2 billion, is part of Europe's TEN-T Scandinavia-Mediterranean railway corridor linking Northern Europe with Germany and Southern Italy, via the Brenner Base Tunnel, currently under construction.

- **FS Italiane S.p.A.'s BoD approves bond issues worth a total of €2.1 billion.** On 21 April 2017, the board of directors of Ferrovie dello Stato Italiane S.p.A. approved the issue of bonds totalling €2.1 billion. The proceeds will be used to meet the financial requirements of FS Italiane group's 2017-2026 business plan and, in particular, to fund investments for the purchase of rolling stock for regional and medium and long haul transport regional and the HS/HC infrastructure. In addition, the BoD resolved to update the EMTN Programme and increase its current maximum of €4.5 billion to €7 billion. The placements, which feed into the EMTNs listed on the Irish stock exchange, are reserved for institutional investors.

- **Trenitalia S.p.A. holds another tender for the purchase of 135 trains.** On 16 May 2017, Trenitalia S.p.A. launched another tender for the purchase of an additional 135 diesel commuter trains. The aim of the call for bids was to sign a master agreement that will include maintenance service for 15 years, with the possibility of extending it for another 10. The total value exceeds €1.5 billion. The new trains will consist of two types: 200 seaters and 300 seaters. The call for bids went according to procedure and was concluded on 28 June 2016 with the assignment of the contract for the construction of the new commuter trains. Major market players participated in the tender and the winners were Alstom group, with a lot of 150 medium-capacity trains (minimum of 200 seats) for €4 billion and Hitachi Rail Italy S.p.A., with a lot of 300 high-capacity trains (minimum of 450 seats). The first 30 diesel trains resulting from this tender will be assigned to Tuscany, Sicily and Sardinia.

- **The new HS Napoli Afragola station is inaugurated.** On 6 June 2017, before Italy's Prime Minister, Paolo Gentiloni, the Minister of Infrastructure and Transport, Graziano Delrio, the local authorities and senior management of FS Italiane group, the opening ceremony for the new HS Napoli Afragola station was held. Designed by architect Zaha Hadid, the new station, named the "Gateway to the South" was opened to significantly shorten journey times on routes to Southern Italy. Commercial operations began on Sunday, 11 June 2017, and the station serves 36 HS trains every day.

- **Trenitalia S.p.A. and the Molise region sign the new regional contract.** On 4 July 2017, Trenitalia S.p.A. and the Molise region signed the new service contract, valid until 31 December 2023. This new service contract defines the main characteristics of the regional railway offer, with a focus on improvements in service quality for commuters in order to increasingly integrate road and rail services. The contract is worth a total of €223 million and also establishes a self-financed investment of €13.5 million. It provides for production of 2 million train-km per year (26 trains per day, running on two interregional lines and stopping at one station in Lazio – Cassino – and five in Campania - Vairano, Teano, Pignataro, Capua and S. Maria Capua Vetere).

- **Busitalia Fast.** On 13 July 2017, FS Italiane group unveiled "Busitalia Fast", the integrated transport service launching the group into the domestic and international medium and long haul road service market with a fleet of 60 last-generation buses connecting 15 Italian regions per day and over 90 cities between Italy and Germany. The service is offered through the newly established Busitalia Simet S.p.A., a group subsidiary owned via Busitalia Sita Nord S.p.A..

- **Mercitalia Rail S.r.l. receives three certifications for its integrated management system and a Merit Award.** On 24 July 2017, Mercitalia Rail S.r.l. received certification for its integrated management system for quality, the environment and health and safety in the workplace from the SGS certification body (recognised by Accredia and global leader in inspection, testing, analysis and certification services for goods, services and systems). The certification relates to Mercitalia Rail S.r.l.'s "design and provision of cargo railway transport services". It also received a merit award for having integrated all these aspects in one management system.

- **RFI S.p.A.'s "rail therapy" goes live in Sicily.** On 24 July 2017, the Sicily region, Catania municipal authorities, Società Aeroporto Catania (SAC - the Catania airport operator), Rete Ferroviaria Italiana S.p.A. and Ente Nazionale per l'Aviazione Civile (ENAC - the national civil aviation body) signed a protocol of understanding to build the Catania Fontanarossa stop serving the airport. The work is scheduled for completion by the end of 2019. In particular, the protocol requires RFI S.p.A. to schedule railway services at the future stop, while SAC will ensure bus service between the stop and the airport. This protocol is part of the "rail therapy", which in Sicily also includes laying double tracks on the Catania Centrale - Catania Ognina railway line and increasing train speeds and laying double tracks on the Palermo – Catania – Messina route and all railway lines connecting Sicilian cities.

- **Trenitalia S.p.A. and the Sardinia region sign the new regional contract.** On 26 July 2017, the Sardinia region and Trenitalia S.p.A. signed the new service contract with a nine-year term (until 2025). This new service contract defines the main characteristics of the regional railway offer, with a focus on improvements in service quality for commuters (approximately 13,300 per day) in order to increasingly integrate road and rail services. The contract is worth a total of €513 million and also entails a total investment of €123.4 million, including €114 million (92.4%) self-financed by Trenitalia S.p.A. and €9.4 million (7.6%) borne by the Sardinia region. Specifically, investments will mainly be direct at: the purchase of 18 new trains, with an investment of €87.7 million, updating the existing fleet, for €29.7 million, and updating maintenance plant, for €6 million. Trenitalia S.p.A. has committed to producing 3.7 million train-

km per year with 180 trains per day travelling regional lines and serving 43 stations. Integrating a new service quality policy, the contract also provides for an increase in quality standards with a series of service level indicators on punctuality, reliability and travel comfort.

- **The MIT, the MEF and Trenitalia S.p.A. sign the new *Intercity* service contract.** On 31 July 2017, the MIT and the MEF signed a new universal railway service contract with Trenitalia S.p.A., which was already operating in January 2017 with effect from 2017 to 2026. The *Intercity* train network reaches over 200 Italian cities with 108 connections per day and more than 12 million passengers per year. The service contract between Trenitalia S.p.A. and the government for medium and long haul railway connections subject to public service obligations includes a relaunch plan that will above all entail work to update and expand the fleet and improve quality and comfort. Moreover, it will consolidate the offer and roll-out of additional on-board services. In addition, the contract provides for a 16% increase in the number of seats available on *Intercity* day trains (+6,000 per day and up more than 2 million per year); improved punctuality and reliability with the roll-out of higher-performance and higher-tech rolling stock, new services like the travelling cleaner and a minibar on longer hauls. The overall aim is to improve the customer experience.

- **Trenitalia S.p.A. and the Basilicata region sign the new regional contract.** On 1 August 2017, Trenitalia S.p.A. and the Basilicata region signed the new service contract with a six-year term (until 2023). With this new contract as it will receive regular, scheduled cash flows, Trenitalia S.p.A. can plan investments of over €23 million to improve the fleet with new Swing trains and better comfort and security on board trains.

- **The MIT, RFI S.p.A. and the Molise region sign an understanding to reinforce the railways.** On 9 August 2017, the MIT, RFI S.p.A.'s CEO and General Manager and the President of the Molise region signed a protocol of understanding to develop and electrify the Venafro – Campobasso line. The first stage of the work covered by the protocol is the design of the electrification of the Roccaravindola – Isernia – Campobasso section and the work between Roccaravindola and Isernia, extending for roughly 18 km. Furthermore, work is planned on the Roccaravindola-Isernia-Bojano section, extending for approximately 45 km, to increase train speed. This will entail updates to tracks, the construction of underpasses and overpasses, technological upgrades, platforms and overhands. The work is scheduled to end on 2023.

- **Ferrovie del Sud Est e Servizi Automobilistici S.r.l. kicks off work to reinforce network infrastructure and install the TSCS in the Bari railway ring.** On 1 September 2017, Ferrovie del Sud Est e Servizi Automobilistici S.r.l. began work to update the tracks and install the train speed control system (TSCS) on the Mungivacca - Putignano line via Casamassima and the Bari - Putignano line. The total expected investment comes to €80 million, including €13 million for the TSCS technology, and is fully financed by the Puglia region.

- **FS Italiane group signs the manifesto for the employment of women.** On 12 September 2017, FS Italiane group signed Valore D's manifesto for the employment of women. Valore D is an association of businesses promoting diversity, talent and female leadership. The objective of the manifesto is to define, in nine points, tangible tools for the development of female talent in companies. By signing the manifest, FS Italiane group therefore undertakes to support and develop the employment of women within the group.

- **RFI S.p.A. and ANAC renew their partnership to fight corruption in the assignment of railway contracts.** 21 September 2017 saw the renewal of the collaborative oversight protocol between ANAC and Rete Ferroviaria Italiana

S.p.A. to prevent and monitor potential bribery in railway contracts while work is being carried out. This understanding has several objectives: check in advance that tenders are in compliance with the Contracting Code and sector regulations; prevent bribery and criminal infiltration in contracting companies by providing for ad hoc clauses and conditions; and ensure legality by monitoring the proper performance of tenders, etc.. The protocol protects the public interest, guaranteeing correct conduct and transparency in the management of contracts and the company's interest, by strengthening its reputation and credibility with residents and stakeholders. It goes along with the legality protocols that RFI S.p.A. has already signed with local institutions and bodies to promote transparency and prevent corruption, as well as other internal measures that RFI S.p.A. and FS Italiane group in general have already adopted to reinforce the legality of their business practices.

- **FS Italiane group and the Milan Politecnico sign a protocol for the development of scientific research and cooperation.** On 22 September 2017, FS Italiane group and the Milan Politecnico signed a two-year agreement to develop research and cooperation (scientific, teaching and training) in the disciplines related to the global challenges of transport and integrated mobility. Indeed, it provides for joint training and activities for university students, collaboration in studies and research into areas of common interest, the organisation of conferences, debates and seminars and the development of strategic projects devoted to innovative technologies.

- **Trenitalia S.p.A. and *Mytaxi* announce a partnership for the integration of trains and taxis.** On 25 September 2017, the partnership between Trenitalia S.p.A. and *Mytaxi* was announced, with an agreement and plan to progressively integrate their IT systems, enabling passengers to buy *Mytaxi* discount vouchers directly on Trenitalia S.p.A.'s website when they purchase train tickets for a genuinely seamless experience, and thereby achieving the increasingly smart and digital integration of trains and taxis. This partnership between FS Italiane group's transport companies and Europe's largest taxi service app is a virtuous example of door-to-door service and marks another milestone in the implementation of FS Italiane group's business plan.

- **Trenitalia S.p.A. and Alstom unveil "Pop", the new regional commuter train at the Railway Expo.** On 3 October 2017, during the 2017 Railway Expo, before the Minister of Infrastructure and Transport, FS Italiane's Chairwoman and CEO, along with Trenitalia S.p.A.'s Chairwoman and CEO, the new "*Pop*" train was presented. Commissioned by Trenitalia S.p.A. to Alstom, it is destined to improve the travel experience of regional transport passengers. The master agreement signed by the two companies, after an international tender that attracted leading global players in the sector, provides for the supply of 150 single-level electric trains for a total of approximately €900 million.

- **Mercitalia Rail S.r.l. at the general states meeting for logistics in the Northeast.** On 26 October 2017 in Venice, the general states for logistics in the Northeast met to create the first integrated interregional infrastructure system to strengthen North-east Italy, combining the services offered by ports and interports in Veneto, Emilia Romagna and Friuli Venezia Giulia. The Mercitalia hub has allocated €1.5 billion for investments, €500 million has already been spent, and the effects will be seen as early as 2018 when the first new locomotives and carriages are delivered.

- **Standard and Poor's revises Ferrovie dello Stato Italiane S.p.A.'s Corporate Credit Rating upwards to 'BBB'.** On 30 October 2017, S&P raised Ferrovie dello Stato Italiane S.p.A.'s Corporate Credit Rating to 'BBB', while confirming the outlook as stable.This was the direct consequence of its upgrading of the Italian Republic's rating on 27

October 2017. FS Italiane S.p.A.'s rating now reflects its Stand Alone Credit Profile, which S&P continues to consider as 'BBB'. The upgrade also covered FS Italiane S.p.A.'s EMTN placements and the notes issued on the same.

- **Fitch confirms FS Italiane S.p.A.'s 'BBB' rating.** On 2 November 2017, the Fitch Ratings agency confirmed Ferrovie dello Stato Italiane S.p.A.'s Long Term Foreign and Local-Currency Issuer Default Ratings (IDRs) as 'BBB' with a stable outlook. This confirmation reflects the agency's forecasts of the stable tie between FS Italiane S.p.A. and the Italian Republic, as their ratings are closely related since FS Italiane S.p.A. is a government-related entity. Fitch also confirmed that FS Italiane S.p.A. stand-alone rating is in line with the IDRs and, therefore, also 'BBB'. Furthermore, the agency confirmed the 'BBB' rating for FS Italiane S.p.A.'s EMTN Programme and the notes issued on the same.

- **Mercitalia hub: 125 new electric trains to boost cargo transport in Italy and Europe.** On 14 November 2017, the Mercitalia hub announced the purchase of 125 new, last-generation electric TRAXX DC3/MS trains, 50 smart double pocket wages to transport mega semi-trailers and 200 smart cars for the transport of coils. Mercitalia Rail S.r.l. and TX Logistik AG are the buyers of the 125 new electric TRAXX DC3/MS trains produced by Bombardier. Entailing a total investment of roughly €400 million, the deal was agreed following the evaluation of competing bids, a process that took around eight months to complete and involved major international train producers. The first trains are scheduled for delivery in autumn 2018. On the other hand, CEMAT S.p.A. and Mercitalia Rail S.r.l. chose a total of 250 new wagons worth a total of €27 million. While the double 50 smart double pocket wagons produced by Tatravagonka Poprad will be used to reinforce mega semi-trailer transport, beginning in the first few months of 2018, the 200 smart coil carriers will be produced by Greenbrier and will be used for the transport of steel coils beginning in summer 2018.

- **FS Italiane S.p.A. and Cassa Depositi e Prestiti S.p.A. reach an agreement to promote and develop new underground networks Italy.** On 15 November 2017, FS Italiane S.p.A.'s CEO and General Manager and CDP S.p.A.'s CEO signed a partnership agreement to develop and promote new investments in Italy to build urban underground networks and mass rapid transit infrastructure. With this agreement, FS Italiane S.p.A. and CDP S.p.A. undertake to actively collaborate in the identification and promotion of new works (greenfield projects) and the expansion of existing infrastructure (brownfield products). Accordingly, the benefits of FS Italiane S.p.A.'s and CDP S.p.A.'s commitments will be seen not only in terms of urban mobility improvements but also in terms of spurring the urban transformation of Italian cities by building a network of new-generation services for people and the community.

- **New direct connection between Frankfurt am Main and Milan since 10 December 2017.** On 17 November 2017 in Basel, the new daily railway connection between Frankfurt am Main and Milan was presented, the result of a collaboration between Trenitalia S.p.A., the Swiss Federal Railways (SBB/CFF/FFS) and the German Deutsche Bahn GmbH. In Basel, representatives of these three companies named the electric train that will be used for the service, the Swiss ETR 610, in honour of Johann Wolfgang von Goethe. This trilateral partnership will see the three railways jointly coordinating transborder issues, although each will remain responsible for operations and costs in its own country with respect to the new long haul service.

- **FSItaliane.it wins first place in the 2017-2018 Webranking.** On 20 November 2017, FS Italiane S.p.A.'s corporate website won first place in the 2017-2018 Webranking for unlisted companies. The Webranking is an Italian survey conducted by the consultancy company Lundquist in collaboration with Comprend. It entailed the study of 77 companies selected on the basis of their turnover, number of employees, brand recognisability, impact on the country's economy and, finally, nearness to an IPO.

- **The EU platform to promote the employment of women in the transport sector is launched.** On 27 November 2017 in Brussels, FS Italiane group, institutions and leading European railway operators signed the "EU Platform for Change" to promote the employment of women in the transport sector and ensure equal opportunities and no discrimination. The platform was developed by the European Economic and Social Committee in collaboration with the European Commission and will enable the concerned parties in all transport sectors to share their initiatives and measures to encourage equal opportunities, for the publication of common best practices and the results they have achieved.

- **The Palermo – Catania line: the tender for the laying of double tracks between Bicocca and Catenanuova is awarded**. On 30 November 2017, Rete Ferroviaria Italiana S.p.A. assigned the contract worth approximately €186 million for the executive design and performance of work to lay double tracks on the Bicocca – Catenanuova section of the Palermo – Catania line to the joint venture formed by Salini Impregilo, Astaldi, SIFEL and CLF. The work is part of the rapid Palermo – Catania – Messina connection and it is the first in Sicily among those planned under the "Get Italy Moving" law. The new route, which extends for roughly 38 km, will enable trains to travel at a maximum speed of 200 km/h. The first rapid track is expected to begin operating in 2020. The conclusion of all the work is slated for 2022. The work will concern the new railway bed, the super structure, signalling and telecommunications plant, electrical substations to power the trains, the redevelopment of the Bicocca station and the construction of a new station in Motta Sant'Anastasia.

- **RFI S.p.A. provides easier access to WiFi in the station.** On 6 December 2017, a new way of accessing the *WiFi Station* was launched in 32 stations where the WiFi service is already offered. This is Rete Ferroviaria Italiana S.p.A.'s latest initiative to allow passengers and residents to stay connected, with access to useful travel information and tips on the services available around the station. The *WiFi-Station* service will be progressively extended to some 620 stations throughout Italy by 2026, providing WiFi service for 27 million residents and roughly 600 million journeys per year, making it Italy's largest digital infrastructure and a vital step in building our country's future, with interconnected cities thanks to completely digitalised, energy sustainable stations that are accessible to all. The new *Wi-Fi Station* access is part of RFI S.p.A.'s digital transformation project to make stations pleasant places to be and functional spaces that meet the needs of integrated and sustainable mobility by offering innovative travel solutions, in line with FS Italiane group's 2017-2026 business plan.

- **Interconnection launched to completely separate HS and traditional service.** On 11 December 2017, the MIT and RFI S.p.A.'s CEO and General Manager, together with Italferr S.p.A.'s CEO, opened the Venice interconnection linking the HS underground station at Bologna Centrale with the Bologna – Venice railway line. This new infrastructure, which RFI S.p.A. built with works oversight by Italferr S.p.A., was the final step in the creation of the Bologna hub. The latter, a crucial interchange for the domestic and European railway system, is the first in Italy that almost entirely separates traffic to and from HS lines from traffic on the traditional network. The 5.5-km Venice interconnection, which is fully double track, entailed a total investment of €42 million.

- **RFI S.p.A.'s and FER's investments to improve the regional railway network in Emilia Romagna.** On 11 December 2017, an agreement was signed to strengthen the Emilia-Romagna railway infrastructure, increase safety standards, improve passenger and cargo railway transport and lay the foundation for the integrated management of railway traffic with RFI S.p.A.'s network. This agreement, signed by the Emilia-Romagna region's President, RFI S.p.A.'s CEO and Ferrovie Emilia Romagna (FER)'s General Manager, is the start of the redevelopment of the entire regional

railway network, paving the way for its future transfer to RFI S.p.A., scheduled for 2019 and made possible by Decree law no. 50/2017 approved in April 2017, which allows the regions and regional line operators to reach agreements and sign contracts with national network operators for work on their lines or for RFI S.p.A. to take over management. The agreement also requires RFI S.p.A. and the Emilia Romagna region to agree, with the MIT's approval, a series of projects and investments on the railway lines in the region, totalling over €1 billion, €900 million of which is already available.

- **Mercitalia Rail receives a European grant for the implementation of new ERTMS Level 2 technology**. On 12 December 2017, as part of the CEF Transport 2017 Blending Call, the European Commission selected Mercitalia Rail S.r.l.'s "Rail Freight Strengthening Project – Retrofitting of MIR loco E405/E412 with ETCS/ERTMS L2 baseline" to receive a grant of around €6 million, equal to 50% of the expected costs of the project to implement the new ERTMS Level 2 Baseline 3 technology on board 61 owned locomotives. The aim is to use these locomotives on the national network and the main European corridors which, as provided for by Regulation (EU) no. 1315/2013, will be equipped with the new railway traffic management system specifically for the ERTMS. This investment will fill the technological gap that would otherwise prevent trains from operating on these European lines. The project is scheduled to take six years and will end by 31 December 2023.

- **The integrated "Umbria.GO" pass is created for commuters.** On 18 December 2017, the new "Umbria.GO" pass was presented, valid for all public transport services in Umbria by people who regularly use the various LPT providers in the region – all of which are managed by FS Italiane group in Umbria. The new pass allows them to take regional trains, city urban and suburban buses, the Perugia Minimetrò, ferries on Trasimeno Lake and the Orvieto cable car.

- **ANAS S.p.A. joins FS Italiane group.** On 29 December 2017, Ferrovie dello Stato Italiane S.p.A.'s shareholder resolved to increase share capital by €2.86 billion through the contribution of the 100% equity investment in ANAS S.p.A. held by its sole shareholder, the MEF. With the arrival of ANAS S.p.A., alongside RFI S.p.A., FS Italiane group is now Europe's largest integrated rail and road hub in terms of both the number of residents serviced and investments, with €108 billion planned over the next decade. This new corporate structure gives FS Italiane group rail and road infrastructure of approximately 44,000 km. The contribution of ANAS S.p.A. to FS Italiane S.p.A. will enable it to design and build integrated roads and rails, progressively reducing extra costs and generating savings, including for the local area, through the coordinated development of work. Furthermore, the transaction will result in the sharing of know-how and technologies for the development of innovative products as well, like smart roads (for electric lorries and driverless cars, improving safety and the environment). Operating integrations will also be possible in maintenance, significantly improving the services under management and reducing response and recovery times by exploiting, among other things, the predictive diagnostics that FS Italiane group is developing. Indeed, RFI S.p.A. and ANAS S.p.A. will share systems (laser scanners and drones) to check the structural stability of bridges and tunnels and monitor hydrological instability. The contribution of the equity investment in ANAS S.p.A. to Ferrovie dello Stato Italiane S.p.A. was completed on 18 January 2018, after receiving the Antitrust Authority's approval.

Internationalisation initiatives

In addition to the two major cross-border transactions of 2017, consisting of the acquisitions of 100% of QBuzz BV and Utrecht Mobility Services BV in the Netherlands and TrainOSE SA in Greece, the following is a list of other group internationalisation initiatives.

- **Trenitalia UK and First Group are shortlisted for the East Midlands tender.** On 1 March 2017, First Trenitalia East Midlands Rail Limited, the joint venture between First Group and Trenitalia UK Ltd, was included in the British Department for Transport's shortlist of railway franchises for the East Midlands. Franchising in the East Midlands will begin in 2018 and entail dramatic improvements in infrastructure. The main routes are London – Derby – Sheffield, London – Nottingham, London – Corby, Liverpool – Sheffield – Nottingham – Norwich, in addition to regional services.

- **Partnership agreement between FS Italiane S.p.A. and the Argentinian Ministry of Transport.** On 7 April 2017 in Rome, FS Italiane group and the Argentinian Ministry of Transport signed an agreement for technical railway engineering advisory services to start the *Redes Expresos Regionales* (RER) programme, a railway system development programme for the city of Buenos Aires. Specifically, the agreement entails specialised support in the preparation of technical and functional specifications for tenders and reinforces the two countries' railway partnership in place since September 2016. The Argentinian government has launched a national economic development plan (2016-2019) with investments of USD33 billion, including USD10.3 billion for urban railways and USD2.6 billion for cargo railways.

- **First Trenitalia West Coast Rail Limited is named finalist in the English West Coast railway franchise competition.** On 22 June 2017, First Trenitalia West Coast Rail Limited, a joint venture between First Group and Trenitalia UK Ltd, was named a finalist in the competition for the English West Coast railway franchise. The West Coast franchise covers the current InterCity services between London, Manchester, Chester, Liverpool, Preston, Edinburgh and Glasgow. The new management will begin in 2019. Furthermore, it provides for the development and roll-out of new HS services (High Speed 2) from London to Birmingham, beginning in 2026.

- **Agreements for the development of the Iranian railway system.** On 11 July 2017, FS Italiane group signed an agreement with the Islamic Republic of Iran to develop the Iranian railway system (RAI, Islamic Republic of Iran Railways). The agreements marks FS Italiane S.p.A.'s entry in the Iranian high speed programme specifically for the development of the Qom-Arak line. Within the terms of the agreement, a contract worth €1.2 billion will be signed. This project is part of the master agreement that FS Italiane S.p.A. and RAI signed in 2016 to develop Iran's HS railway network on the Qom-Arak and Tehran-Hamedan lines.

- **The European Commission finances Trenitalia S.p.A.'s *CHARIOT* project for IoT network security.** On 10 August 2017, the European Commission informed Trenitalia S.p.A. of its decision to finance 100% - through non-repayable grants - of the CHARIOT – Cognitive Heterogeneous Architecture for Industrial IoT project (signed in April as part of the *call Horizon* 2020 IoT-03-2017). The project relates to network security with respect to the Internet of Things, an area in which Trenitalia S.p.A. is participating with two use cases, one relating to predictive maintenance and the other to energy efficiency through consumption monitoring systems. This project, slated to begin on 1 January 2018 and run for 36 months, will be carried out with various European partners, including INLECOM (Belgium), TELCOSERV (Ireland), VLTN (Belgium) and the Athens airport (Greece).

- **The partnership between FS Italiane group and the Indian railways begins.** On 15 September 2017, the partnership between FS Italiane group and the Indian railways began its operating phase with the installation of cutting-edge Italian technology on the Indian railway beginning with previously selected lines, including Moradabad – Lucknow (320 km). The aim of this partnership is to develop in India railway traffic safety systems, infrastructure diagnostics and training for Indian personnel. The technical-specialised partnership began in the wake of the memorandum of understanding (MoU) signed in New Delhi on 2 February 2017 by the CEO and General Manager of FS Italiane S.p.A., before the Minister of the Indian railways and the Chairman of Indian Railways. Furthermore, another MoU was signed before the CEO of Italferr S.p.A. (FS Italiane group's engineering company) and the Chairwoman of Rites (the Indian government's engineering company) for a partnership between these two companies on the Indian and Asian market. With this in mind, Italferr S.p.A. opened an operating site in New Delhi to support the expansion of FS Italiane group business on the Indian sub-continent.

- **FS Italiane S.p.A. and the Costa Rican Ministry of Public Works and Transport sign a MoU.** On 5 December 2017 in Rome, the Costa Rican Ministry of Public Works and Transport and Ferrovie dello Stato Italiane S.p.A. signed a memorandum of understanding (MoU) concerning technical/specialised advisory services for the development of railway projects and engineering assistance for the study and construction of infrastructural and technological reinforcement on the Costa Rican railway network. The MoU fits into a programme in which Costa Rica will kick off sweeping railway projects, including, in particular: the updating of the railway connection between its capital of San José and the surrounding cities in the Central Valley, the construction of the new Cartago – Alajuela line, the design of an alternative railway connection to the Panama Canal between the Pacific and the Atlantic and a railway connection between the new Orotina airport and the capital.

- **Trenitalia c2c signs an agreement for 60 new Bombardier Aventra carriages**. On 14 December 2017, Trenitalia c2c, Bombardier and Porterbrook signed an agreement worth over GBP100 million, with the approval the British Department for Transport. The agreement provides for the delivery of 60 new Bombardier Aventra carriages from the summer of 2021, ahead of the initial franchising schedule which has set the gradual delivery of trains by 2024. The new trains will have over 20% more seats and will hold over 5,000 more people than the current carriages, meeting the needs of the growing number of passengers in South Essex and East London expected for the future.

Risk factors

The internal control and risk management system

While management and the structures specialised in risk monitoring continue to play a crucial role in risk management (as they are responsible for control level 1 monitoring), over time, FS Italiane group has organised various level 2 controls (e.g., the Manager in charge of the Company's accounting documents preparation, the Risk Manager, the Compliance Officer and Anti-Bribery & Corruption) 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 and manages the overall business risk management process. For the proper certification of the financial statements, the Manager in charge of the Company's accounting documents preparation has implemented a 262 risk control model based on risk assessments conducted on the administrative/accounting processes for the parent's and the group's financial reporting. 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. Internal Audit independently monitors and provides assurance on the architecture and efficient functioning of level 1 and 2 controls.

Business risks

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 for short-term concessions arising from agreements with public bodies 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. 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 progressive renewal of the fleet with new HS trains is a key factor of innovation and attraction for potential new customers, while the technological innovation of new vehicles will progressively shorten travel times on certain segments of the HS lines, thereby providing the group with a crucial factor for success that helps mitigate some of its business risk. Similarly, developments in sales channels, with the support of technological innovation, will give it additional competitive edge.

In the local public transport (LPT) segment, certain Italian regions have particularly critical financial situations, which could prolong the uncertainty of whether they will meet the contractual payment dates for service contract considerations, although this situation seems to have substantially improved compared to previous periods. The group has mitigated this risk by continuously monitoring credit positions in general and, especially, those with the public sector, evaluating, on a case-by-case basis, the steps – including legal action – to be taken to ensure that funding is regular. Moreover, given the nature of the group's receivables and its credit rating, it obtains financing at competitive interest rates for its invested capital, enabling it to cover any delays in collections. Furthermore, the contracts signed with the Italian regions do not

consider how the regions will find the necessary funds to pay for the service. Many of the Italian regions are moving towards tenders, which could lead to the awarding of large segments of local transport in the near future. Until the tenders are called, certain regions, in the medium term, have renewed contracts with Trenitalia S.p.A. for six years and more, and others for shorter periods. Some regions are negotiating bridge agreements. This situation creates stable conditions for Trenitalia S.p.A. in the medium term with respect to its plans. All investments downstream from the public service contracts in place with the regions have "put" clauses in favour of Trenitalia S.p.A.. The potential effects of non-renewal of these public service contracts with the regions should in any case be considered as risks attributable to any company operating on the free market. The LPT scenario could be affected (upon the outcome of tenders and, accordingly, in the management of potential migrations from one operator to another) in certain ways relating to transfers of essential facilities (as defined by the ART) to a new operator.

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

Country risk

In line with the targets in the business plan, FS Italiane group has launched significant business activities outside the Italian market in recent years. This has entailed a change in its risk profile, as the group is potentially exposed to new risks, like "country risk", which consists of macroeconomic and financial, regulatory and market, geopolitical and social risks that could have an adverse effect on profit and the protection of company assets. Considering its larger consolidation scope, the group has adopted an international development framework that cross-checks the attractiveness of a country with its risk. To this end, it has adopted and implemented a country risk assessment methodology that takes into account the most significant variables for the group.

Operational risks

FS Italiane group outsources some of its rolling stock and railway network maintenance and construction, while it also uses third party manufacturers of spare parts for some of its 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 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 in the railway system are complex projects requiring substantial financing 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 infrastructure, and therefore generate potential negative effects on company 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.

Railway infrastructure is also sensitive 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 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 with a constant focus on updating the public and providing auxiliary services.

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, after having evaluated safety issues as well, all signed an integrative labour agreement in 2009 and subsequently in 2012 and 2016. Senior management, the departments and relevant structures carefully monitor the operational risk described above. It is also mitigated since the group has assessed, and constantly assesses, all aspects relating to this risk.

Compliance, legal and contractual risks

The business areas in which the group operates are highly regulated at both national and international level, exposing the group to compliance risk, which it monitors with specific controls. In 2017, 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. Given the maturity of the deregulation of markets on which the FS Italiane group companies operate, the group has begun a process to equip its companies, while respecting their autonomy and independence, with an antitrust compliance programme to improve their ability to prevent and manage antitrust risks, i.e., those related to non-compliance with regulations protecting competition and prohibiting unfair business practices. In line with the way in which data protection was previously managed, the group is preparing for when EU Regulation 2016/679 (General Data Protection Regulation – "GDPR") will take effect, by preparing a computer log of data treatments, assessing the risks related to the violation of people's liberties and rights and establishing the position of Data Protection Officer. Legal and contractual risks mainly arise from litigation that the group companies have pending with various parties, such as suppliers, clients and personnel. With respect to these risks, which are currently monitored and mitigated by specific company structures, any necessary accruals are recognised after their probability of occurrence has been respectively assessed, in accordance with the applicable accounting policies. Residual risks, after the appropriate mitigation actions and accruals, fall within the tolerance limits considering business operations.

Procurement risks

Prices for services, raw materials, energy and transport could vary as a result of market trends. Accordingly, it might not be possible - or only be possible to a limited extent – to transfer greater procurement costs to sales prices to customers, with a consequent impact on the profit margin of the group's products and services. With specific regard to the procurement of electrical energy, with several resolutions issued over the course of recent years, the 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.

Project risks

Investments in the railway system involve complex projects requiring substantial funds. Any changes in the legal context, design errors, delays in project deliveries or technical changes in long-term programmes often cause an increase in costs and longer delivery times. Accordingly, any project changes could generate higher costs with an adverse effect on the group's business and results of operations. The group is an active participant in talks with public and/or private counterparties that entail changes in railway projects and/or their funding. Project risk is systematically managed using risk management techniques that entail identifying, assessing and following up on any possible mitigation actions at any stage of the project and during the periodic work progress reports.

IT and cyber risks

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

Cyber defence is constantly evolving within FS Italiane group. In line with the challenging targets established in the business plan, considerable investments are being made in the most modern and effective cyber security technology to protect the data and information in company systems from known and new threats. In 2017, the most critical security services were insourced, with the hiring of specialised personnel, the design of specific environments (which will be completed in 2018) and the acquisition of the technological components needed. The FS Italiane group's new Security Operation Centre (SOC) is being outfitted and will house the cyber security technologies and information retrieved from the group's IT systems, SCADA (Supervisory Control and Data Acquisition) and IoT (Internet of Things). This will enable it to collect, analyse and coordinate security events. These initiatives are part of a development process the aim of which is to bring the group's IT threat prevention capabilities to the next level of predictive maturity, making it possible to identify potential threats before they occur, through the development of big data security technologies with cognitive ability.

Environmental risks

Ferrovie dello Stato Italiane group is convinced that environmental protection is a strategic element in the development of its business. The information provided below meets the requirements of article 3.1.c) of Legislative decree no. 254/2016. This conviction translates into maximising the environmental advantages of collective passenger transport - by rail, road and waterways - and cargo railway transport, as well as minimising the adverse impacts on the environment. FS Italiane group's activities are subject to an extremely extensive collection of environmental laws and regulations, particularly as it operates as a contractor for the construction of infrastructure and transport goods that could be hazardous to the environment. The group's focus on environmental issues and regulatory developments may require it update 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 standard. In 2016, the group companies began a transition to the new UNI EN ISO 14001:2015 standard, which, unlike the previous version, encourages environmental management systems to be more responsive to the specific company and extends improvement strategies according to broader concept of sustainability. 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.

Social risks and risks related to human rights protection

FS Italiane group has formalised its commitment to responsible conduct in line with the ten principles endorsed by the UN in the Global Compact. The code of conduct is a "charter of fundamental rights and responsibilities" whereby FS Italiane group establishes and clarifies its ethical and social responsibilities and commitments to all internal and external stakeholders. The principles are constantly, carefully monitored and promoted in ongoing awareness campaigns within the group. The information provided below meets the requirements of article 3.1.c) of Legislative decree no. 254/2016.

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 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: labour and social security laws with the application of national labour agreements; 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.

Human resource management risks

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 a vital factor in this context. The information provided below meets the requirements of article 3.1.c) of Legislative decree no. 254/2016.

2017 was a year of "relief" from trade union talks following the agreements signed (for the safety of travelling personnel in particular) that resolved key issues for FS Italiane group. With respect to labour law and contracts, in the wake of the signing of the national labour agreement for the Mobility/Railway sector and FS Italiane group's agreement of 16 December 2016, compliance work was carried out in coordination with AGENS (the transport and service confederation agency operating under Confindustria), preparing and distributing compliance guidelines.

Additional drivers include having key resources, gaining difficult-to-find specialised skills, motivation and professional development. The group is committed to providing training, ongoing refresher courses and recruiting professionals on the outside market as well. It is also developing a structured incentive and company welfare plan. Ferrovie dello Stato Italiane group manages and organises human resources in complete compliance with their rights under law and the group's code of conduct, which explicitly states that "human resources are the group's greatest asset". In the code of conduct, the group

makes a formal, substantial commitment to never discriminating 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. A Diversity and Inclusion (D&I) policy is being prepared, covering the various HR processes and a monitoring system is being defined with specific indicators for each process.

Corruption risks

FS Italiane group acts with integrity, ethics and zero tolerance for corruption when conducting business, in line with its code of ethics. The following information is provided in accordance with article 3.1.c) of Legislative decree no. 254/2019. Several years ago, the group began a process to prevent corruption and illegality, which has included FS Italiane S.p.A.'s adoption of the 231 model (in December 2003), the issue of specific guidelines for the prevention of corruption between private parties in FS Italiane group and has 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 (adopted in December 2017) and, constituting an integral part of the framework, the anti-corruption policy guidelines (adopted in September 2017), containing the directive criteria for the creation of an effective anti-corruption system within FS Italiane S.p.A.. 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 applicable regulatory obligations. 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 expands 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 main players in the implementation of the ABC system include the Anti-Bribery & Corruption Unit, which coordinates the methodology of the overall prevention and corruption process. In the first year of application (2018), the ABC system focuses on analysing processes in the "Procurement and Contracts", "Human Resources" (including the assignment of advisory engagements), "Membership fees, sponsorships, co-marketing, donations and gifts" and "Business development initiatives on international markets" areas, which are considered to be, according to regulations and best practices, the most exposed to corruption risks. In keeping with the principle of continuous improvement, an analysis will also be conducted to include additional risk areas in the ABC system, which will help focus increasingly on its functioning and predictive capabilities. The ABC system provides for transversal controls and, for each risk area, establishes a set of tools (specific prevention tools) structured as standards of conduct and other analysis and monitoring measures for knowledgeable and responsible decision-making processes based on the principles of integrity, correctness 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. The ABC system requires complete compliance by all concerned parties (company officers, management, employees, contractors, business partners and everyone who, directly or indirectly, permanently or temporarily, transacts with the group). It also establishes a system of responsibility for any violations.

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.

In 2017, there were 94 significant accidents on the railway lines operated by RFI S.p.A., FS Italiane group's network operator. 80% of these accidents involved people and were caused by moving rolling stock.

The events that occurred in 2017, compared to 2016 data are summarised below according to the criteria established by the relevant EU legislation:

- one train collision, compared to three in 2016;
- two derailments, compared to one in 2016;
- a total of 11 people hit at railroad crossings, including pedestrians on closed crossing, as in 2016;
- 75 serious accidents to people caused by moving rolling stock, compared to 70 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);
- five accidents which were classified as "other" as they do not fall into any of the other categories, as in 2016;
- zero accidents due to fires involving rolling stock with serious consequences, compared to one accident in 2016.

As production increased (1.1%), the frequency rate of 0.26 accidents for every million train-km did not change from the 2016 rate.

The number of serious injuries rose to 35 (2016: 24), which was completely due to the category of accidents involving people caused by moving rolling stock. The number of deaths decreased to 53 (2016: 59).

Finally, refer 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

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

In 2017, following criminal proceedings initiated by the public prosecutors against former or current group company representatives, there were no definitive rulings against senior management (company officers or general managers) for any of the following:

- particularly serious negligent criminal acts entailing significant damage to the companies, including FS Italiane S.p.A., or that gave rise to the application of restrictive measures;
- negligent criminal acts covered by Legislative decree no. 231/2001;
- additional negligent criminal acts covered by Law no. 190/2012.

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, contingent assets and liabilities, as defined by group policies, are reported in the notes to the consolidated financial statements to which full reference should be made.

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

- With respect to criminal proceedings no. 6305/2009 in the general register of crimes pending before the Public Prosecutor's Office at the Lucca Court, following the railway accident in Viareggio on 29 June 2009, at the 31 January 2017 hearing, the judge read the first-level ruling. For FS Italiane group, the Court found that FS Italiane S.p.A. and FS Logistica S.p.A. (now Mercitalia Logistics S.p.A.) had not committed administrative liability violations pursuant to Legislative decree no. 231/01 "because there is no crime" and acquitted - "because they did not commit the crime" - FS Italiane S.p.A.'s former pro-tempore CEO for the allegations against him in his position as pro-tempore CEO, FS Logistica S.p.A.'s former CEO and former Chairman, and five RFI S.p.A. officials. However, it found Trenitalia S.p.A. and RFI S.p.A. guilty of administrative violations pursuant to article 25-septies of Legislative decree no. 231/2001, fined them €700 thousand each and prohibited them from advertising their goods and services for three months. The Court also issued guilty rulings for 12 natural persons within FS Italiane group, including two of RFI S.p.A.'s former pro-tempore CEOs who succeeded each other between 2001 and 2009 and Trenitalia S.p.A.'s former pro-tempore CEO, in addition to another 11 natural persons and three companies outside the group for violations of Legislative decree no. 231/2001,

while one person was found not guilty. The Court also ordered the guilty parties, jointly and severally and with the related civil liability, to pay damages (in addition to court and defence costs) to the aggrieved parties that had filed the lawsuit, submitting most of the damages to the civil court judge for liquidation, while ordering payment of a provisional amount at the same time. The reasons for the ruling were lodged on 31 July 2017. The natural persons and companies found guilty have filed appeals. The Public Prosecutor's Office and aggrieved parties have filed similar appeals.

- In criminal proceedings no. 7906/2009 in the general register of crimes with the Public Prosecutor's Office at the Latina Court concerning alleged injuries of two RFI S.p.A. employees due to negligence in connection with alleged violations of anti-accident legislation (following an accident that occurred on 10 August 2009) during maintenance work near Fondi, two of RFI S.p.A.'s managers, one of its employees and the company itself are being investigated for third-party and administrative liability. At the hearing on 14 December 2017, the judge dismissed the case against the defendants as the statute of limitations had been reached.

- Criminal proceedings no. 1430/2014 in the general register of crimes with the Public Prosecutor's Office at the Gela Court are pending for the alleged administrative liability of RFI S.p.A. in connection with the incident in which three of RFI S.p.A.'s maintenance workers were fatally hit on 17 July 2014 between the Falconara and Butera stations. The hearing is pending.

- Criminal proceedings no. 3566/2015 in the general register of crimes with the Public Prosecutor's Office at the Rimini Court are pending, and currently in the investigation stage, in relation to the accident that occurred on 5 March 2015 in which an employee of A.T.S. Costruzioni was injured while working at OMC Locomotive in Rimini. Trenitalia S.p.A. has been charged with the administrative violations covered by articles 5 and 25-*septies*.3 of Legislative decree no. 231/01, as the negligence that led to the injuries was allegedly committed in violation of health and safety in the workplace legislation and in the interests and to the benefit of the company.

- Criminal proceedings no. 20765/2014 in the general register of crimes are pending before the Florence Court in reference to the accident that occurred on 12 January 2014 during rolling stock shunting operations. One employee in service lost his life in the accident. The Public Prosecutor in the proceedings, in addition to the natural person, believed Trenitalia S.p.A. to also be responsible, citing administrative liability pursuant to articles 5.a)/b) and 25-*septies* of Legislative decree no. 231/01, as the crime of negligent manslaughter (in violation of accident prevention in the workplace legislation) for which the employees are charged was allegedly committed in the economic interests of the company. Arguments are being heard.

- Criminal proceedings no. 1525/2008 with the Public Prosecutor's Office of Trani relate to multiple charges of negligent manslaughter (the "Truck Center" case) against employees of Mercitalia Logistics S.p.A. (formerly FS Logistica S.p.A.) and the company with third party liability pursuant to Legislative decree no. 231/2001. The insurance company has fully compensated all aggrieved parties. The Bari Court of Appeals 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 appeals 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.

- Criminal proceedings no. 5643/10 in the general register of crimes pending before the Sassari Court were initiated following a fatal accident involving the driver of train 8921 when it hit an obstacle on the tracks after an exceptional,

unexpectedly large mudslide. Three RFI S.p.A. employees were charged, along with the company itself for third party and administrative liability. On 30 September 2017, the parties submitted the reasons supporting the Court's decision of 28 June 2017: as for RFI S.p.A.'s administrative liability, the panel recognised the adoption and effective implementation of an adequate organisational and management model to prevent the crimes in question from occurring and also denied that the company had an interest and economic advantage as a result thereof. With respect to the responsibility of the guilty parties, the panel found that the event was foreseeable and could have been avoided by taking feasible prevention measures. The RFI S.p.A. managers have appealed. With respect to whether the company is liable for an administrative violation, the decision became definitive as the Public Prosecutor did not lodge an appeal.

- Criminal proceedings no. 1933/2011 in the general register of crimes with the Public Prosecutor's office pending before the Latina Court were initiated following the fatal accident on 25 February 2011 involving an employee of an outside company on the Campoleone-Cisterna di Latina section of track. During the preliminary hearing held on 10 October 2017 before the Latina Court's preliminary hearing judge, RFI S.p.A. was found not guilty of the administrative liability pursuant to Legislative decree no. 231/01 charged by the Public Prosecutor. The preliminary hearing judge decided that "there were no grounds for action against RFI S.p.A. because there was no administrative violation due to a lack of elements necessary for the events to have been in its interest and/or to its advantage". The judge ordered the prosecution of all the natural persons charged and the hearing of arguments is pending.

- Criminal proceedings no. 1758/2014 in the general register of crimes before the Milan Court relate to alleged violations of the legislative limits established for the drainage of industrial waste water in public sewers at an industrial plant in Milan. In these proceedings, charges have currently been lodged against one manager of Trenitalia S.p.A. and the company itself for liability under Legislative decree no. 231/01 in relation to the same alleged environmental violations. Arguments are being heard.

- In criminal proceedings no. 6769/2015 with the Public Prosecutor's Office at the Perugia Court, on 23 May 2017, the Public Prosecutor notified its request to prosecute Busitalia Sita-Nord S.r.l., *inter alia*, for alleged administrative liability under articles 5, 24 and 25 of Legislative decree no. 231/01 in connection with the crime covered by article 640-*bis* of the Criminal Code. The preliminary hearing is pending.

- Criminal proceedings no. 18773/2009 with the Bari Public Prosecutor's Office involve Ferrovie del Sud Est e Servizi Automobilistici S.r.l., for administrative liability pursuant to Legislative decree no. 231/2001, in relation to transnational fraud and other crimes (which were allegedly committed with the purchase of railway carriages in Poland at much higher that market price), involving the former Sole Director of the company. Following the request to prosecute the company and all accused natural persons, arguments are now being heard before the Bari Court.

- Criminal proceedings no. 3651/18 in the general register of crimes before 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 Milano Porta Garibaldi station - which caused the death of three passengers and injuries to others. Following the incident, the Milan Public Prosecutor initiated criminal proceedings against RFI S.p.A.'s CEO, Production Manager, Local Production Manager of Milan, Local Line Unit Manager for the Local Production Unit of Milan, Head of the Brescia Works Maintenance Unit and the Superstructure Site Specialist for the Brescia Works Maintenance Unit. Trenord S.r.l's CEO and Operations Manager are also being investigated. In addition, the companies RFI S.p.A. and Trenord S.r.l. have administrative liability pursuant

to Legislative decree no. 231/01. Specifically, the natural persons are charged with the crimes covered by and punishable under articles 430, 449.1/2 of the Criminal Code (negligent railway disaster), article 589.2/3 of the Criminal Code, article 590.2/3/4 of the Criminal Code (negligent manslaughter and injuries due to negligence with violations of accident prevention in the workplace regulations) and article 71 of Legislative decree no. 81/08 (violation of employer obligations). The companies are charged with the administrative violations covered by article 25-*septies.*2/3 of Legislative decree no. 231/01, with respect to sanctions for negligent manslaughter and serious injuries and for violations of accident prevention regulations. RFI S.p.A. has engaged a trusted attorney and technical advisor. Current insurance policies cover any liabilities that should arise in connection with these proceedings.

Other significant criminal court proceedings

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

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

- In criminal proceedings no. 35874/2013 in the general register of crimes with the Public Prosecutor's Office at the Rome Court, arguments are being heard. The case originated from alleged violations of Legislative decree no. 81/2008 in connection with the introduction of the "single driver" module which, according to the accusations, allegedly weakened the measures in place to prevent risks in emergencies and/or first aid situations involving the train driver while the train is operating. The Rome Public Prosecutor directly summoned Trenitalia S.p.A.'s former CEO and the Director of Frecciarossa Operations. At the hearing on 26 June 2017, the Court admitted the defendants' request for out-of-court settlement. The judge found that Trenitalia S.p.A. had taken all care and implemented an adequate system to eliminate the risks related to having one driver in the cabin at a time. The last hearing was held on 28 July 2017. Following council in chambers, the judge dismissed the charges for which the out-of-court settlement were reached with acquittal for the remaining charges as they are not crimes under the law. The judge also denied the aggrieved parties' petitions to be exempt from court costs.

Proceedings before the Italian and EU authorities

- K2 Discount pursuant to Ministerial decree no. 44T/2000. With respect to that indicated in the 2016 annual report, to which reference should be made for additional details, in relation to the two cases currently pending before the Lazio regional administrative court against URSF (the office that regulates railway service) decisions nos. 18/2006 and 83/2007, after the public hearing on 14 June 2017, with ruling no. 9381/17 (published on 22 August 2017) and after combining the two appeals cited above, the Lazio regional administrative court declared them partly inadmissible and partly denied them as they were without grounds. Specifically, the main arguments in the ruling relate to:
  1) inadmissibility of RFI S.p.A.'s challenge concerning the failure of the two URSF decisions to consider the connection between the government grant and the K2 discount since, according to the Lazio regional administrative court, the

matter of the necessary tax funding was totally absorbed by the sentence with the cancellation of Ministerial decree no. 92T;

2) the lack of grounds behind RFI S.p.A.'s arguments concerning the existence of technical/regulatory conditions for the elimination of the K2 discount, since the Lazio regional administrative court had shown that it completely agreed with the URSF's reasoning in decision nos. 18/2006 (i.e., the elimination of the K2 discount only upon the concurrence of the following three conditions: i) the infrastructure operator's creation of ground sub-system technologies, ii) installation of the connected on-board signalling system and iii) the issue of rules and procedures governing how single-driver trains are operated).

With respect to compliance with the Council of State's decision cancelling DM 92T (reference should also be made to previous reports for a detailed description of all events in this stage of the proceedings), on 26 September 2016, the *ad Acta* Commissioner's delegate issued a conclusive report on the outcome of the preliminary investigations, specifying that the K2 discount period began on 1 January 2006 and ended on 30 June 2009, except for the traffic produced using rolling stock that, before 30 June 2009, met the conditions for a single driver. The *ad Acta* Commissioner's delegate then quantified the individual amounts - including interest accrued at the legal rate up to 30 September 2016 and separated them from self-applied discounts - to be paid to the four appellant railway companies affected by the order to comply (namely, Rail Traction Company, NordCargo, SBB Cargo and DB Schenker), totalling €12.7 million.

Without prejudice to the above, on 13 September 2017, following the Lazio regional administrative court's ruling on RFI S.p.A.'s appeals against URSF decisions nos. 18/2006 and 83/2007, the four railway companies involved in the compliance ruling sent RFI S.p.A. (and the MIT and the ART) a formal "invitation to comply and notice to perform" to receive payment of the amounts previously determined by the *ad Acta* Commissioner's delegate (including legal interest calculated up to the date of payment) by 20 September 2017, reserving the right to take legal action to enforce payment should they fail to proceed with payment. As previously reported, following the commission regulation, the railway companies had already initiated another legal case with notification on 3 April 2017 to the MIT and RFI S.p.A. of its appeal against the Council of State's decision for additional reasons to obtain clarifications on the K2 discount compliance ruling (with specific reference to the "*ad Acta* Commissioner's conclusive report" enforcement methods) or, alternatively, compensation for damage due to non-performance.

The hearing for the appeal, initially scheduled for 19 October 2017, was postponed to 12 April 2018 upon the explicit petition for postponement lodged by the Attorney General, in order to verify the feasibility and potential settlement by the parties. Finally, Trenitalia S.p.A. – which had not independently appealed *ab origine* against Ministerial decree no. 92/T, nor subsequently appeared in the second-level proceedings and was found (in the compliance ruling mentioned above) outside the scope of the ruling on the K2 discount – lodged a summons with the Civil Court of Rome where RFI S.p.A. was asked to appear at the hearing on 26 February 2018, requesting the judge assess, due to the infrastructure operator's non-application of the K2 discount, payment, for the period from 1 December 2005 to 31 December 2007, of an infrastructure use fee exceeding that effectively due by a total of roughly €243 million, consequently ordering RFI S.p.A. to refund the amount unduly received plus interest. If the judge assesses payment of the excess fee, for the refund of the amount indicated, it would merely be a "provisional cost" for RFI S.p.A., since the government is responsible for covering any funds that should be required following the ruling. In addition, evaluations are in progress on the interests of the relevant Ministerial offices. In any case, RFI S.p.A. prudently accrued a specific provision to cover any interest and related costs to be incurred pending the refund of the amounts that it might initially need to provide to Trenitalia S.p.A. in advance.

- Antitrust Authority proceedings A/495. On 15 June 2016, the Antitrust Authority resolved to begin a preliminary investigation against Busitalia Veneto S.p.A. (Busitalia Veneto) and Busitalia Sita Nord S.r.l. (Busitalia SN), as well as

against APS Holding S.p.A. (APS), to ascertain whether there was a violation of article 102 of the Treaty on the Functioning of the European Union and article 3 of Law no. 287/1990 concerning the abuse of a dominant position. The Antitrust Authority's decision was part of the relevant government body/contracting station's preparation of documentation for the tender to assign urban and suburban car and tram services in the province of Padua. In particular, the Authority feared that Busitalia Veneto – which manages the transport services subject to the future tender procedure – and its shareholders Busitalia SN and APS would use practices meant to delay the preparation of the tender documentation. With the measure dated 11 May 2017, the Authority accepted the commitments made by Busitalia SN and Busitalia Veneto during the preliminary proceedings, as amended following the market testing, and declared them mandatory, thereby resolving to conclude the proceedings without assessing any violations.

- Antitrust Authority proceedings PS/10578. On 9 November 2016, the Antitrust Authority resolved to begin preliminary proceedings against Trenitalia S.p.A., alleging that its sales systems violate Consumers' Rights Code regulations protecting against unfair business practices. In short, the Antitrust Authority claimed that the company was allegedly using unfair business practices, implemented through certain, limited sales channels, that impacted the public service obligations imposed on Trenitalia S.p.A. in the regional transport segment and, partly in the medium and long haul transport segment. Specifically, it claimed that the practice was "aggressive" under the Consumers' Rights Code. Following the extensive and complex preliminary proceedings - characterised, *inter alia*, by the Antitrust Authority's refusal to accept the commitments proposed by Trenitalia S.p.A. - during the hearing on 19 July 2017, the Antitrust Authority passed the final regulation confirming the unfair business practices subject to the preliminary proceedings pursuant to articles 20, 21.1.b) and 22 of the Consumers' Rights Code and imposed a pecuniary administrative sanction equal to the maximum legal amount (€5 million). With the same regulation, the Authority also: a) prohibited Trenitalia S.p.A. from continuing the unfair business practices, requiring it to report to the Authority; b) ordered the publication of a rectifying statement informing consumers of its compliance with the regulation. The regulation has already been appealed before the Lazio regional administrative court. Since the decision is binding, at the end of tense talks with the Authority, Trenitalia S.p.A. took the measures required by the decision according to the scheduled deadlines.

- Appeals relating to the tender for the assignment of services to users in the Tuscany region. With an appeal lodged on 15 April 2016, the consortium company MOBIT Scarl (consisting of Busitalia-Sita Nord S.r.l. and other incumbents operating in Tuscany) appealed before the Tuscany regional administrative court against the region's regulation ordering the definitive assignment of the tender to the only other participant, Autolinee Toscane S.p.A. ("AT"). The tender related to the assignment of a single lot of local public transport services for nine years, which could be extended for another two years, worth approximately €4 billion. AT, which also took legal action, presented a counterclaim to have the consortium MOBIT excluded from the tender. With ruling no. 1548/2016 of 28 October 2016, the Tuscany regional administrative court admitted the two appeals, cancelled the assignment of the tender and found that neither of the claimants had presented offers that met the region's guidelines for the preparation of the economic/financial plan. All the participants appealed against ruling no. 1548/2016 (Mobit, AT and the Tuscany region itself) before the Council of State. The latter, with an ordinance issued on 6 April 2017, submitted the issues relating to the interpretation of certain provisions of Regulation (EC) no. 1370/2007 to the EU Court of Justice, as they were closely applicable to the case. The Tuscany region then declared it could not proceed with the tender until the case pending before the EU Court of Justice has been decided.

  Immediately after notification of the two appeals against ruling no. 1548/2016, in December 2016, the Tuscany region asked the two participants to submit a new economic/financial plan accompanying their previously submitted bids, which could not be modified. In response, the consortium MOBIT Scarl appealed before the Tuscany regional administrative

court. With its ruling of 14 June 2017, the Tuscany regional administrative court denied the appeal. This ruling was appealed with the Council of State.

In the meantime, both MOBIT Scarl and Autolinee Toscane S.p.A. submitted the new economic/financial plans, which, at a public hearing on 13 March 2017, the Tuscany region declared acceptable. Consequently, the commission ordered a new provisional assignment to Autolinne Toscane S.p.A..

- On 16 June 2017, the European Commission announced its decision to authorise the government assistance programme previously challenged in Greece in 2011, for various public financing measures to restructure OSE - the company that manages the Greek railway infrastructure - and TrainOSE - the cargo and passenger transport operator. According to the European Commission, the measures taken are in line with European rules on government assistance, as they are aimed at preventing a serious disruption in the Greek economy and providing better service to Greek passengers and users. This regulation eliminated the obstacles to the transfer of control over TrainOSE to FS Italiane group. The formal closing of the transaction took place on 14 September 2017 during the bilateral summit between Italy and Greece.

- On 29 June 2017, the EU Court of Justice issued its ruling in Case C-482/14 - European Commission v. Federal Republic of Germany in connection with the accounting segregation of railways; Italy and Latvia were involved in the proceedings, supporting some of the German government's claims. With respect to the four charges, the EU Court of Justice found Germany in breach solely for the infrastructure operator's bookkeeping methods, as it failed to separately recognise government grants, making it impossible to check compliance with the rule against transferring such grants to transport services. On the contrary, it denied the challenges relating to the transfer of profits from the operator to the parent and the alleged obligation to report the segregated accounts for each public service contract.

- On 26 October 2017, the European Commission sent Italy its decision finding the extension of cargo transport incentives for 2018/2019 compatible with EU law. The extension had been granted with article 47.11-ter of Decree law no. 50 of 24 April 2017, converted, with amendments, into Law no. 96 of 21 June 2017.

- EU cases SA 32179 and SA 32953. On 28 March 2014, the European Commission's Directorate-General for Competition notified Italy of a decision to begin a formal investigation in connection with two potential state aid programmes relating to:
  1. state aid measures under the forms of transfers of infrastructure assets (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 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 compensation from Italy to Trenitalia S.p.A. for rail cargo transport from 2000 to 2014 under three consecutive public service contracts. After 2015 and 2016, in which there were no further developments, near the end of 2017, the European Commission resumed the examination of both dossiers. Accordingly, considering the current stage of the cases and their complexity, and based on the opinions of independent legal experts, in line with previous evaluations, we believe that: 1) the effects of any negative development with respect to case SA 32179 would substantially relate to assets, due to the re-allocation of assets within the FS Italiane group; and ii) with respect to case SA 32953, it still impossible to objectively identify a contingent liability or reliably estimate any amount that might be paid.

The parent’s treasury shares

At 31 December 2017, 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 2017.

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 on an arm's length basis, based on normal market conditions which are defined with the assistance of independent experts, when necessary.
The shared objective of intragroup transactions is to promote efficiency and, therefore, create value for the entire group. To this end, in line with Ferrovie dello Stato Italiane group's business plan for 2017-2026, a more rational reallocation of group assets and resources is underway, to enable each company to focus on its core business, to improve the use of assets not directly related to the core activities of the group companies, transferring these activities to specialised entities, including through demergers and contributions, and to increase intragroup synergies.
These processes and transactions are carried out in accordance with sector regulations, the Italian Civil Code and tax laws, in line with the guidelines issued by the relevant ministries and the group's administrative/accounting procedures and considering the specific characteristics of the activities performed by many group companies.

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

Outlook

Ferrovie dello Stato Italiane group

As described in detail in earlier sections of this directors' report, 2017 was an intense year for Ferrovie dello Stato Italiane group, in which it achieved many important milestones, in accordance with the 2017-2026 business plan.

It follows that 2018 will see Ferrovie dello Stato Italiane group committed to the pursuit of the 2018-2026 business plan (which the board of directors approved in October 2017, along the same lines as the previous plan), focusing on even more challenging goals based on the concepts of integration, internationalisation and digitalisation.

The group expects to improve upon its 2017 performance through growth within its businesses, despite increasing competition in the long haul railway passenger transport segment (indeed, the group expects more substantial offers from competitors, also in light of the large, recent acquisition and resulting change of ownership with the arrival of international investors), and the positive impact of the consolidation of ANAS group following its contribution in January 2018, the value of which is being analysed in accordance with the group's accounting policies. This acquisition is particularly advantageous in terms of creating significant infrastructure synergies.

After capital expenditure totalling roughly €5.4 billion in 2017, including more than €4 billion in infrastructure, in line with its strategic targets, the group intends to remain Italy's largest investor, spearheading the development of the group's potential and that of the Italian economy.

Specifically, in 2018, Rete Ferroviaria Italiana S.p.A. will continue to promote railway transport, including with significant government funding for the "rail therapy" initiative, while Trenitalia S.p.A. will continue to invest substantially in the purchase of new rolling stock, especially for local transport (new *Pop* and *Rock* trains) considering the new service contracts signed with the regions.

As noted earlier, Ferrovie dello Stato Italiane group's acquisition of ANAS group will create, together with RFI S.p.A., an infrastructure hub to more efficiently design, plan and manage transport infrastructures by exchanging ideas and synergies with shared investment and maintenance policies and to more effectively and efficiency bid for tenders as a team. The aim is to shift from a concept of "interference" between the companies to one of "integration", striving to design mobility infrastructure that plays a vital role in the development of a transport system that is increasingly safer, integrated, sustainable and capable of creating value for the market.

This new paradigm also encompasses the reorganisation of the group's station network, in which stations will increasingly become attractive places to be, through the creation of new services, and integrated, sustainable mobility hubs, the beating heart of the metropolis and the force behind urban mobility. The railway station will be the gateway to the smart city and the place where passengers enjoy the innovative solutions designed specifically for them.

Ferrovie dello Stato Italiane S.p.A.

Ferrovie dello Stato Italiane S.p.A. – which also reports a profit for 2017 in line with forecasts – will continue to manage and coordinate the processes of a group undergoing rapid transformation and growth, to support the 2018-2026 business plan. The parent expects to generate a profit for 2018.

KPMG S.p.A.
Revisione e organizzazione contabile
Via Ettore Petrolini, 2
00197 ROMA RM
Telefono +39 06 80961.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

Independent auditors' report on the consolidated non-financial statement pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 and article 5 of Consob Regulation no. 20267

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 Consob (the Italian Commission for listed companies and the stock exchange) Regulation no. 20267, we have been engaged to perform a limited assurance engagement on the 2017 consolidated non-financial statement of the Ferrovie dello Stato Italiane Group (the "Group") prepared in accordance with article 4 of the decree, presented within the directors' report and approved by the board of directors on 27 March 2018 (the "NFS").

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Ferrovie dello Stato Italiane S.p.A. (the "Company") for the NFS

The directors are responsible for the preparation of a 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), selected as specified in the "Methodology for reporting non-financial information" section of the NFS (the "GRI Standards – GRI-Referenced option").

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 a 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.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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Capitale sociale
Euro 10.150.950,00 i.v.
Registro Imprese Milano e
Codice Fiscale N. 00709600159
R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
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25 20124 Milano MI ITALIA

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 for 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. KPMG S.p.A. 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 – GRI-Referenced option. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 4 (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 Company'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 Company's management personnel and personnel of Ferroviaria Italiana S.p.A. and Trenitalia S.p.A.. 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, considering the Group's business and characteristics, with respect to significant information:

   - at group 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 selected procedures to check, on a sample basis, the correct aggregation of data in the quantitative information;
   - we visited Rete Ferroviaria Italiana S.p.A., Trenitalia S.p.A., Grandi Stazioni Rail S.p.A., Centostazioni S.p.A., Busitalia - Sita Nord S.r.l., Ataf Gestioni S.r.l., Mercitalia Rail S.r.l. and the Production, Strategic planning, Technical, Asset management, Processes, security, quality and environment, Umbria region and Asset and loco maintenance departments, 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.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2017 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 - GRI-Referenced option.

Other matters

The Group prepared a 2016 sustainability report and has presented the data included therein for comparative purposes in its NFS. We reviewed that sustainability report in compliance with ISAE 3000 revised, not pursuant to any legal requirements, and expressed an unqualified conclusion thereon.

Rome, 31 March 2018

KPMG S.p.A.

(signed on the original)

Marco Maffei
Director of Audit

Consolidated financial statements of Ferrovie dello Stato Italiane group as at and for the year ended 31 December 2017

Consolidated financial statements

Statement of financial position

millions of Euros

	Notes	31.12.2017	31.12.2016
Assets			
Property, plant and equipment	8	44,449	44,590
Investment property	9	1,398	1,565
Intangible assets	10	988	766
Deferred tax assets	11	158	183
Equity-accounted investments	12	373	331
Non-current financial assets (including derivatives)	13	1,863	2,326
Non-current trade receivables	16	9	8
Other non-current assets	14	1,307	1,995
Total non-current assets		**50,545**	**51,764**
Construction contracts	15	57	53
Inventories	15	2,102	2,053
Current trade receivables	16	2,491	2,337
Current financial assets (including derivatives)	13	637	630
Cash and cash equivalents	17	1,834	2,337
Tax assets	18	113	121
Other current assets	14	5,231	3,392
Total current assets		**12,465**	**10,923**
Assets held for sale and disposal groups		**3**	
Total assets		**63,013**	**62,687**
Total equity and liabilities			
Share capital	19	36,340	36,340
Reserves	19	42	10
Valuation reserves	19	(467)	(512)
Retained earnings	19	1,923	1,559
Profit for the year	19	542	758
Equity attributable to the owners of the parent	**19**	**38,380**	**38,155**
Profit attributable to non-controlling interests	20	10	14
Share capital and reserves attributable to non-controlling interests	20	240	243
Total equity attributable to non-controlling interests	**20**	**250**	**257**
Equity		**38,630**	**38,412**
Liabilities			
Non-current loans and borrowings	21	9,125	8,652
Post-employment benefits and other employee benefits	22	1,633	1,785
Provisions for risks and charges	23	944	968
Deferred tax liabilities	11	275	271
Non-current financial liabilities (including derivatives)	24	44	83
Non-current trade payables	26	96	15
Other non-current liabilities	25	160	142
Total non-current liabilities		**12,277**	**11,916**
Current loans and borrowings and current portion of non-current loans and borrowings	21	2,389	3,210
Current portion of provisions for risks and charges	23	50	44
Current trade payables	26	4,252	4,097
Tax liabilities	27	18	4
Non-current financial liabilities (including derivatives)	24	33	119
Other current liabilities	25	5,363	4,885
Total current liabilities		**12,105**	**12,359**
Total liabilities		**24,383**	**24,275**
Total equity and liabilities		**63,013**	**62,687**

Income statement

millions of Euros

	Notes	2017	2016
Revenue			
Revenue from sales and services	28	8,632	7,908
Other income	29	667	1,020
Total revenue		**9,299**	**8,928**
Operating costs			
Personnel expense	30	(4,178)	(3,951)
Raw materials, consumables, supplies and goods	31	(1,136)	(1,230)
Services	32	(2,663)	(2,421)
Use of third-party assets	33	(229)	(183)
Other operating costs	34	(208)	(199)
Internal work capitalised	35	1,428	1,349
Total operating costs		**(6,986)**	**(6,635)**
Amortisation and depreciation	**36**	**(1,378)**	**(1,306)**
Reversals of impairment losses	**37**	**(152)**	**(70)**
Accruals	**38**	**(65)**	**(25)**
Operating profit		**718**	**892**
Financial income and expense			
Financial income	39	62	62
Financial expense	40	(176)	(170)
Net financial expense		**(114)**	**(108)**
Share of profits of equity-accounted investees	41	14	14
Pre-tax profit		**618**	**798**
Income taxes	42	(64)	(26)
Profit (loss) from assets held for sale, net of taxes	43	(2)	
Profit for the year (attributable to the owners of the parent and non-controlling interests)		**552**	**772**
Profit for the year attributable to the owners of the parent		542	758
Profit for the year attributable to non-controlling interests		10	14

Statement of comprehensive income

millions of Euros

	Notes	2017	2016
Profit for the year (attributable to the owners of the parent and non-controlling interests)		**552**	**772**
Other comprehensive income			
Items that will not be reclassified to profit or loss, net of the tax effect:			
Actuarial gains (losses)	19	(12)	(29)
attributable to the owners of the parent		(12)	(29)
attributable to non-controlling interests			
Items reclassified to profit or loss	19	19	21
Items that will or may be reclassified to profit or loss, net of the tax effect:			
Cash flow hedges - effective portion of changes in fair value	19	38	28
attributable to the owners of the parent		38	26
attributable to non-controlling interests			2
Net exchange rate gains (losses)	19		(1)
Total other comprehensive income, net of the tax effect		**45**	**19**
Comprehensive income (attributable to the owners of the parent and non-controlling interests)		**597**	**791**
Comprehensive income attributable to:			
Owners of the parent		587	775
Non-controlling interests		10	16

Statement of changes in equity

millions of Euros

	Equity													
		Reserves												
		Reserves				Valuation reserve								
	Share capital	Legal reserve	Extraordinary reserve	Other reserves	Translation reserve	Hedging reserve	Actuarial reserve	Fair value reserve	Total reserves	Retained earnings	Profit for the year	Equity attributable to the owners of the parent	Equity attributable to non-controlling interests	Total equity
Balance at 1 January 2016	**36,340**			**(100)**	**4**	**(212)**	**(321)**		**(629)**	**1,388**	**448**	**37,547**	**289**	**37,836**
Capital increase													20	20
Dividend distribution											(31)	(31)	(15)	(46)
Allocation of profit for the previous year		7		100					107	310	(417)			
Change in consolidation scope						3			3	(142)		(139)	(46)	(185)
Other changes										3		3	(7)	(4)
Comprehensive income					(1)	47	(29)		17		758	775	16	791
of which:														
Profit for the year											758	758	14	772
Gains/(losses) recognised directly in equity					(1)	47	(29)		17			17	2	19
Balance at 31 December 2016	**36,340**	**7**			**3**	**(162)**	**(350)**		**(502)**	**1,559**	**758**	**38,155**	**257**	**38,412**
Capital increase													4	4
Dividend distribution											(300)	(300)	(10)	(310)
Allocation of profit for the previous year		32	50						82	376	(458)			
Change in consolidation scope										(62)		(62)	(10)	(72)
Other changes			(50)						(50)	50			(1)	(1)
Comprehensive income						57	(12)		45		542	587	10	597
of which:														
Profit for the year											542	542	10	552
Gains/(losses) recognised directly in equity						57	(12)		45			45		45
Balance at 31 December 2017	**36,340**	**39**			**3**	**(105)**	**(362)**		**(425)**	**1,923**	**542**	**38,380**	**250**	**38,630**

Statement of cash flows

millions of Euros

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

Notes to the consolidated financial statements

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

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

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with IFRS (which include the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Union pursuant to 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 financial statements.

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

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

- the statement of financial position has been prepared by classifying assets and liabilities as "current/non-current";
- the income statement has been prepared by classifying costs by nature;
- the statement of comprehensive income includes the profit for the year, as well as any other changes in equity captions, specifically actuarial gains or losses on employee benefits, fair value gains or losses on hedging instruments and gains and losses on the translation of the financial statements of foreign operations;
- the statement of cash flows has been prepared by reporting cash flows arising from operating activities using the indirect method.

These consolidated financial statements have been prepared on a going-concern basis, as the directors established that there are no financial or operational indicators or any other indications of critical issues about FS Italiane group's ability to meet its obligations in the foreseeable future and, specifically, in the next twelve months. Reference should be made to the note to "Financial and operational risk management" for a description of the group's financial risk management procedures, including those applicable to the liquidity risk.

The consolidated financial statements have been prepared on the historical cost basis, except for financial assets and liabilities, including derivatives, which are measured at fair value.

The group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

On 27 March 2018, the directors approved the draft separate financial statements at 31 December 2017 and their submission to the shareholder pursuant to article 2429 of the Italian Civil Code. These separate financial statements will be subsequently presented for the shareholder's approval within the terms set by law and will be filed within the terms established by article 2435 of the Italian Civil Code. The shareholder is entitled to make changes to these separate financial statements. For the

purposes of IAS 17.10, the directors authorised these separate financial statements for issue on 27 March 2018, which is the date when they approved them.

KPMG S.p.A. was assigned the engagement to carry out the statutory audit for the 2014-2022 period pursuant to Legislative decree no. 39/2010.

3. Consolidation scope

The consolidation policies applied by FS Italiane group to define the consolidation scope and, specifically, subsidiaries, jointly controlled entities and associates, and the related consolidation criteria, are described below.

i) Subsidiaries

The consolidated financial statements comprise the financial statements of the parent and those of the companies directly and indirectly controlled by the parent, from the date it gains control until the date when control ceases. Control can be exercised through direct or indirect holding of the majority of voting rights or through the right to variable returns from its involvement with the investees and the ability to affect those returns through its power over the investee, including regardless of shareholding relationships. The existence of potential voting rights exercisable at the reporting date is considering when determining control.

When non-controlling interests are acquired, goodwill is recognised only to the extent 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, jointly controlled entities and associates included in the consolidation scope is 31 December, which is the reporting date of the consolidated financial statements. These financial statements have been specifically prepared and approved by the boards of directors of each company and duly adjusted, where necessary, to comply with the accounting policies of FS Italiane group.

Subsidiaries have been consolidated as follows:

- the assets and liabilities, income and expense of these companies are consolidated on a line-by-line basis, allocating, where necessary, the relevant portion of equity and profit or loss for the year to non-controlling interests. Equity and profit or loss for the year attributable to non-controlling interests are presented separately in consolidated equity and the consolidated income statement;
- business combinations of entities not under common control, whereby control of an entity is acquired, are recognised using the purchase method. The acquisition cost is the acquisition-date fair value of transferred assets, liabilities

assumed and equity instruments issued. Identifiable acquired assets and identifiable assumed liabilities are recognised at their acquisition-date fair value. If positive, the difference between the acquisition cost and the fair value of identifiable acquired assets and identifiable assumed liabilities is recognised under intangible assets as goodwill; if negative, after having remeasured the fair values of the above assets and liabilities and the acquisition cost, said difference is recognised directly in profit or loss, as income. When the fair value of the identifiable acquired assets and identifiable assumed liabilities assets can only be determined provisionally, the business combination is recognised using such provisional amounts. Any adjustments related to the completion of the measurement process are recognised within twelve months of the acquisition date, recalculating comparative figures;

- profits and losses, including the related tax effects, from transactions among consolidated companies and not yet realised vis-à-vis third parties, are eliminated, except for unrealised losses when the transaction reflects an impairment loss on the transferred asset. Receivables and payables and costs and revenue are also eliminated, as well as financial income and expense;
- with respect to the acquisition of non-controlling interests in companies already controlled, any difference between the acquisition cost and the related portion of the acquiree's equity is recognised in equity.

All subsidiaries are consolidated from the date the group acquires control and are excluded from the consolidation scope on the date the group no longer retains control.

ii) Joint arrangements and associates

Joint arrangements can be classified as joint operations or joint ventures based on the underlying rights and contractual obligations. Specifically: (i) a joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. In this case, individual assets and liabilities and the related costs and revenue are recognised in the financial statements of the parties based on their individual rights and obligations, regardless of the interest held; (ii) a joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement.

Associates are those companies over which FS Italiane group exercises significant influence, being the power to govern the financial and operating policies of the investee, without having control or joint control thereof. When assessing the existence of significant influence, potential substantive voting rights are considered.

Interests in joint ventures and associates are initially recognised at cost and subsequently measured using the equity method, whereby:

- the carrying amount of interests in joint ventures and associates is aligned to their equity, adjusted, where necessary, to comply with the accounting policies of FS Italiane group; it includes the greater amounts allocated to assets and liabilities and goodwill, if any, identified upon acquisition;
- the associates' profits or losses attributable to FS Italiane group are recognised from the date significant influence begins to the moment it ceases, while those of joint ventures from the date the rights to the net assets of the arrangement begin to the moment they cease. If, because of the losses incurred, the companies have a net deficit, the carrying amount of the investment is eliminated and any excess amount pertaining to FS Italiane group, where the latter is committed to fulfil the investee's legal or constructive obligations, or to cover their losses, is recognised in a specific provision. The statement of comprehensive income items of equity-accounted investees are recognised in specific equity reserves;
- unrealised profits and losses on transactions between the parent/subsidiaries and the equity-accounted investee are eliminated based on the amount of the interest held by FS Italiane group in the investee. Unrealised losses are eliminated, except for impairment losses.

Interests in joint operations are accounted for by recognising the assets/liabilities and the costs/revenue related to the arrangement based on the relevant rights/obligations, regardless of the interest held.

Subsidiaries, jointly controlled entities and associates, whose consolidation or recognition in the consolidated financial statements using the equity method does not generate significant effects on the group's financial position and results of operations, are excluded from the consolidation scope and recognised at fair value, where available, or at cost, net of any impairment losses.

4. Change in consolidation scope and non-recurring transactions

The deed for the demerger of Trenitalia's Cargo Division to Mercitalia Rail S.r.l. became effective on 1 January 2017. The demerged division includes the investments held by Trenitalia in companies active in the cargo transport and/or logistics sector.
On 10 January 2017, the shareholders of Mercitalia Logistics S.p.A. approved a capital increase of €236.7 million in an extraordinary meeting, entirely subscribed and paid up by the sole shareholder Ferrovie dello Stato Italiane S.p.A. through its contribution of its investment in Mercitalia Rail S.r.l.. The subsidiaries impacted by the accounting effects of this transaction recognised it at the same amounts using the pooling of interest method.

Again on 1 January 2017, Busitalia Campania S.p.A., wholly owned by Busitalia - Sita Nord S.r.l., which was established following the latter's participation in the public call to tender promoted by CSTP - Azienda della Mobilita S.p.A. under extraordinary administration for the sale of its operating business unit, excluding the receivables and payables that accrued before the sale, became operational with the business object of road passenger transport in Campania.

On 20 January 2017, as part of the eighth capital increase, the first tranche of the capital increase of Tunnel Ferroviario Brennero S.p.A. was approved for a total of €67 million. Consequently, following the various subscription mechanisms by the other shareholders, FS Italiane group, through the subsidiary RFI S.p.A., owns 87.93% of the company, compared to 87.16% at 31 December 2016.

On 30 January 2017, FS Italiane S.p.A. regained full control of Centostazioni S.p.A.. Indeed, the procedure for reacquisition of 40% of Centostazioni S.p.A. from Archimede 1 S.p.A. (Save group) by the company was concluded. The transaction, which was authorised by the Antitrust Authority), amounted to €65.6 million.

On 10 February 2017, the subsidiary Trenitalia UK Ltd entered into an agreement with National Express Group PLC for the acquisition of 100% of NXET Trains Limited (*National Express Essex Thameside*, which was renamed Trenitalia c2c Ltd), which manages the c2c (City to Coast) franchise between London and Shoeburyness on the east coast of South Essex.
The aim of the acquisition was to gain a market share in the British rail passenger transport sector through a market leader and strong customer focus.
The total consideration was GBP72.7 million (€84.3 million). Goodwill of GBP41 million arises from the acquisition price in excess of the fair value of the identified net assets and reflects the reasonable value of the synergies expected to arise from the acquisition, specifically from the strategic importance of using a British operator, in view of the possible future LPT tenders, and the expected profitability of the contracts already obtained, which will expire in 2029. Recognised goodwill is not tax deductible.
The acquisition costs of GBP1.6 million (€1.9 million) were recognised in profit or loss for the year. The business acquired in the period from 10 February 2017 to 31 December 2017 contributed GBP160.7 million (€183.4 million, at the average exchange rate of the period) to the consolidated revenue of the year and -GBP0.3 million (-€0.4 million, at the average exchange rate of the period) to the profit for the period. Had it been acquired and consolidated as of 1 January 2017, the contribution to the consolidated revenue of the year and the profit for the period would have amounted to GBP180.2 million (€205.7 million, at the average exchange rate of the period) and -GBP12.3 million (-€14 million, at the average exchange rate of the period), respectively.

The following tables show the allocation of the consideration paid in accordance with IFRS 3 – Business Combinations, and the fair value of the net assets acquired.

Acquisition price allocation

	In millions of GBP	In millions di Euros
Cash	72.7	84.3
Acquisition price	**72.7**	**84.3**
Minorities	0	0
Total	**72.7**	**84.3**

Total equity of Trenitalia c2c at the acquisition date	**40.3**	**46.8**
Contracts in progress at the acquisition date (net of the impairment losses on loss-making contracts at the acquisition date)	0	0
Provisions for future contingent liabilities	(8.6)	(10.0)
Net assets after price allocation	**31.7**	**36.8**
Goodwill	**41.0**	**47.5**

Assets	In millions of GBP	In millions of Euros
Property, plant and equipment	13.3	15.3
Intangible assets	4.2	4.9
Total non-current assets	**17.6**	**20.4**
Trade receivables and service contracts	10.2	11.8
Cash and cash equivalents	50.6	58.7
Other current assets	12.2	14.1
Total current assets	**73.0**	**84.7**
Total assets	**90.6**	**105.1**
Liabilities		
Non-current loans and borrowings	35.0	40.6
Post-employment benefits and other employee benefits	-37.7	-43.7
Deferred tax liabilities	7.0	8.1
Total non-current liabilities	**4.3**	**5.0**
Current trade payables	20.5	23.8
Other current liabilities	34.1	39.5
Total current liabilities	**54.6**	**63.3**
Total liabilities	**58.9**	**68.3**
Net assets	**31.7**	**36.8**

On 6 April 2017, Busitalia Sita Nord S.r.l. acquired a controlling investment in Busitalia Simet S.p.A. from SIMET S.p.A. for a consideration of €2.5 million (equal to 51% of the share capital and the share premium reserve). The company operates in the long haul domestic and international passenger transport sector; it also hires buses and provides atypical transport, school bus and travel agencies services.

Busitalia Parma Scarl was set up on 25 May 2017 with a quota capital of €0.05 million. The company is 60% and 40% held by Busitalia S.p.A. and Auto Guidovie S.p.A., respectively. It manages public transport throughout the Parma area and operates as per the agreed service contract.

On 30 June 2017, OHE Cargo GmbH was merged into its parent, Osthannoversche Eisenbahnen AG, which wholly owned it.

The deed for the demerger of the investment in TX Logistik AG held by Mercitalia Rail S.r.l. (MIR) to Mercitalia Logistics S.p.A. (MIL) became effective on 1 July 2017. The deed provides for the transfer of the investment in TX Logistik AG, wholly-owned by MIR, with a total carrying amount of €83,008,688, and the transfer of part of the liability to Ferrovie dello Stato Italiane S.p.A., amounting to €83,000,000. After the partial demerger, the quota capital of the demerged company and the newco increased and decreased by €8,688, respectively. MIL's capital increase was serviced by the issue of 17,376 shares of the same amount (€0.50) and the same characteristics of the outstanding shares.

On 7 July 2017, Trenitalia S.p.A. transferred the entire investment in the wholly-owned Serfer - Servizi Ferroviari S.r.l. to Mercitalia Logistics S.p.A., for a consideration of approximately €14.4 million. Serfer's integration, a group company which provides handling services and rolling stock maintenance, in Mercitalia group strengthens the group's competitive position and generates operating synergies between the two companies which comprise it.

On 24 August 2017, in the Netinera group, UNIKAI Hafenbetrieb Lüneburg merged into its parent, OHE AG.

On 31 August 2017, Busitalia-Sita Nord S.r.l. acquired 100% of Qbuzz BV and Utrecht Mobility Services BV from Abellio Nederland BV. These companies manage local public transport in the Utrecht metropolitan area and the Groningen-Drenthe province. The total consideration paid to acquire both companies amounted to €37 million. The provisionally-recognised goodwill of €33 million is the acquisition price in excess of the carrying amount of the identified net assets amounting to €4 million.

On 14 September 2017, Ferrovie dello Stato Italiane S.p.A. acquired 100% of TrainOSE SA from Hellenic Republic Asset Development Fund SA. The company provides cargo and passenger transport services at suburban, regional and national level in Greece. The total consideration paid amounts to €45 million. The provisionally-recognised goodwill of €10 million is the acquisition price in excess of the carrying amount of the identified net assets amounting to €35 million.

As per the deeds of 15 September, 18 and 20 October 2017, Mercitalia Logistics S.p.A., which already held 43.75% of Mercitalia Terminal S.p.A., acquired the residual 12.50% from non-controlling investors and 43.75% from Mercitalia Intermodal (formerly Cemat), gaining full control of Mercitalia Terminal S.p.A..

On 1 October 2017, Kraftverkehr Osthannover (KOG), a subsidiary of OHE AG, was sold to third parties against a consideration of €650,000.

On 11 October, as per the deed transferring the share capital of Trenitalia Logistics France S.A.S.U, the entire investment was transferred from Mercitalia Rail S.r.l to Mercitalia Logistics S.p.A..

On 30 October 2017, Busitalia-Sita Nord S.r.l., which already held 72.25% of S.A.V.I.T. S.r.l., acquired the residual 27.75% from non-controlling investors, gaining full control of S.A.V.I.T. S.r.l..

On 20 November 2017, Nord-Est Terminal NET S.p.A. in liquidation was wound up and stroke off the company register.

On 4 December 2017, the shareholders' meeting decided to change the company's name from CEMAT S.p.A. to Mercitalia Intermodal S.p.A., effective from 1 January 2018.

Nugo S.p.A. was set up on 15 December 2017. It is wholly owned by Ferrovie dello Stato Italiane S.p.A. and sells, traditionally and online, goods, services and proprietary and third-party integrated service systems in the public and collective transport, sharing mobility, lease, parking, culture, accommodation, tourist and trade sectors.

On 19 December 2017, the shareholders decided to change the company's name from Serfer S.r.l. to Mercitalia Shunting & Terminal S.r.l., effective from 1 January 2018.

Trenitalia Logistics France was dissolved without liquidation on 29 December 2017 through the TUP (*transmission universelle du patrimoine*) mechanism envisaged by French legislation, which entailed the termination of the company's activities and the transfer of all its assets and liabilities to its sole shareholder, Mercitalia Logistics.

5. Translation of foreign operations' financial statements

The financial statements of subsidiaries, jointly controlled entities and associates have been prepared using their functional currency, being the currency of the primary economic environment in which they operate. Foreign operations' financial statements expressed in a functional currency other than the Euro are translated as follows:

- assets and liabilities are translated using closing rates;
- goodwill and fair value adjustments related to the acquisition of a foreign operation are considered as assets and liabilities of the foreign operation and translated using closing rates;
- revenue and expense are translated at the average exchange rate of the year;
- the "translation reserve", recognised under consolidated equity captions, includes both exchange rate gains and losses arising from the translation of amounts, using rates other than closing rates, and those arising from the translation of opening equity applying a rate other than the closing rate. This reserve is released to profit or loss when the related equity investment is sold.

The following exchange rates were applied to translate the financial statements of foreign operations prepared in a functional currency other than the Euro:

	Average exchange rate for		Closing rate at 31 December	
Euro	**2017**	**2016**	**2017**	**2016**
Swiss Franc	1.11	1.09	1.17	1.07
Pound Sterling	0.88		0.89	
Danish krone	7.44	7.45	7.44	7.43
Swedish krona	9.63	9.46	9.84	9.55
Serbian dinar	121.28	123.46	118.21	123.46
Turkish lira	4.11	3.34	4.55	3.71

Translation of foreign currency amounts

Any transactions in a currency other than the functional currency are recognised at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in a currency other than the Euro are subsequently adjusted at the closing rate. Non-monetary assets and liabilities denominated in a currency other than the Euro are recognised at historical cost using the exchange rate prevailing at the date of initial recognition. Exchange rate differences are taken to profit or loss.

6. Accounting polices

The most significant accounting policies applied to the preparation of these consolidated financial statements are described below.

Property, plant and equipment

General criteria

Property, plant and equipment are recognised at purchase or production cost, net of accumulated depreciation and impairment losses, if any. The purchase or production cost includes any charges that are directly incurred to make assets available for use, as well as dismantlement and removal charges, if any, that will be incurred as a result of contractual obligations that require the asset to be returned to its original conditions. Any financial expense that is directly attributable to the acquisition, construction or production of qualifying assets is capitalised and depreciated on the basis of the useful life of the asset to which it refers. Leasehold improvements or costs to upgrade and transform property, plant and equipment are recognised under assets.

Any charges incurred for ordinary maintenance and repairs are directly charged to profit or loss when incurred. Costs to expand, upgrade or improve the structural elements owned or used by third parties are capitalised when they meet the requirements for separate recognition as assets or as parts of an asset, applying the component approach, whereby a component must be accounted for separately if its useful life can be measured independently.

Depreciation is charged on a monthly straight-line basis using rates that reflect the assets' useful life. When the depreciable asset comprises separately identifiable items with a useful life that is significantly different from that of the other items comprising the asset, depreciation is charged separately using the component approach.

Trenitalia S.p.A.'s calculation of rolling stock depreciation

Under the component approach, rolling stock was broken down into similar clusters based on the relevant technology level. Four classes of "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. parts which are not altered throughout the life of the rolling stock.

These parts are depreciated over the following periods: 5/6.5 years for classes 1 and 2; 12.5 years for driving material and 10 years for hauled stock under class 3, and 23/30 years for class 4 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);
- revamping activities which mainly increase the asset's performance, efficiency or useful life (class 3);

Based on the current structure of the entire maintenance process, second-level maintenance usually takes place every 5/6.5 years. These activities mainly refer to parts subject to wear and tear and replacement thereof.

Investments in revamping activities, i.e., all activities which increase the asset's performance, efficiency or useful life, provide for three main types of activities:

- activities that dramatically change the characteristics of the rolling stock and require CESIFER's re-approval, resulting in a new serial number. In this case, the useful life of the rolling stock is generally around 18 years and the depreciation rate applied is equal to 5.5%;
- technological activities which, in accordance with the provisions of the Supervisory Authority, ensure safety by adjusting the operating fleet, or part thereof. Again, these activities take place approximately every 18 years and are depreciated using a 5.5% rate;
- all other revamping activities which are not part of the above categories fall under class 3 and are therefore depreciated using an 8% or 10% depreciation rate, depending on whether the asset is a driving or hauled part.

RFI S.p.A.'s calculation of depreciation of property, plant and equipment

Depreciation is calculated on a straight-line basis at variable rates based on train-km production volumes. "Train-km" means the total number of kilometres travelled by trains on a railway infrastructure expressed in millions/year. Specifically, depreciation is calculated based on the ratio of quantities generated in the year to total production expected throughout the concession term, applied to the depreciable cost of the infrastructure at the reporting date. On this point, with respect to the infrastructure, the circumstance in which future investments (sufficient efficiency and security level of the infrastructure equal to that of the current year, specifically, extraordinary maintenance and renewals) is considered. Indeed, they are fully covered by grants and are fully financed by the government and are considered when determining the infrastructure's total production capacity. Consequently, they contribute to confirming the infrastructure's current production over the term of the concession, its useful life, and because of this profile, have an impact on the calculation of the depreciation rate. If the government had not provided any grants, the depreciation would have been calculated based on the ratio of quantities generated in the year to total production expected throughout the concession term, without considering those related to the future costs necessary to ensure the infrastructure's efficiency in the same period (specifically, extraordinary maintenance and renewals), applied to the depreciable cost of the railway infrastructure at the reporting date

The depreciable cost of investments is the sum of all costs incurred not yet amortised, including any interest expense accrued during or for the development of assets, net of grants related to assets, excluding the expected residual carrying amount of the railway infrastructure at the end of the concession, in order to consider the related transferability against consideration.

Property, plant and equipment which, together with intangible assets and investment property, make up the railway infrastructure, comprise seven lines as shown in the table below.

For each line, RFI S.p.A. uses the number of train-km actually sold during the year and resulting from the company's specific monitoring system, as the indicator of the quantity generated during the year.

The depreciation rates applied in 2017 and 2016 are as follows:

Line	Production indicator 2017	2016
HS/HC network	**2.37%**	**2.02%**
Traditional network		
Po Plain line and international transits	2.16%	2.13%
North Tyrrhenian line and branch lines	2.18%	2.10%
Backbone and branch lines	2.20%	2.13%
South Tyrrhenian line	2.24%	2.22%
Adriatic line and Apennines lines	2.29%	2.21%
Secondary network	2.22%	2.18%

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 pr ofit or loss in the year the asset is derecognised.

The depreciation rates used by FS Italiane group for any other categories of property, plant and equipment are as follows:

	Depreciation rate
Buildings	2% - 5%
Plant and machinery	5% - 10%
Rolling stock	3.3% - 20%
Industrial and commercial equipment	7.5% - 25%
Other assets	8% - 25%

Assets under finance lease

Assets under finance lease, through which the risks and rewards incidental to ownership are substantially transferred to FS Italiane group, are recognised as assets of FS Italiane group at their fair value on the date the lease was signed or, if lower, at the present value of minimum lease payments, including the amount to be paid to purchase the asset, if any. The corresponding liability to the lessor is recognised under financial liabilities. Assets are depreciated using the above rates and criteria, unless the term of the lease is below that of the useful life reflected by said rates and there is no reasonable certainty that ownership of the leased asset will be transferred at the natural expiry of the lease. In this case, depreciation reflects the lease term. Leases whereby the lessor substantially retains the risks and rewards associated to ownership of the assets are classified as operating leases. Operating lease costs are recognised on a straight-line basis in profit or loss over the term of the lease.

Investment property

Investment property is property held to earn rentals and/or for capital appreciation rather than for sale in the ordinary course of business. Furthermore, investment property is not used in the production or supply of goods or services or for administrative purposes. The accounting policies applied to recognise this caption comply with those applied to “Property, plant and equipment” described earlier.

When a development project for the future sale of a property begins, the property is reclassified to inventories following its change in use. The carrying amount at the date of change in use is the property's cost for subsequent accounting under inventories and depreciation ceases.

Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance that can be controlled and can generate future economic benefits. They are recognised at purchase and/or production cost, including any directly-attributable expenses incurred to make the asset available for use, net of accumulated amortisation (except for intangible assets with an indefinite useful life) and impairment losses, if any. Interest expense, if any, that accrues during and for the development of intangible assets, is considered part of the purchase cost. Amortisation begins when the asset is available for use and is charged on a straight-line basis over its estimated useful life. Specifically, FS Italiane group has the following main intangible assets:

a) Concessions, licenses and trademarks

They are amortised on a straight-line basis over their term.
Costs of software licences, including any expenses incurred to make the software available for use, are amortised on a straight-line basis and on the basis of the licence term.
Any costs relating to software maintenance are expensed when incurred.

b) Industrial patents and intellectual property rights

They are amortised on a straight-line basis over their useful life.

c) Goodwill

Goodwill is the difference between the cost incurred to acquire an asset and the fair value of the related identifiable assets and liabilities acquired. It is classified as an asset with an indefinite useful life and, consequently, is not amortised on a straight-line basis, but tested for impairment at least every year to identify any impairment losses. Impairment losses on goodwill are not reversed.

d) Research and development expenditure

Research expenditure is recognised in profit or loss when incurred, while development expenditure is recognised under intangible assets where all the following conditions are met:

- the project is clearly identified and any costs referred thereto are identifiable and can be measured reliably;
- the technical feasibility of completing the project can be demonstrated;
- the intention to complete the project and to sell the generated intangible assets can be demonstrated;
- there is a potential market or, in case of internal use, it is demonstrated that the intangible asset is useful for the production of the intangible assets generated by the project;
- technical and financial resources are available which are necessary to complete the project.

The amortisation of development expenditure, if any, recognised under intangible assets begins from the date when the result generated by the project can be used and is carried out in a period of five years.

If the research phase of an identified internal project to create an intangible asset cannot be distinguished from the development phase, the expenditure on that project is fully charged to profit or loss as if it were incurred in the research phase only.
The gain or loss arising from the derecognition of an intangible asset is equal to the difference between the net disposal proceeds and the carrying amount of the asset. It is recognised in profit or loss when the asset is derecognised.

Service concession arrangements

Service concession arrangements, where the grantor is a public sector entity and the operator is a private sector entity (public-to-private) fall under the scope of IFRIC 12 only when the requirements for service regulation and control of the residual interest are met. This interpretation is applied when the infrastructure is essential to provide the public with services and the arrangement establishes that the grantor:
- controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- controls - through ownership, beneficial entitlement or otherwise - any significant residual interest in the infrastructure at the end of the term of the arrangement.

The group does not recognise infrastructure for concessions under the scope of IFRIC 12 as property, plant and equipment but rather recognises at fair value either alternatively or jointly: the intangible asset, if the operator has the right to charge users of the public service for the construction or upgrading of the infrastructure; and the financial asset when its construction or upgrade generate an unconditional contractual right to receive cash from or at the direction of the grantor and the grantor has little, if any, discretion to avoid payment. The operator recognises revenue and costs in line with the contractual terms and the stage of completion as provided for construction contracts. Revenue from the prices paid by users continues to be recognised in line with that set out in the subsequent paragraph on revenue recognition. Any intangible assets are amortised over the concession term using a method that reflects the estimated consumption of the economic benefits embedded in the right and the manner of consumption. Accordingly, amortisation is calculated considering, when material, changes in the estimated production in train-km over the concession term. Provisions for concession commitments include accruals made for the operator's obligation to restore the infrastructure to a specified condition or replace the infrastructure to return it to its normal state of use. They are made when the concession arrangement includes these obligations and the grantor does not receive additional financial benefits.

Impairment losses on intangible assets and property, plant and equipment

i) Intangible assets and property, plant and equipment with a finite useful life

At each reporting date, a test is carried out to check if there is any evidence that property, plant and equipment and intangible assets may be impaired. For this purpose, account is taken of both external and internal sources of information. With respect to internal sources of information, the following must be considered: the obsolescence of or physical wear and tear of the asset, significant changes, if any, in the use of the asset and the economic performance of the asset with respect to expectations. As regards external sources of information, the following must be considered: the trend in the market prices of the assets, negative changes, if any, in technology, markets or laws, the trend in market interest rates or in the cost of capital used to measure investments.
If any such indication exists, the company estimates the recoverable amount of the asset, recognising the impairment loss in profit or loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. 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 for a previously recognised impairment loss no longer apply, the carrying amount of the asset is reversed in profit or loss without exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years and had the related amortisation or depreciation been charged.

ii) Goodwill and intangible assets not yet available for use

The recoverable amount of goodwill and intangible assets not yet available for use is tested for impairment every year or more frequently if there is an indication that the asset may be impaired. However, should the reasons behind the impairment loss cease to exist, the original amount of goodwill is not reversed.

For impairment test purposes, goodwill acquired in a business combination is allocated to individual cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the combination, in line with the minimum level at which goodwill is monitored within the group. Goodwill related to unconsolidated subsidiaries or associates is included in the carrying amount of the equity investment.

Financial instruments

Financial assets and trade receivables

Financial assets can be classified as follows:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

Classification is decided by management upon initial recognition.

Financial assets at fair value through profit or loss

This category includes financial assets held for trading, derivatives (see the paragraph below) and assets designated as such upon initial recognition. Their fair value is calculated based on the reporting date bid price. The fair value of unquoted derivatives is calculated by applying commonly used financial valuation techniques. Fair value changes of the instruments included in this category are immediately recognised in profit or loss.

Classification as current or non-current assets reflects management's trading expectations: those that are expected to be realised within 12 months or designated as held for trading are included under current assets.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. If there is objective evidence of impairment, their carrying amount is decreased to reflect the discounted value of future flows: the impairment losses identified by impairment tests are recognised in profit or loss. If, in a subsequent period, the reasons behind the impairment loss cease to exist, the carrying amount of the asset is reversed without exceeding what the amortised cost would have been had the impairment not been recognised. These assets are classified as current, except for the portions due after one year which are included under non-current assets.

Held-to-maturity investments

These assets are measured at amortised cost and are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. They are classified under current assets when the term is within 12 months. If there is objective evidence of impairment, their carrying amount is decreased to reflect the discounted value of future flows: the impairment losses identified by impairment tests are recognised in profit or loss. If, in a subsequent period, the reasons behind the impairment loss cease to exist, the carrying amount of the asset is reversed without exceeding what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

This category includes financial assets, other than derivative financial assets, that are designated as available for sale or are not classified in any of the above categories. They are measured at fair value which is calculated based on market prices at annual or interim reporting dates or using financial valuation models and techniques. Fair value changes are recognised in a specific equity caption ("reserve for available-for-sale financial assets"). This reserve is released to profit or loss only when the asset is actually sold or, in the case of a decrease, when the significant and prolonged decrease in fair value already recognised in equity cannot be recovered. Classification under current or non-current assets depends on management's intention and the effective trading of the security: those assets which are expected to be realised within twelve months are classified under current assets.

If there is objective evidence of impairment, their carrying amount is decreased to reflect the discounted value of future flows: the decreases in fair value previously recognised in equity are reversed to profit or loss. The impairment losses recognised in prior years are reversed when the reasons behind their recognition cease to exist. This only applies to financial instruments other than equity instruments.

Derivatives

Derivatives are considered as assets held for trading and are measured at fair value through profit or loss, unless they effectively hedge a specific risk underlying the group's assets or liabilities or commitments.

Specifically, the group uses derivatives as part of hedging strategies which mitigate the risk of fair value changes of recognised assets or liabilities or assets or firm commitments (fair value hedges) or changes in cash flows expected from firm commitments or highly probable transactions (cash flow hedges). Reference should be made to note 24 for information about the recognition of 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 changes of the hedge to those of the hedged item (dollar offset ratio) or, with respect to more complex financial instruments, through statistical analyses based on risk changes.

Fair value hedges

Fair value changes of derivatives designated as fair value hedges and which qualify as such, are recognised in profit or loss, similarly to fair value changes of hedged assets or liabilities attributable to the risk hedged.

Cash flow hedges

Fair value gains or losses on derivatives designated as cash flow hedges which qualify as such, are recognised, only to the extent of the "effective" portion, in other comprehensive income in the hedging reserve. They are subsequently reclassified to profit or loss when the underlying hedged item affects profit or loss. Fair value gains or losses related to the ineffective portion are immediately recognised in profit or loss. Should the underlying transaction no longer be considered highly probable, the related portion of the "hedging reserve" is immediately reclassified to profit or loss. Conversely, should the derivative be sold, expire or no longer qualify as an effective hedge of the risk for which the transaction was created, the related portion of the "hedging reserve" is maintained until the underlying item affects profit or loss. Recognition of the hedge as a cash flow hedge is discontinued prospectively.

Fair value 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 calculated by discounting expected cash flows, while that of currency forwards considers closing rates and the expected differentials of the relevant currencies.

Financial assets and financial liabilities measured at fair value are classified using the following three levels of the fair value hierarchy, based on the relevance of the inputs used to determine fair value. Specifically:

- Level 1: financial assets and financial liabilities whose fair value is calculated based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the group can access at the measurement date;
- Level 2: financial assets and financial liabilities whose fair value is calculated based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: financial assets and financial liabilities whose fair value is calculated based on unobservable inputs for the asset or liability.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and available bank deposits and any other forms of short-term investment, with an initial maturity of three months or less. At the reporting date, current account overdrafts are classified in the statement of financial position as financial liabilities under current liabilities. Cash and cash equivalents are measured at fair value through profit or loss.

Loans, trade payables and other financial liabilities

Loans, trade payables and other financial liabilities are initially recognised at fair value, net of directly-attributable costs, and are subsequently measured at amortised cost, applying the effective interest method. When there is a change in the estimated expected cash flows, the carrying amount of the liabilities is recalculated to reflect this change on the basis of the present value of the new expected cash flows and of the effective internal rate as initially determined. Loans, trade payables and other financial liabilities are classified under current liabilities, except for those with a contractual term beyond twelve months after the reporting date and those for which FS Italiane group has an unconditional right to defer their settlement for at least twelve months after the reporting date. Loans, trade payables and other financial liabilities are derecognised when repaid and when FS Italiane group has transferred all risks and charges related to the instrument.

Inventories

Inventories are recognised at the lower of purchase and/or production cost and net realisable value. Cost is calculated using the weighted average cost method.

Net realisable value corresponds, for finished goods and properties, to the selling price estimated in the ordinary course of business, net of estimated selling costs. Replacement cost is used for raw materials, consumables and supplies.

Purchase cost includes additional charges, while production cost comprises directly-attributable costs and a portion of indirect costs that are reasonably attributable to the products.

Obsolete and/or slow-moving inventories are written down to reflect their estimated possible use or future sale, through the recognition of a specific allowance for inventory write-down. The write-down is derecognised in subsequent years if the reasons therefor no longer apply.

Properties held for trading are recognised under this caption at the lower of purchase cost and fair value, calculated by an independent appraiser. They are recognised net of the allowance for inventory write-down, while costs that enhance the assets are capitalised. The write-down is reversed in subsequent years if the reasons therefor cease to exist.

Construction contracts

Construction contracts (or "contracts") are recognised at the reasonably accrued contractually agreed fees in accordance with the percentage of completion method, considering the progress made and the expected contractual risks. Progress is measured by comparing the contract costs incurred at the reporting date to the total estimated costs for each contract.
When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the economic benefits associated with the contract will flow to the entity, revenue is recognised over the term of the contract. When it is probable that total contract costs exceed total contract revenue, the potential loss is immediately recognised in profit or loss, regardless of the contract progress.
Contracts are shown net of allowances, if any, losses to complete contracts and payments on account and advances related to the contract in progress. Differences are recognised under assets when positive, while negative differences are taken to the liability caption "Trade payables".

Employee benefits

Short-term benefits comprise wages, salaries, related social security contributions, holidays paid and incentives paid out in the form of bonuses payable in the twelve months after the reporting date. These benefits are accounted for as personnel expense components in the period in which the employees provide their service.

Post-employment benefits and other employee benefits

The companies of FS Italiane group have both defined contribution and defined benefit plans in place. The defined contribution plans are managed by third-party fund managers, in relation to which there are no legal or any other obligations to pay additional contributions if the fund has no sufficient assets to meet the commitments with employees. With respect to the defined contribution plans, FS Italiane group pays contributions, either voluntarily or as required by contract, into public and private insurance pension funds. Contributions are recognised as personnel expense on an accruals basis. Advance payments for contributions are recognised as an asset that will be repaid or offset against future payments, if due.
A defined benefit plan is a plan that cannot be classified as a defined contribution plan. Under defined benefit plans, the amount of the benefit to be paid to the employee can be quantified only after the termination of the employment relationship, and is linked to one or more factors, such as age, years of service and remuneration. Therefore, defined benefit obligations are determined by an independent actuary using the projected unit credit method. The present value of defined benefit plans is determined by discounting future cash flows at an interest rate equal to that of (high-quality corporate) bonds issued in the foreign currency in which the liability will be settled and that takes account of the term of the related pension plan. Actuarial gains and losses are fully recognised in profit or loss in the relevant year, taking account of the related deferred tax effect.
Specifically, FS Italiane group manages a defined benefit plan that consists of post-employment benefits (Italian "TFR"). Italian companies are required to accrue a provision pursuant to article 2120 of the Italian Civil Code, which is treated as deferred remuneration and is based on employees' duration of service and the remuneration they receive during that time. Starting from 1 January 2007, Law no. 296 of 27 December 2006, the "2007 Finance Act" and subsequent decrees and regulations introduced significant amendments to TFR regulations, including the employees' right to choose to transfer the TFR being accrued either to supplementary pension funds or to the "Treasury Fund" managed by INPS (the Italian Social

Security Institute). Consequently, the obligation to INPS and the contributions paid into supplementary pension funds are now treated, pursuant to IAS 19 - Employee benefits, as defined contribution plans, while the amounts recognised under post-employment benefits at 1 January 2007 are still treated as defined benefit plans.
Some FS Italiane group companies also have a defined benefit pension plan in place, the "Free Travel Card" (Carta di Libera Circolazione, CLC) that gives current and retired employees and their relatives, the right to use – free of charge or, in some cases, for an admission fee – the trains managed by Trenitalia.
Consequently, in accordance with the above-mentioned actuarial techniques, a provision is recognised which reflects the discounted charge for retired employees entitled to benefits, and the benefits accrued for employees in force to be disbursed at the end of the employment.
The Free Travel Card benefits and the effects arising from actuarial valuations are the same as those of post-employment benefits.

Provisions for risks and charges

Provisions for risks and charges are recognised for certain or probable losses and charges, whose amount and/or due date cannot be determined. They are recognised only when the company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. This amount represents the best estimate of the expenditure required to settle the obligation. The rate used to determine the present value of the liability reflects the current market values and takes account of the specific risk that can be associated to each liability.
Where the effect of the time value of money is material and the settlement dates of obligations can be estimated reliably, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.
Risks for which a liability is only possible are disclosed in the specific section on contingent liabilities without accruing any provisions.

Revenue

Revenue is recognised when it is probable that future economic benefits will flow to FS Italiane group and these benefits can be measured reliably, net of returns, rebates, trade discounts and bulk discounts.
Revenue from services is recognised in profit or loss on a percentage of completion basis and only when the outcome of the service can be estimated reliably.
Similarly to that described in relation to construction contracts, revenue from contract work in progress is recognised using the percentage of completion method.
Revenue from the sale of goods is recognised at the fair value of the consideration received or receivable. It is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the goods and the related costs can be measured reliably.
Interest income is recognised in profit or loss on the basis of the effective rate of return.

Government grants

Government grants, when formally assigned and, in any case, when the right to their disbursement is deemed definitive as it is reasonably certain that FS Italiane group will comply with any conditions attached to the grant and that the grants will be received, are recognised on an accruals basis in direct correlation with the costs incurred.

i) Grants related to assets

They refer to amounts paid by the government and other public authorities to FS Italiane group for the implementation of initiatives aimed at the construction, reconditioning and expansion of property, plant and equipment. They are recognised as a direct reduction in the cost of the assets to which they refer and decrease the depreciation rates.

ii) Grants related to income

They refer to amounts paid by the government or other public authorities to FS Italiane group to offset costs and charges incurred. They are recognised under "Revenue from sales and services" and "Other income", as a positive component of income.

Dividends

They are recognised in profit or loss when the shareholders' right to receive payment thereof arises. The latter usually coincides with the shareholders' resolution approving dividend distribution.

Dividends distributed to Ferrovie dello Stato Italiane S.p.A.'s shareholders are presented as a change in equity and recognised under liabilities when their distribution is approved by the shareholders.

Cost recognition

Costs are recognised when they relate to goods and services acquired or consumed in the year or by systematic allocation.

Income taxes

Current taxes are calculated based on estimated taxable profit and in accordance with ruling tax legislation.

Deferred tax assets, related to prior tax losses, are recognised when it is probable that future taxable profit will be available against which these losses can be recovered. Deferred tax assets and liabilities are calculated using the tax rates that are expected to be applied in the years in which the differences will be realised or settled.

Current taxes, deferred tax assets and liabilities are recognised in profit or loss, except for those relating to items recognised under other comprehensive income and directly taken to equity. In the latter cases, deferred tax liabilities are recognised under the "Tax effect" caption related to the other comprehensive income or directly in equity, respectively. Deferred tax assets and liabilities are offset when they are levied by the same tax authorities, there is a legally enforceable right to set off the recognised amounts and a settlement on a net basis is expected.

Taxes other than income taxes, such as indirect taxes and duties, are included in profit or loss under "Other operating costs".

Assets and liabilities held for sale and disposal groups

Non-current assets and liabilities (or disposal groups) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use are classified as held for sale and recognised separately from any other assets and liabilities in the statement of financial position. The corresponding prior year statement of financial position figures are not reclassified. A discontinued operation is a component of the company that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Profits or losses of discontinued operations – either disposed of or classified as held for sale and being divested – are recognised separately in profit or loss, net of tax effects. Prior year corresponding figures, where present, are reclassified and presented separately in the separate income statement, net of tax effects, for comparative purposes. Non-current assets and liabilities (or disposal groups) classified as held for sale, are firstly recognised in accordance with the specific standard applicable to each asset and liability and, subsequently, are recognised at the lower of carrying amount and fair value, less costs to sell. Subsequent impairment losses are recognised directly as an adjustment to non-current assets (or disposal groups) classified as held for sale through profit or loss.
Impairment losses are reversed for any subsequent increase in fair value less costs to sell of an asset, not in excess of the cumulative impairment loss that has been previously recognised.

New standards

FIRST-TIME ADOPTION OF STANDARDS, AMENDMENTS AND INTERPRETATIONS

The following new standards are effective for annual periods beginning on after 1 January 2017.

Amendments to IAS 12 – Income taxes

On 19 January 2016, the IASB issued some amendments to IAS 12 - Income taxes. The document Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) clarifies the accounting for deferred tax assets on debt instruments measured at fair value. Application of the amendments did not have a material effect on these consolidated financial statements due to their nature and/or scope.

Amendments to IAS 7 – Statement of cash flows

On 29 January 2016, the IASB issued some amendments to IAS 7 - Statement of cash flows. The Disclosure initiative (Amendments to IAS 7) document is meant to improve the presentation and disclosure of the financial information provided to users of financial statements and to resolve some of the critical issues reported by operators. The amendments introduce new disclosures for changes in assets and liabilities arising from financing activities. The group applied the amendments retrospectively as of 1 January 2017. Application of the amendments had a material effect on these consolidated financial statements, expanding and improving disclosures.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS RECENTLY ENDORSED BY THE EUROPEAN UNION

At the preparation date, the competent bodies of the European Union have completed the endorsement process necessary to adopt the following standards and amendments. FS Italiane group decided not to exercise the option for earlier adoption (when provided for).

Estimated effects of the adoption of IFRS 15 and IFRS 9

The effects of the impact of the adoption of IFRS 15 - Revenue from Contracts with Customers and IFRS 9 - Financial instruments, set for 1 January 2018, on the consolidated financial statements were calculated beforehand. This estimate is based on the assessments carried out up to the date of presentation of the consolidated financial statements and showed the following:

- with respect to IFRS 15, the group does not expect any significant impact on the recognition, calculation and measurement of revenue from customers;
- with respect to IFRS 9, despite the significance of the critical masses affected by this standard, especially in relation to the measurement of financial assets (impairment), the parent does not expect any significant impact on its financial position or results of operations.

The actual effects of the adoption of the above standards on 1 January 2018 may change since:

- the group has not yet completed the check and assessment of controls over the new information systems; and
- the new measurement criteria may change until the presentation of the group's first consolidated financial statements inclusive of the first-time application date.

With respect to IFRS 9, the group believes that the impairment losses on the assets included in the scope of the model under said standard will increase and become more volatile, while the effects on business continuity will be substantially steady.

IFRS 15 – Revenue from contracts with customers and amendments

On 28 May 2014, as part of the IFRS-US GAAP convergence project, the IASB and the FASB issued IFRS 15 - Revenue from contracts with customers. This document was endorsed by the European Union with Regulation no. 1905 of 22 September 2016. This standard is a unique and comprehensive framework for revenue recognition and sets out the provisions to be applied to all contracts with customers (except for those covered by other standards on leases, insurance contracts and financial instruments). IFRS 15 replaces the previous standards applicable to revenue: IAS 18 - Revenue and IAS 11 - Construction contracts, as well as the following interpretations: IFRIC 13 - Customer loyalty programmes, IFRIC 1 - Agreements for the construction of real estate, IFRIC 2018 - Transfers of assets from customers and SIC 31 - Revenue - Barter transactions involving advertising services. The new five-step model for revenue recognition requires that revenue be recognised upon transfer of the goods or services to the customer (and no longer with the substantial transfer of risks and benefits) at the consideration the entity expects to be entitled to (i.e., no longer at fair value). Furthermore, on 12 April 2016, the IASB published some clarifications about IFRS 15 - Revenue from Contracts with Customers. The new standard, also following the amendment published by the IASB on 11 September 2015, applies to annual periods beginning on or after 1 January 2018. However, early application is permitted.

IFRS 9 – Financial instruments

On 24 July 2014, the IASB issued the definitive version of IFRS 9 - Financial instruments. This document was endorsed by the EU with Regulation no. 2067 of 22 November 2016. It presents the results of the IASB's project to replace IAS 39 and supersedes all the previous versions of IFRS 9 on classification, measurement, derecognition, impairment and hedge accounting. The key new issues introduced with respect to classification and measurement include the business model used to manage financial assets and liabilities and the characteristics of cash flows. The standard also introduces new guidance for the measurement of impairment losses (expected credit losses) and a new hedge accounting model. IFRS 9 is applicable to annual periods beginning on or after 1 January 2018.

IFRS 16 – Leases

On 13 January 2016, the IASB issued IFRS 16 - Leases, which replaces IAS 17. This document was endorsed by the EU and was published on 9 November 2017. IFRS 16 is applicable to annual periods beginning on or after 1 January 2019. The new standard eliminates the different recognition of operating and finance leases, while containing elements that simplify its application. It also introduces the concept of control within the definition of a lease. Specifically, in order to determine whether a contract is a lease, IFRS 16 states that a contract is, or contains, a lease if it conveys the right to control the use

of an identified asset for a period of time. Earlier application is permitted to entities that also adopt IFRS 15 - Revenue from contracts with customers.
The group is currently assessing the future impacts this standard may have through work groups specifically set up to this end.

Amendments to IFRS 4 – Insurance contracts

On 12 September 2016, the IASB issued some amendments to IFRS 4 - Insurance contracts designed to address the consequences of the different effective dates of IFRS 9 and IFRS 4.

Annual Improvements to IFRS: 2014-2016 Cycle

On 8 December 2016, the IASB issued the Annual improvements to IFRS. 2014-2016 Cycle. The amendments are part of the normal rationalisation and clarification of the IFRS and covered IFRS 1 - First-time adoption of International Financial Reporting Standards, IFRS 12 - Disclosure of interests in other entities and IAS 28 - Investments in associates and joint ventures.

Amendments to IAS 27 – Separate financial statements

On 12 August 2014, the IASB issued Equity Method in Separate Financial Statements (Amendments to IAS 27). This document was endorsed by the European Union with Regulation no. 2441 of 18 December 2015. The amendments restore the option to use the equity method, described in IAS 28 - Investments in associates and joint ventures, to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. They apply to annual periods beginning on or after 1 January 2016.
Pending the clarifications to be provided by the relevant bodies, the group has already set up a work group to assess the risks/benefits and the expected positive effects, should it decide to apply this amendment to the financial statements of Ferrovie dello Stato Italiane S.p.A. and its financial statements.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

At the date of preparation of these consolidated financial statements, the competent bodies of the European Union have not yet completed the endorsement process necessary to adopt the following accounting standards and amendments. The group is currently assessing the future impacts these standards, amendments and interpretations may have on its financial position and performance.

IFRS 14 – Regulatory deferral accounts

On 30 January 2014, the IASB issued IFRS 14 - Regulatory deferral accounts, an interim standard applicable to the rate-regulated activities project. IFRS 14 permits only entities which are first-time adopters of IFRS to continue to account for rate regulation balances in accordance with their previous GAAP. In order to improve comparability with the entities that already apply IFRS and that do not recognise these balances, the standard provides that the impact of rate regulation be separately presented in an entity's financial statements. The standard is applicable to annual periods beginning on or after 1 January 2016 and earlier adoption is allowed. However, the European Commission suspended the endorsement process pending the issue of the definitive version of the standard by the IASB.

Amendments to IFRS 10 – Consolidated financial statements and IAS 28 – Investments in associates and joint venture

On 11 September 2014, the IASB issued Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28) to resolve an inconsistency between IAS 28 and IFRS 10. The amendments establish that when an asset is transferred/contributed to a joint venture or an associate, or when an equity investment is sold, resulting in the loss of control, while retaining joint control or significant influence over the associate or joint venture, the amount of the recognised gain or loss depends on whether the transferred/contributed assets or equity investment constitute a business, as defined in IFRS 3 - Business Combinations. Specifically, when the transferred/contributed assets or equity investment constitute a business, the entity shall recognise the gain or loss entirely. Conversely, it shall recognise only the portion of gain or loss attributable to the minority interests of the associate or joint venture which constitute the parties to the transaction. In December 2015, the IASB issued the amendment which defers indefinitely the coming into force of the amendments to IFRS 10 and IAS 28.

Amendments to IFRS 2 – Classification and measurement of Share-based payment transactions

On 20 June 2016, the IASB issued some amendments to IFRS 2 - Share-based payment to clarify how to account for certain share-based payment transactions. The amendments apply to annual periods beginning on or after 1 January 2018, with earlier application being permitted. The EU endorsement is expected by the first quarter of 2018.

IFRIC 22 – Foreign currency transactions and advance consideration

On 8 December 2016, the IASB issued IFRIC 22 - Foreign currency transactions and advance consideration to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is applicable to annual periods beginning on or after 1 January 2018, with earlier application being permitted. The EU endorsement is expected by the first quarter of 2018.

Amendment to IAS 40 – Investment property

On 8 December 2016, the IASB issued some amendments to IAS 40 - Investment property, which provide guidance on transfers to, and from investment property. They apply to annual periods beginning on or after 1 January 2018, with earlier application being permitted. The EU endorsement is expected by the first quarter of 2018.

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. It applies to annual periods beginning on or after 1 January 2019, with earlier application being permitted. The EU endorsement is expected in 2018.

Amendments to IFRS 9 - Prepayment features with negative compensation

On 12 October 2017, the IASB issued the amendment to IFRS - 9 Financial Instruments. The amendment proposes that financial instruments with prepayment, which may result in negative compensation, may be recognised using the amortised cost method or the fair value through other comprehensive income method, depending on the business model adopted. The EU endorsement is expected in 2018.

Amendments to IAS 28 - Long-term interests in associates and joint ventures

On 12 October 2017, the IASB published the amendment to IAS 28 - Investment entities. The amendment clarifies that IFRS 9 applies to non-current receivables 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 receivables 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 amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted.

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 and IFRS 3 Business combinations.

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 amendments apply to annual periods beginning on or after 1 January 2019.

Use of estimates and valuations

In preparing the consolidated financial statements in accordance with IFRS, the directors applied accounting standards and methods, which in some circumstances rely on difficult and subjective valuations and estimates based on past experience and on assumptions that are from time to time considered to be reasonable and realistic depending on the circumstances. Therefore, the actual amounts of certain financial statements captions calculated according to the above estimates and assumptions may differ in the future, even materially, from those reported in the financial statements, because of the uncertainty that characterises the assumptions and conditions on which the estimates are based. Estimates and assumptions are reviewed periodically and the effects of any changes are recognised in profit or loss when they affect the year only. If the revision affects both current and future years, the change is recognised in the year the revision is made and in the related future years.

Therefore, actual results may differ, even materially, from these estimates following possible changes in the factors considered in the determination of these estimates.

The following accounting policies require the most subjectivity from the directors in the preparation of estimates and would have a material impact on the financial figures if there were a change in the conditions underlying the assumptions used:

i) Impairment losses

In accordance with FS Italiane group's accounting policies, property, plant and equipment and intangible assets with a finite life are tested for impairment. Impairment losses are recognised when there is evidence that it will be difficult to recover the related carrying amount through the use of the asset. Impairment tests require the directors to make subjective valuations based on the information available within the 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 affecting valuations and estimates made by the directors.

ii) Amortisation and depreciation

Amortisation and depreciation are a significant cost for the group. The cost of property, plant and equipment and intangible assets with a finite useful life and of investment property is depreciated and amortised, respectively, over the estimated useful lives of the assets, except for RFI S.p.A. which applies the product unit method.

Calculating the depreciation of RFI S.p.A.'s 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. FS Italiane group assesses any technological and sector changes to update residual useful lives on a regular basis. These updates may entail a change in the amortisation and depreciation period and in the amortisation and depreciation rates of future years.

iii) Provisions for risks and charges

Provisions are accrued against legal and tax risks which represent the risk of a negative outcome. The recognised provisions relating to these risks reflect the best estimate made by the directors at the reporting date. This estimate entails the adoption of assumptions that depend on factors which may vary over time and which may have significant effects compared to the current estimates made by the directors for the preparation of FS Italiane group's consolidated financial statements.

iv) Taxes

Deferred tax assets are recognised based on the income expected in future years. The valuation of any expected income for the purposes of the recognition of deferred taxes depends on factors that may vary over time and determine significant effects on the measurement of deferred tax assets.

v) Fair value of derivatives

The fair value of derivatives that are not quoted on active markets is measured using valuation techniques. FS Italiane group applies valuation techniques that use inputs that can be observed in the market, either directly or indirectly, at the reporting date, and that are connected to the assets and liabilities being measured. Even if the estimates of the above fair

values are considered reasonable, any possible changes in the estimate factors on which the calculation of the aforesaid amounts is based may generate different valuations.

7. Financial and operational risk management

FS Italiane group is exposed to the following risks arising from the use of financial instruments:

- credit risk;
- liquidity risk;
- market risk, specifically, interest rate and currency risks.

This section provides information on the group's exposure to each of the risks listed above, the objectives, policies and processes for the management of these risks and the methods used to assess them, as well as capital management. These consolidated financial statements also include additional quantitative information.

FS Italiane group's risk management focuses on the volatility of financial markets and is aimed at minimising potential undesired effects on its financial position and results of operations.

Credit risk

Credit risk is the risk that a customer or one of the counterparties of a financial instrument may cause a financial loss by not complying with an obligation. It mainly arises from loan assets with the public administration, trade receivables and the financial investments of FS Italiane group.

With regard to credit risk deriving from investing activities, the group applies a liquidity investment policy which is centrally managed by the parent and which defines:

- the minimum requirements of the financing counterparty in terms of creditworthiness and the related concentration thresholds; and
- the types of financial products that can be used.

With respect to the derivatives used for hedging purposes and which can potentially generate credit exposure to counterparties, the group applies a specific policy that defines concentration thresholds by counterparty and credit rating.

With respect to the assessment of customers' credit risk, each FS Italiane group company manages and analyses the risk of all new significant customers, regularly checks their commercial and financial exposure and monitors the collection of receivables from the public administration within the contractually agreed timeframe.

The following table shows FS Italiane group's exposure to credit risk at 31 December 2017, compared with that at 31 December 2016.

millions of Euros

	31.12.2017	31.12.2016
Current trade receivables	3,011	2,848
Allowance for impairment	(520)	(511)
Current trade receivables, net of the allowance for impairment	**2,491**	**2,337**
Other current assets	4,639	3,039
Allowance for impairment	(57)	(42)
Other current assets, net of the allowance for impairment	**4,583**	**2,997**
Non-current financial assets (including derivatives)	1,791	2,248
Allowance for impairment		
Non-current financial assets (including derivatives), net of the allowance for impairment	**1,791**	**2,248**
Other non-current assets	1,131	1,003
Allowance for impairment	(7)	(2)
Other non-current assets, net of the allowance for impairment	**1,125**	**1,001**
Cash and cash equivalents	**1,834**	**2,337**
Current financial assets (including derivatives)	637	631
Allowance for impairment		(1)
Current financial assets (including derivatives), net of the allowance for impairment	**637**	**630**
Non-current trade receivables	9	8
Allowance for impairment		
Non-current trade receivables, net of the allowance for impairment	**8**	**8**
Construction contracts	58	54
Allowance for impairment	(2)	(1)
Construction contracts, net of the allowance for inventory write-down	**57**	**53**
Total exposure, net of the allowance for impairment (*)	**12,526**	**11,611**

(*) Tax assets and equity investments are not included

The tables below show the exposure to credit risks by counterparty, in absolute terms and as a percentage, excluding cash and cash equivalents.

millions of Euros

	31.12.2017	31.12.2016
Public administration, Italian government and regions	8,685	7,660
Ordinary customers	856	937
Financial institutions	73	35
Other debtors	1,078	642
Total exposure, net of the allowance for impairment	**10,692**	**9,274**

	31.12.2017	31.12.2016
Public administration, Italian government and regions	81.2%	82.6%
Ordinary customers	8%	10.1%
Financial institutions	0.7%	0.4%
Other debtors	10.1%	6.9%
Total exposure, net of the allowance for impairment	**100%**	**100%**

A significant portion of trade receivables and loan assets relates to government and public authorities, such as the MEF and the regions.

The amount of financial assets whose recoverability is uncertain is negligible. However, an adequate allowance for impairment was accrued in this respect.

The table below gives a breakdown of financial assets and trade receivables at 31 December 2017 by overdue amounts, net of cash and cash equivalents.

millions of Euros

	31.12.2017					
		Overdue by				
	Not overdue	0-180	180-360	360-720	beyond 720 days	Total
Public administration, Italian government and regions (gross)	7,706	491	89	284	215	8,785
Allowance for impairment	(5)	(3)	(5)	(36)	(51)	(100)
Public administration, Italian government and regions (net)	**7,701**	**488**	**84**	**248**	**164**	**8,685**
Ordinary customers (gross)	556	204	66	189	295	1,310
Allowance for impairment	(28)	(17)	(22)	(117)	(270)	(454)
Ordinary customers (net)	**528**	**187**	**44**	**72**	**25**	**856**
Financial institutions	**73**					**73**
Other debtors (gross)	956	55	32	26	45	1,114
Allowance for impairment	(7)		(1)	(9)	(19)	(36)
Other debtors (net)	**949**	**55**	**31**	**17**	**26**	**1,078**
Total exposure, net of the allowance for impairment	**9,251**	**730**	**159**	**337**	**215**	**10,692**

millions of Euros

	31.12.2016					
		Overdue by				
	Not overdue	0-180	180-360	360-720	beyond 720 days	Total
Public administration, Italian government and regions (gross)	6,887	233	106	510	14	7,750
Allowance for impairment	(8)	(1)	(2)	(69)	(10)	(90)
Public administration, Italian government and regions (net)	**6,879**	**232**	**104**	**441**	**4**	**7,660**
Ordinary customers (gross)	608	281	31	193	291	1,404
Allowance for impairment	(42)	(21)	(5)	(129)	(270)	(467)
Ordinary customers (net)	**566**	**260**	**26**	**64**	**21**	**937**
Financial institutions	**34**			**1**		**35**
Other debtors (gross)	479	69	13	54	59	674
Allowance for impairment	1	(1)	(1)	(16)	(15)	(32)
Other debtors (net)	**480**	**68**	**12**	**38**	**44**	**642**
Total exposure, net of the allowance for impairment	**7,959**	**560**	**142**	**544**	**69**	**9,274**

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 2015 (€1,500,000 thousand) 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 2017 and 2016, including interest to be paid:

millions of Euros

31 December 2017	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	Beyond 5 years
Non-derivative financial liabilities							
Bonds	5,749	6,169	14	664	419	2,140	2,932
Bank loans and borrowings	4,368	4,721	1,207	339	796	1,503	876
Loans and borrowings from other financial backers	1,397	1,588	169	146	277	687	309
Financial liabilities	20	21	8	10	1	2	
Total non-derivative financial liabilities	**11,534**	**12,499**	**1,398**	**1,159**	**1,493**	**4,332**	**4,117**
Trade payables	**4,348**	**4,254**	**1,449**	**2,761**	**35**	**3**	**6**
Derivative financial liabilities	**57**	**71**	**17**	**14**	**13**	**21**	**6**

millions of Euros

31 December 2016	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	Beyond 5 years
Non-derivative financial liabilities							
Bonds	4,069	4,399	20	53	667	1,996	1,663
Bank loans and borrowings	6,076	6,495	2,320	438	631	1,922	1,184
Loans and borrowings from other financial backers	1,717	1,952	296	142	283	844	387
Financial liabilities	111	113	110		1	2	
Total non-derivative financial liabilities	**11,973**	**12,959**	**2,746**	**633**	**1,582**	**4,764**	**3,234**
Trade payables	**4,112**	**4,110**	**3,846**	**104**	**158**	**1**	**1**
Derivative financial liabilities	**91**	**96**	**23**	**17**	**26**	**23**	**7**

The contractual flows from variable-rate loans have been calculated using the forward rates estimated at the reporting date. The amounts include both principal and interest.
The following table shows the repayments of non-derivative financial liabilities and trade payables within one year, 1-5 years and beyond five years.

millions of Euros

31 December 2017	Carrying amount	Within one year	1-5 years	Beyond 5 years
Non-derivative financial liabilities				
Bonds	5,749	633	2,305	2,811
Bank loans and borrowings	4,368	1,492	2,119	757
Loans and borrowings from other financial backers	1,397	273	876	248
Financial liabilities	20	9	11	
Total non-derivative financial liabilities	**11,534**	**2,407**	**5,311**	**3,816**
Trade payables	**4,348**	**1,635**	**2,672**	**41**

millions of Euros

31 December 2016	Carrying amount	Within one year	1-5 years	Beyond 5 years
Non-derivative financial liabilities				
Bonds	4,069	36	2,449	1,584
Bank loans and borrowings	6,076	2,695	2,359	1,022
Loans and borrowings from other financial backers	1,717	386	1,016	315
Financial liabilities	111	110	1	
Total non-derivative financial liabilities	**11,973**	**3,227**	**5,825**	**2,921**
Trade payables	**4,112**	**3,912**	**199**	**1**

Amounts due within six months or less are mainly related to trade payables for HS/HC contracts and works which are mainly repaid through government grants. The residual part is repaid using cash flows from operations 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, FS Italiane group is exposed to several market risks, specifically interest rate risk and, to a lesser extent, currency risk. The objective of market risk management is to keep the group companies' exposure to these risks within acceptable levels, while optimising returns on investments. FS Italiane group uses hedging transactions to manage the volatility of the results.

Interest rate risk

The group is mainly exposed to interest rate risk relating to non-current loans indexed to variable rates. The group companies which are mainly exposed to this risk (including Trenitalia and RFI) decided to enter into hedging transactions based on specific risk management polices approved by the relevant boards of directors and implemented with the technical and operational support of the parent.

Despite the various customisations due to the financial and business characteristics of each company, the common objective of the applied policies is to limit cash flow fluctuations in financing transactions in place and, where possible, to exploit the cost of debt optimisation opportunities offered by the indexing of variable-rate debt.

In accordance with the above polices, the group only uses plain vanillas, such as interest rate swaps, interest rate collars and interest rate caps.

The table below shows variable and fixed rate loans and borrowings:

millions of Euros

	Carrying amount	Contractual cash flows	Current portion	1-2 years	2-5 years	beyond 5 years
Variable rate	5,854	5,990	1,726	931	1,735	1,598
Fixed rate	5,680	6,509	831	562	2,597	2,519
Balance at 31 December 2017	**11,534**	**12,499**	**2,557**	**1,493**	**4,332**	**4,117**
Variable rate	7,495	7,679	2,582	1,028	1,898	2,171
Fixed rate	4,479	5,280	797	555	2,866	1,063
Balance at 31 December 2016	**11,974**	**12,959**	**3,379**	**1,583**	**4,764**	**3,234**

The table below shows the impact of variable and fixed rate loans and borrowings, before and after hedging derivatives, which convert variable rates into fixed rates or which hedge against rises in variable rates beyond the maximum levels defined.

	31.12.2017	31.12.2016
Before hedging with derivatives		
Variable rate	51%	63%
Fixed rate	49%	37%
After hedging with derivatives		
Variable rate	39%	24%
Hedged variable rate	3%	13%
Fixed rate	58%	64%

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 2017:

millions of Euros

	Shift + 50 bps	*Shift - 50 bps*
Interest expense on variable-rate debt	167	(24)
Net cash flow from hedges	(13)	10
Total	**154**	**(14)**

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 2017.

millions of Euros

	Shift + 50 bps	*Shift - 50 bps*
Fair value of hedging derivatives	18	(13)
Total	**18**	**(13)**

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 S.p.A..

The group also has loans and borrowings in Swiss francs totalling CHF68.5 million.

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 (subsequently renamed Trenitalia c2c Ltd). 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.

Capital management

FS Italiane group's main objective with respect to capital risk management is to safeguard its ability to continue as a going concern, while ensuring returns for shareholders and benefits for the other stakeholders. FS Italiane group also intends to maintain an optimal capital structure in order to reduce the cost of debt.

Financial assets and financial liabilities by category

To complete financial risk information, the table below gives a reconciliation between financial assets and financial liabilities as reported in the consolidated statement of financial position and the categories of financial assets and financial liabilities identified pursuant to IFRS 7.

millions of Euros

31 December 2017	Loans and receivables	Loans and borrowings	of which: hedging derivatives
Non-current financial assets (including derivatives)	1,791		3
Non-current trade receivables	9		
Other non-current assets	1,124		
Construction contracts	57		
Current trade receivables	2,491		
Current financial assets (including derivatives)	637		
Cash and cash equivalents	1,834		
Tax assets	113		
Other current assets	4,583		
Non-current loans and borrowings		9,125	
Non-current financial liabilities (including derivatives)		44	41
Non-current trade payables		96	
Other non-current liabilities		160	
Current loans and borrowings and current portion of non-current loans and borrowings		2,389	
Current trade payables		4,252	
Tax liabilities		18	
Current financial liabilities (including derivatives)		33	16
Other current liabilities		5,363	

(*) VAT receivables and equity investments are not included

millions of Euros

31 December 2016	Loans and receivables	Loans and borrowings	of which: hedging derivatives
Non-current financial assets (including derivatives)	2,248		1
Non-current trade receivables	8		
Other non-current assets	1,001		
Construction contracts	53		
Current trade receivables	2,337		
Current financial assets (including derivatives)	630		
Cash and cash equivalents	2,337		
Tax assets	121		
Other current assets	2,997		
Non-current loans and borrowings		8,652	
Non-current financial liabilities (including derivatives)		83	81
Non-current trade payables		15	
Other non-current liabilities		142	
Current loans and borrowings and current portion of non-current loans and borrowings		3,210	
Current trade payables		4,097	
Tax liabilities		4	
Current financial liabilities (including derivatives)		119	10
Other current liabilities		4,885	

(*) VAT receivables and equity investments are not included

8. Property, plant and equipment

The opening and closing balances of property, plant and equipment and changes therein are shown in the table below. The assets' estimated useful lives did not change during the year.

millions of Euros

	Land, buildings, railway and port infrastructure	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Historical cost	87,449	19,082	858	1,075	24,165	132,629
Depreciation and impairment losses	(24,646)	(10,242)	(535)	(748)	(1,558)	(37,729)
Grants	(31,432)	(672)	(146)	(94)	(17,864)	(50,208)
Balance at 1.1.2016	**31,371**	**8,168**	**177**	**233**	**4,743**	**44,692**
Investments	56	71	8	4	5,529	5,668
Roll-outs	1,100	1,643	29	31	(2,803)	
Depreciation	(119)	(1,060)	(13)	(29)		(1,221)
Impairment losses		(13)			(10)	(23)
Non-recurring transactions	(145)	(52)		(1)		(198)
Change in consolidation scope		17				17
Exchange rate differences						
Disposals and divestments	(46)	(7)	(1)	(2)		(56)
Other changes						
Reclassifications from/to "Assets held for sale"						
Increases in grants	(897)	(33)	(26)	(17)	(3,314)	(4,287)
Other reclassifications	(9)	(14)		(2)	23	(2)
Total changes	**(60)**	**552**	**(3)**	**(16)**	**(575)**	**(102)**
Historical cost	88,440	20,628	888	1,090	26,898	137,944
Depreciation and impairment losses	(24,788)	(11,187)	(543)	(762)	(1,568)	(38,848)
Grants	(32,341)	(721)	(171)	(111)	(21,162)	(54,506)
Balance at 31.12.2016	**31,311**	**8,720**	**174**	**217**	**4,168**	**44,590**
Investments	3	92	6	25	5,194	5,320
Roll-outs	3,543	1,077	95	20	(4,735)	
Depreciation	(133)	(1,114)	(15)	(32)		(1,294)
Impairment losses		(64)			(4)	(68)
Change in consolidation scope (1)		59		17	8	84
Disposals and divestments (2)	(27)	(21)	(1)	(3)	(5)	(57)
Reclassifications from/to "Assets held for sale" (3)	(1)	(1)				(2)
Increases in grants	(3,158)	(115)	(82)	(9)	(936)	(4,300)
Other reclassifications (3)	195	(25)	2	(9)	13	176
Total changes	**422**	**(112)**	**5**	**9**	**(465)**	**(141)**
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)
Balance at 31.12.2017	**31,733**	**8,608**	**179**	**226**	**3,703**	**44,449**

Notes (1), (2) and (3) are broken down in the following table.

millions of Euros

	Land, buildings, railway and port infrastructure	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
1) Change in consolidation scope						
Historical cost		364		29	4	397
Depreciation		(57)		(13)	4	(66)
Impairment losses		(248)		1		(247)
Grants						
		59		**17**	**8**	**84**
2) Disposals and divestments						
Historical cost	(123)	(90)	(6)	(39)	(6)	(264)
Depreciation	41	62	4	34		141
Impairment losses	13	5	1		1	20
Grants	42	1		2		45
	(27)	**(21)**	**(1)**	**(3)**	**(5)**	**(57)**
3) Other reclassifications and transfers from / to "Assets held for sale"						
Historical cost	(24)	(1,462)	3	(45)	(78)	(1,606)
Depreciation	(10)	981	(1)	21		991
Impairment losses	261	456		9	7	732
Grants	(33)	(1)		6	85	57
	194	**(26)**	**2**	**(9)**	**13**	**174**

The increase in investments under "Assets under construction and payments on account" (€5,194 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 (€4,253 million);
- the costs incurred to purchase, recondition and redevelop rolling stock, specifically the continuation of the updating of the fleet for both the HS service, with the completion of the delivery of the new ETR1000 electric trains, and the regional transport service with the purchase of additional Vivalto trains, electric Jazz trains and new diesel Swing trains, as well as the purchase of the new "Rock" and "Pop" trains (€804 million);
- the capitalisation of internal and external costs mainly related to designs and works for the measures covered by the "Obiettivo law" (external works) at the Torino Porta Nuova station and for surveillance, in addition to extraordinary maintenance (€39 million);
- the capitalisation of the costs incurred for regular maintenance on cargo rolling stock, in addition to the advances related to the investments in the supply of the first lot of new locomotives to be delivered next year (€38 million).

The roll-outs of "Land, buildings, railway and port infrastructure" mainly refer to RFI S.p.A.'s railway infrastructures (€3,476 million), the main Italian stations (€29 million) and the industrial buildings for rolling stock (€31 million). The roll-outs of "Plant and machinery" principally relate to new locomotives and new buses (€1,055 million) and ancillary works for station complexes (€14 million).

The change in the consolidation scope refers to "Plant and machinery", "Other assets" and "Assets under construction and payments on account" and are due to the consolidation of Trenitalia c2c Ltd, Busitalia Simet S.p.A. and TrainOSE SA. These transactions have already been described in the "Change in consolidation scope and extraordinary transactions" paragraph.

At 31 December 2017, there are no mortgages or privileges on property, plant and equipment, except for part of Trenitalia S.p.A.'s rolling stock worth €2,158 million, which was pledged to Eurofima SA to secure non-current loans and borrowings agreed through the parent.

With respect to reclassifications, during the year, the group recalculated the cost components of the assets recognised under Plant and machinery to more correctly allocate their costs and accumulated depreciation and grants without changing the assets' carrying amounts.

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 €4,300 million, were paid.

- €30 million related to the advances for grants from the MEF for investments in HS/HC infrastructures;
- €3,342 million related to the advances for grants from the MEF and €203 million related to the advances for grants related to assets from the MIT and other bodies for infrastructural investments in the traditional network;
- €61 million related to work in progress concerning "complementary works for station complexes", approved as part of the strategic infrastructure programme (Law no. 443/2001 – the so-called "Obiettivo" law);
- €89 million related to the maintenance/renewal of the rolling stock for railway and road transport;
- other grants (€575 million) mainly refer to the European Union and local bodies.

Finally, contractual constraints, with an average term of 12 years, apply to the grants received in connection with the investments into the bus fleet for the operation of LPT services. The repayment obligation, in the event of early sale of the contributed asset, is replaced with the possibility of using the residual grant to purchase a new asset, of the same type and for the same use, replacing the previous asset.

9. Investment property

The following table shows the opening and closing balances of investment property at 31 December 2017 and 2016.

millions of Euros

	2017		2016	
	Land	**Buildings**	**Land**	**Buildings**
Balance at 1 January				
Cost	2,421	743	2,446	717
of which:				
Historical cost	2,422	797	2,447	768
Grants	(1)	(54)	(1)	(51)
Accumulated depreciation		(354)		(357)
Allowance for impairment	(1,141)	(104)	(1,136)	(92)
Carrying amount	**1,280**	**285**	**1,310**	**268**
Changes of the year				
Acquisitions/Increases	1	5		12
Roll-outs				
Reclassifications (1)	(51)	(93)	(24)	23
Grants				(3)
Depreciation and impairment losses	(5)	(4)	(5)	(5)
Disposals and divestments	(18)	(2)		
Change in consolidation scope			(1)	(10)
Total changes	**(73)**	**(94)**	**(30)**	**17**
Balance at 31 December				
Cost	2,268	670	2,421	743
of which:				
Historical cost	2,268	731	2,422	797
Grants		(61)	(1)	(54)
Accumulated depreciation		(412)		(354)
Allowance for impairment	(1,061)	(67)	(1,141)	(104)
Carrying amount	**1,207**	**191**	**1,280**	**285**
Reclassifications (1)				
Cost	(136)	(87)	(24)	28
Accumulated depreciation		(51)		8
Allowance for impairment	86	43		(13)
Grants	1	(2)		
Total	**(51)**	**(93)**	**(24)**	**23**

"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.

10. Intangible assets

millions of Euros

	Development expenditure	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Assets under development and payments on account	Other	Goodwill	Total
Historical cost	118	12	1,282	254	80	112	1,858
Amortisation and impairment losses	(91)	(11)	(755)	(3)	(60)		(919)
Grants	(5)		(200)	(20)			(226)
Balance at 1.1.2016	**22**	**1**	**327**	**231**	**20**	**112**	**713**
Investments		1	4	137	2		144
Roll-outs	3		64	(67)			
Amortisation	(1)	(1)	(65)		(11)		(78)
Disposals and divestments			(1)				(1)
Non-recurring transactions			1				1
Impairment losses				(5)			(5)
Change in consolidation scope					9		9
Increases in grants	(2)		(8)	(1)			(11)
Other reclassifications	1			(7)			(6)
Total changes	**1**		**(5)**	**57**			**53**
Historical cost	122	13	1,368	317	93	112	2,025
Amortisation and impairment losses	(92)	(12)	(838)	(8)	(73)		(1,023)
Grants	(7)		(208)	(21)			(236)
Balance at 31.12.2016	**23**	**1**	**322**	**288**	**20**	**112**	**766**
Investments		1	4	186	4		195
Roll-outs	8		89	(97)			
Amortisation	(1)	(1)	(69)		(8)		(79)
Disposals and divestments (1)							
Non-recurring transactions (2)			7			99	106
Increases in grants	(8)		(53)	61			
Other reclassifications (3)			1				1
Total changes	**(1)**		**(22)**	**150**	**(4)**	**99**	**222**
Historical cost	128	14	1,140	464	95	211	2,051
Amortisation and impairment losses	(93)	(13)	(579)	(7)	(79)		(771)
Grants	(13)		(261)	(19)			(293)
Balance at 31.12.2017	**22**	**1**	**300**	**438**	**16**	**211**	**988**

Notes (1), (2) and (3) are broken down in the following table

millions of Euros

	Development expenditure	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Assets under development and payments on account	Other	Goodwill	Total
1) Disposals and divestments							
Historical cost				(1)			(1)
Amortisation							
Impairment losses				1			1
Grants							
Total							
2. Extraordinary transactions							
Historical cost			9			99	108
Amortisation			(2)				(2)
Impairment losses							
Grants							
Total			**7**			**99**	**106**
3) Other reclassifications							
Historical cost	(2)		(331)	59			(274)
Amortisation			327				327
Impairment losses			5				5
Grants	2			(59)			(57)
Total			**1**				**1**

Investments in "Assets under development and payments on account" and roll-outs refer to the software development and implementation costs, measures to improve the efficiency of production processes, the increase in the efficiency and streamlining of sales channels for the group's business.

Goodwill recognised during the year totals €99 million and refers to Trenitalia c2c (€48 million), Qbuzz (€33 million), TrainOSE (€10 million), Busitalia Simet (€6 million) and Busitalia Campania (€2 million). For additional information on the acquisitions of the year, reference should be made to note 4.

With respect to reclassifications, during the year, the parent recalculated the cost components of the assets recognised under intangible assets to more correctly allocate their costs and accumulated amortisation and grants without changing the assets' carrying amounts.

Impairment test

In accordance with IAS 36 – Impairment of assets, impairment tests were performed on goodwill and non-current assets with an indefinite useful life or on other non-current assets where necessary (i.e., if there were trigger events).
Specifically, in 2017, the impairment test focused exclusively on the goodwill of Netinera Deutschland GmbH group, Mercitalia Logistics S.p.A., Ataf Gestioni S.r.l. and Busitalia - Sita Nord S.r.l. (the latter "inherited" the goodwill of Umbria Mobilità Esercizio S.r.l., which merged into Busitalia Sita Nord S.r.l., effective from 1 December 2015), Busitalia Simet, Busitalia Campania, Trenitalia c2c, TrainOSE and QBuzz, each of which is an independent CGU.

With respect to these CGUs (except for ATAF Gestioni S.r.l. and the newly acquired companies), the test was carried out using 2018 forecast figures and the amounts of the latest business plan prepared by their management.

Conversely, Ataf Gestioni S.r.l. used the economic forecasts and the changes in some statement of financial position items included in the updated financial plan underlying the tender procedure for the acquisition of ATAF Gestioni, for the 2017-2029 period (i.e., the expected term provided for in the tender). The plan period underlying the impairment test is based on the forecasts and the investments included in the long-term plan prepared, upon the company's acquisition, for the purposes of participating in the nine-year tender. Furthermore, the company carried out additional analyses and assessments about the possibility that the sale price to the potential operator – calculated in accordance with the recently completed tender procedure – be such to fully remunerate invested capital.

With respect to the above companies, the test was carried out by comparing net invested capital with the recoverable amount of each CGU, being the higher of a CGU's fair value and its value in use. The terminal value was estimated using the perpetual capitalisation of prospective cash flows in the last year of the explicit projection period, using growth rates similar to those included in the long-term forecasts of the inflation rate (1.0%-1.5%). The discount rate used is the weighted average cost of capital ("WACC") for each CGU.

The following table shows the main figures of the test:

CGU	Goodwill (millions of Euros)	Discount rate (WACC)	*Growth rate*
Netinera Deutschland	78	5.30%	1.00%
Mercitalia Logistics (formerly FS Logistica)	7	7.09%	1.50%
ATAF Gestioni	9	5.04%	
Busitalia - Umbria CGU	18	4.52%	

The impairment test related to the companies acquired during the year (Busitalia Simet, Busitalia Campania, Qbuzz, TrainOSE and Trenitalia c2c) was carried out based on the fair value less cost to sell, which coincides with the acquisition price paid, net of transaction costs.

No impairment losses were identified for the goodwill of FS Italiane group.

Furthermore, the sensitivity analysis applied to the discount and the growth rates showed no significant effects on the recognised balances.

11. Deferred tax assets and deferred tax liabilities

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2017 and changes of the year due to the main temporary differences between carrying amounts and the related tax amounts.

millions of Euros

	31.12.2016	Incr. (decr.) through profit or loss	Incr. (decr.) OCI	Other changes	31.12.2017
Deferred tax assets	183	(24)		(1)	158
Deferred tax liabilities	271	(4)		8	275

Deferred tax assets and liabilities relate to the misalignment between the carrying amount and the tax value of property, plant and equipment, investment property and inventories (specifically, buildings held for trading, with respect to revaluations not relevant for tax purposes).

Changes in deferred tax assets and liabilities include the new temporary differences and releases generated by group companies during the year and the effects of the expansion of the consolidation scope (shown in the “Other changes” column) as described in detail in note 4.

12. Equity-accounted investments

They include the carrying amount of investments in jointly controlled entities and associates.

The following table gives a breakdown of the carrying amount of equity investments at 31 December 2017, 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 31.12.2017	% of investment	Carrying amount at 31.12.2016	% of investment
Investments in jointly controlled entities				
Cisalpino SA	3.75	50.00	3.87	50.00
ODEG Ostdeutsche Eisenbahngesellschaft mbH	2.82	50.00	2.80	50.00
Trenord S.r.l.	40.67	50.00	39.30	50.00
TELT Sas (formerly LTF Sas)	95.05	50.00	95.05	50.00
Verkehrsbetriebe Osthannover GmbH*	3.01	57.45	2.09	57.45
Other**	8.48		9.77	
Investments in associates				
B.B.T. SE S.p.A.	111.68	50.00	107.41	50.00
Ferrovie Nord Milano S.p.A.	56.21	14.74	54.22	14.74
Metro 5 S.p.A.	35.00	36.70		
Quadrante Europa Terminal Gate S.p.A.	7.08	50.00	7.34	50.00
Other**	8.79		9.17	
Total	**373**		**331**	

* 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 jointly controlled entities include similar situations which are not broken down as they are not significant.

The following table gives a breakdown of equity investments, grouped by category, and changes therein:

millions of Euros

	Closing balance at 31.12.2016	Decrease due to dividends	Change in the consolidation scope	Income statement impact	Other	Closing balance at 31.12.2017
Investments in jointly controlled entities	153	(5)		9	(3)	154
Investments in associates	178	(2)	30	5	8	219
Total	**331**	**(7)**	**30**	**14**	**5**	**373**

The change in the consolidation scope refers to Ferrovie dello Stato Italiane's acquisition of 36.7% of Metro 5 S.p.A. on 9 June 2017 against a consideration of €64.6 million, which includes a contract for the transfer of receivables arising from the subordinated loans granted to Metro 5 S.p.A. by Astaldi of €34.3 million. The company'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). The closing of the transaction took place at the end of the necessary procedure and authorisation process, and after the green light given by the Antitrust Authority upon completion of the assessment of the terms underlying the overall transaction.

"Other" investments in associates refers to TFB S.p.A.'s subscription of BBT SE's share capital (€67 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 (€63 million). These amounts were recognised as an adjustment to the carrying amount of the investment. "Other" also includes changes in the "Hedging reserve", the "Actuarial reserve" and the exchange rate differences related to foreign operations.

With respect to investments in jointly controlled entities, TELT Sas carried out a €32 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 2017.

Investments in jointly controlled entities

The following financial information is provided about the most significant investments in jointly controlled entities. The following tables also include a reconciliation between the investment's summarised financial information and its consolidated carrying amount.

Cisalpino SA, whose business object is the preparation and management of high quality train offers connecting Italy and Switzerland and lines related to other networks, is no longer active.

Trenord S.r.l.'s business object is the operation of railway local public transport in Lombardy and the various areas defined in the relevant public service contracts.

millions of Euros

Trenord S.r.l.	**31.12.2017**	**31.12.2016**
% of investment	**50%**	**50%**
Cash and cash equivalents	62	75
Current financial assets		1
Other current assets	238	277
Non-current financial assets	2	
Other non-current assets	200	259
Current financial liabilities	(1)	(102)
Other current liabilities	(316)	(332)
Non-current financial liabilities	(1)	(5)
Other non-current liabilities	(91)	(88)
Equity	**93**	**85**
Equity attributable to the owners of the parent	**46**	**43**
Elimination of gain on business unit contribution	(9)	(9)
Other adjustments	4	5
Carrying amount of the equity investment	**41**	**39**
Revenue	804	766
Operating costs	(727)	(690)
Amortisation, depreciation and impairment losses	(60)	(57)
Provisions		
Operating profit	**17**	**19**
Financial income	3	1
Financial expense	(2)	(2)
Pre-tax profit	**18**	**18**
Net tax expense	(8)	(9)
Profit for the year	**10**	**9**
Other comprehensive income		
Comprehensive income	**10**	**9**
Portion of comprehensive income attributable to the owners of the parent	**5**	**5**
Dividends received	**2**	

ODEG Ostdeutsche Eisenbahngesellschaft mbH's business object is passenger transport by rail in Germany, specifically, regional transport in northern Germany.

millions of Euros

ODEG Ostdeutsche Eisenbahngesellschaft mbH	31.12.2017	31.12.2016
% of investment	**50%**	**50%**
Cash and cash equivalents	27	24
Current financial assets		
Other current assets	35	30
Non-current financial assets	4	4
Other non-current assets	3	4
Current financial liabilities		(12)
Other current liabilities	(37)	(30)
Non-current financial liabilities	(18)	(7)
Other non-current liabilities	(8)	(7)
Equity	**6**	**6**
Equity attributable to the owners of the parent	**3**	**3**
Carrying amount of the equity investment	**3**	**3**
Revenue	156	155
Operating costs	(146)	(146)
Amortisation, depreciation and impairment losses	(1)	(1)
Provisions	(1)	
Operating profit	**8**	**8**
Financial income	1	1
Financial expense	(1)	(1)
Pre-tax profit	**8**	**8**
Net tax expense	(3)	(4)
Profit for the year	**5**	**4**
Other comprehensive income		
Comprehensive income	**5**	**4**
Portion of comprehensive income attributable to the owners of the parent	**3**	**2**
Dividends received	**3**	

The business object of Tunnel Euralpin Lyon Turin Sas – TELT (formerly LTF - Lyon Turin Ferroviarie Sas) is the construction of the new Turin-Lyon railway line and the performance of studies, surveys and preliminary works in the Italian-French area of the international section.

millions of Euros

TELT Sas (formerly LTF Sas)	**31.12.2017**	**31.12.2016**
% of investment	**50%**	**50%**
Cash and cash equivalents	49	4
Current financial assets		
Other current assets	9	26
Non-current financial assets		
Other non-current assets	6	5
Current financial liabilities		
Other current liabilities	(63)	(34)
Non-current financial liabilities		
Other non-current liabilities		
Equity	**1**	**1**
Equity attributable to the owners of the parent		
Difference arising from the different accounting treatment of grants related to assets*	95	95
Carrying amount of the equity investment	**95**	**95**
Revenue	118	160
Operating costs	(117)	(160)
Amortisation, depreciation and impairment losses	(1)	
Profit for the year		
Comprehensive income		
Portion of comprehensive income attributable to the owners of the parent		
Dividends received		

* Reclassification of the government's grants disbursed until 2006 and related to assets in accordance with the group's accounting policies (as per IAS 20.27) through the former parent RFI S.p.A.. These grants will be used to finance the studies and preliminary works for the construction of the international section of the Turin-Lyon railway line. They are presented in equity in accordance with French GAAP.

Investments in associates

The following tables provide summarised financial information about the group's investments in associates which are deemed individually material. Furthermore, they include a reconciliation between the summarised financial information and the consolidated carrying amount of each investment.

B.B.T. SE focuses on the development and design of a railway tunnel under the Brenner mountain between Innsbruck and Fortezza.

millions of Euros

B.B.T. SE	**31.12.2017**	**31.12.2016**
% of investment	**50%**	**50%**
Cash and cash equivalents	92	99
Current financial assets		
Other current assets	104	286
Non-current financial assets	1,507	
Other non-current assets		1,108
Current financial liabilities		
Other current liabilities	(127)	(81)
Non-current financial liabilities	(518)	(471)
Other non-current liabilities		
Equity	**1,058**	**941**
Equity attributable to the owners of the parent	**529**	**471**
Effect of grants on consolidated carrying amount of equity investment*	(428)	(375)
Other adjustments	11	11
Carrying amount of the equity investment	**112**	**107**
Revenue	19	17
Operating costs	(18)	(16)
Amortisation, depreciation and impairment losses	(1)	(1)
Profit for the year		
Comprehensive income		
Portion of comprehensive income attributable to the owners of the parent		
Dividends received		

* Reclassification of the grant as a shareholder injection, offset against the equity investment's carrying amount in the consolidated financial statements

Ferrovie Nord Milano S.p.A. negotiates and manages investments in companies, including, but not limited to, companies operating in the transport and real estate sectors.

FNM S.p.A. is listed on Borsa Italiana's OTC market. At 30 December 2017, its price per share was €0.6740.

The following figures are taken from the consolidated financial statements of FNM group at 30 June 2017.

millions of Euros

Ferrovie Nord Milano group	**31.12.2017**	**31.12.2016**
% of investment	**14.74%**	**14.74%**
Cash and cash equivalents	76	71
Current financial assets	122	105
Other current assets	107	105
Non-current financial assets	9	10
Other non-current assets	515	437
Current financial liabilities	(17)	(25)
Other current liabilities	(286)	(191)
Non-current financial liabilities	(81)	(82)
Other non-current liabilities	(63)	(62)
Equity	**382**	**368**
Equity attributable to the owners of the parent	**56**	**54**
Carrying amount of the equity investment	**56**	**54**
Revenue	157	264
Operating costs	(131)	(216)
Amortisation, depreciation and impairment losses	(13)	(27)
Operating profit	**13**	**21**
Financial income	10	13
Financial expense		(2)
Pre-tax profit	**23**	**32**
Tax expense	(3)	(6)
Profit for the year	**20**	**26**
Other comprehensive income (expense)	1	(2)
Comprehensive income	**21**	**24**
Portion of comprehensive income attributable to the owners of the parent	**3**	**4**
Dividends received	**1**	**1**

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

Metro 5 S.p.A.	**31.12.2017**	**31.12.2016**
% of investment	**36.70%**	**0.00%**
Cash and cash equivalents	66	
Current financial assets	3	
Other current assets	101	
Non-current financial assets	628	
Other non-current assets	15	
Current financial liabilities	(12)	
Other current liabilities	(77)	
Non-current financial liabilities	(564)	
Other non-current liabilities	(78)	
Equity	**82**	
Equity attributable to the owners of the parent	**30**	
Goodwill	5	
Carrying amount of the equity investment	**35**	
Revenue	28	
Operating costs	(27)	
Amortisation, depreciation and impairment losses		
Provisions		
Operating profit	**1**	
Financial income	52	
Financial expense	(40)	
Pre-tax profit	**13**	
Tax expense	(5)	
Profit for the year	**8**	
Other comprehensive income	8	
Comprehensive income	**1**	
Portion of comprehensive income attributable to the owners of the parent		
Dividends received		

13. Financial assets (including derivatives)

The following table gives a breakdown of financial assets at the 2017 and 2016 year ends:

millions of Euros

	Carrying amount								
	31.12.2017			31.12.2016			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Hedging derivatives	3		3	1		1	2		2
Other equity investments	72		72	78		78	(6)		(6)
Securities and loans	46	24	70	10	24	34	36		36
Receivables from the MEF for the fifteen-year grants to be collected	1,623	580	2,203	2,122	573	2,695	(499)	7	(492)
Loan assets	119	28	147	115	29	144	4	(1)	3
Other loan assets		5	5		4	4		1	1
Total	**1,863**	**637**	**2,500**	**2,326**	**630**	**2,956**	**(463)**	**7**	**(456)**

The decrease in this caption is mainly due to the reduction in "Receivables from the MEF for the fifteen-year grants to be collected" partly offset by the increase in "Loan assets".

"Receivables from the MEF for the fifteen-year grants to be collected", of €2,203 million, can be analysed as follows:

- €662 million related to the fifteen-year grants pursuant to article 1.84 of the 2006 Finance Act for the implementation of railway investments. They are recognised against the amounts to be used for the loan agreement entered into by the parent with Cassa Depositi e Prestiti and authorised by the MEF's specific decree;
- €1,541 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 €492 million decrease in the receivables from the MEF is mainly due to:

- the decrease (€173 million) in the grants related to the 2006 Finance Act which is attributable to the reduction in the corresponding financial liability with Cassa Depositi e Prestiti (traditional network and HS/HC network) due to the combined effect of the interest accrued in 2017 (€31 million) on the loan and the collection of the annual grant pertaining to 2017 (€204 million);
- the net decrease (€319 million) in the grants related to the 2007 Finance Act, due to the combined effect of the interest accrued in 2017 (€81 million) on the loan and the collection of the annual grant pertaining to 2017 (€400 million).

The increase in "Securities and loans" is due to Ferrovie dello Stato Italiane S.p.A.'s signing of the contract for the transfer of receivables covering the receivables generated by the subordinated loans granted to Metro 5 S.p.A. by its former shareholder Astaldi (€34 million), as part of Ferrovie dello Stato Italiane S.p.A.'s acquisition of 36.7% of Metro 5 S.p.A. from Astaldi.

14. Other non-current and current assets

They can be analysed as follows:

millions of Euros

	31.12.2017			31.12.2016			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other receivables from group companies		20	20		19	19		1	1
VAT receivables	183	623	806	994	390	1,384	(811)	233	(578)
MEF and MIT	1,031	3,758	4,789	967	2,629	3,596	64	1,129	1,193
Grants related to assets from the EU, other Ministries and other		149	149		83	83		66	66
Other government authorities		69	69		44	44		25	25
Sundry receivables and prepayments and accrued income	100	668	768	36	269	305	64	399	463
Total	**1,314**	**5,287**	**6,601**	**1,997**	**3,434**	**5,431**	**(683)**	**1,853**	**1,170**
Allowance for impairment	(7)	(56)	(63)	(2)	(42)	(44)	(5)	(14)	(19)
Total net of the allowance for impairment	**1,307**	**5,231**	**6,538**	**1,995**	**3,392**	**5,387**	**(688)**	**1,839**	**1,151**

"VAT receivables" decreased by €578 million, mainly due to the difference generated by the tax authorities' reimbursement of the 2014, 2015 and 2106 VAT claimed for reimbursement by the companies participating in the group VAT scheme (€800 million) and the recognition of the VAT credit for the year.

The receivables from the MEF and the MIT of €4,789 million, are almost entirely related to:

- grants earmarked for FS S.p.A. (€682 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 (€107 million);
- grants for RFI S.p.A. (€3,927 million).

The table below shows the relevant figures:

millions of Euros

Grants to FS Italiane group	Carrying amount at 31.12.2016	Increase	Decreases	Carrying amount at 31.12.2017
Grants related to income:				
- Due from the MEF and MIT	51	1,067	(1,118)	
Grants related to assets:				
due from the MEF	1,689	3,510	(2,396)	2,803
due from the MIT	1,786	712	(582)	1,916
Total grants	**3,475**	**4,222**	**(2,978)**	**4,719**
Capital injections:				
due from the MIT	70			70
Total grants to FS Italiane group	**3,596**	**5,289**	**(4,096)**	**4,789**

Grants related to income

The following were recognised in 2017:

- receivables from the MEF for grants related to income under the Government Programme Contract of €976 million, equal to that set by Law no. 232 of 11 December 2016, the "2016 Stability Act". All receivables were collected in the year;
- receivables from the MIT for the 2017 cargo grants of €91 million. All receivables were collected in the year. Furthermore, during the year, €51 million was collected in respect of the grants as per "2015 Stability Act" for the eco bonus to railway transport companies for 2015 which were recognised in 2016.

Grants related to income

The following were recognised in 2017:

- receivables from the MEF, mainly related to the Government Programme Contract of €3,510 million. These amounts refer to investments and extraordinary maintenance for the development and upgrade of railway infrastructure, as established by the 2017 Stability Act and refinanced by the 2015 and 2016 Stability Acts;
- receivables from the MIT for grants related to assets of €712 million. Specifically, in accordance with Law no. 96/2017, receivables of €107 million were recognised in relation to the "Grandi Stazioni" scheme which allocates funds to the infrastructures of railway station buildings. Furthermore, the group recognised funds of €103 million for the completion of the Turin-Lyon HS/HC line , as well as the 2016 cargo grants of €49 million (rescheduled to the advantage of the railway infrastructure operator pursuant to Decree law no. 50/2017) and additional funds of €453 million from the MIT to strengthen, improve and upgrade safety standards of the railway network.

With respect to the MIT's capital injections, the receivable which ensures the business continuity of Ferrovie del Sud Est and Services Automobilistici – FSE S.r.l., equal to €70 million, is unchanged in 2017.

During the year, €4,096 million was collected in total.

The receivables for grants related to assets recognised as amounts due from the MEF and the MIT as per the Government Programme Contract mostly refer to work not yet performed. Accordingly, they have a balancing entry in liabilities under payments on account.

Finally, the €25 million increase in "Grants related to assets from the EU, other Ministries and other" is mainly due to the residual receivable from the Liguria region and the Bolzano PAs in respect of the grants for the purchase of rolling stock and the Autostrada Ferroviaria Alpina project, as well as the consolidation of Qbuzz BV (€10 million).

"Sundry receivables and prepayments and accrued income" increased by €463 million on 31 December 2016, mainly as a consequence of the €289 million increase in receivables for grants from the CCSE (the electricity sector equalisation fund) as per Law no. 167 of 20 November 2017, and greater advances to electricity providers (+€15 million) and ordinary suppliers. Finally, the change includes the companies which joined the consolidation scope (+€72 million).

The following table gives a breakdown of other non-current and current assets by geographical segment:

millions of Euros

	31.12.2017	31.12.2016	Changes
Italy	6,454	5,376	1,078
Eurozone countries	122	49	73
United Kingdom	7		7
Other European countries (EU, non-Euro)		2	(2)
Other non-EU European countries	12	2	10
United States			
Other countries	6	2	4
Total	**6,601**	**5,431**	**1,170**

15. Inventories and construction contracts

This caption can be analysed as follows:

millions of Euros

	31.12.2017	31.12.2016	Changes
Raw materials, consumables and supplies	1,477	1,343	134
Allowance for inventory write-down	(181)	(180)	(1)
Carrying amount	**1,296**	**1,163**	**133**
Work in progress and semi-finished products	3	3	
Allowance for inventory write-down			
Carrying amount	**3**	**3**	
Derecognised assets to be disposed of	18	23	(5)
Allowance for inventory write-down	(13)	(12)	(1)
Carrying amount	**5**	**11**	**(6)**
Buildings and land held for trading	1,080	1,177	(97)
Allowance for inventory write-down	(282)	(301)	19
Carrying amount	**798**	**876**	**(78)**
Total inventories	**2,102**	**2,053**	**49**
Construction contracts	58	54	4
Allowance for inventory write-down	(1)	(1)	
Carrying amount	**57**	**53**	**4**
Total construction contracts	**57**	**53**	**4**

Raw materials, consumables and supplies comprise the inventories necessary to meet the demand for materials to be used in investments, superstructure material, electrical systems, navigation equipment and maintenance materials. The €133 million increase is mainly due to the combined effect of higher purchase volumes, and the related consumption, of infrastructure materials (€52 million), the greater production output of Officine Nazionali (Bari, Pontassieve and Bologna) for the production of frogs, switches, glued insulation joints and electrical equipment (€95 million), offset in part by the launch of purchasing efficiency and spare parts disposal plans (€22 million). The allowance for inventory write-down is substantially unchanged.

The balance of derecognised assets to be disposed of, which reflect the reclassification of the corresponding asset captions related to goods which are no longer recoverable, decreased by €6 million on 31 December 2016 and shows the estimated realisable value of the reclassified assets.

Buildings and land held for trading refer to the properties held by the group which will be sold. The €78 million decrease is essentially due to Ferrovie dello Stato Italiane S.p.A.'s partial demerger to Rete Ferroviaria Italiana S.p.A. (€62 million), as a consequence of the new business requirements and to comply with the provisions of Law no. 128/2017. At group level, this transaction led to the reclassification of the assets classified under "Buildings and land held for trading" to "Property, plant and equipment", as the properties are again eligible for classification as core.

Construction contracts reflect the gross amount due from customers for contract work in progress whose costs incurred plus recognised profit margins (less recognised losses) exceed the invoicing of work progress. They amount to €57 million, an increase of €4 million on the previous year end due to the progress of the work performed on third party contracts.

16. Non-current and current trade receivables

millions of Euros

	31.12.2017			31.12.2016			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Ordinary customers	6	1,245	1,251	6	1,345	1,351		(100)	(100)
Government authorities and other public authorities	3	197	200	2	218	220	1	(21)	(20)
Foreign railways		16	16		18	18		(2)	(2)
Railways under concession		15	15		23	23		(8)	(8)
Agencies and other transport companies		29	29		25	25		4	4
Receivables for public service contracts:									
- regions		867	867		794	794		73	73
- government		508	508		289	289		219	219
Receivables from group companies		134	134		136	136		(2)	(2)
Total	**9**	**3,011**	**3,020**	**8**	**2,848**	**2,856**	**1**	**163**	**164**
Allowance for impairment		(520)	(520)		(511)	(511)		(9)	(9)
Total net of the allowance for impairment	**9**	**2,491**	**2,500**	**8**	**2,337**	**2,345**	**1**	**154**	**155**

The €164 million increase in trade receivables, gross of the allowance for impairment, is mainly due to:

- a €100 million decrease in receivables from “Ordinary customers”, mostly due to the larger payables for credit notes to be issued related to the effects of Law no. 167/2017 (+€28 million), lower receivables due from the Rete and Basictel customers (-€10 million), following the completion of the engagements taken on from them, and lower receivables due from the Saudi Public Investment Fund and the Oman railways (-€12 million). Finally, the decrease is also attributable to the improved trend in collections and the €31 million reduction related to factoring transactions;
- an increase in “Receivables for public service contracts - regions” (+€73 million) and receivables from the MEF (+€219 million) due to the fees accrued during the year, yet to be collected; and
- the €20 million decrease in receivables from the government and other public authorities.

The allowance for impairment increased by €9 million as a consequence of the greater accruals of the year hedging the receivables for travel irregularities and those from public authorities whose recoverability is uncertain, partly offset by the utilisations of the year.

The following table gives a breakdown of non-current and current trade receivables by geographical segment:

millions of Euros

	31.12.2017	31.12.2016	Changes
Italy	2,844	2,688	156
Eurozone countries	118	118	
United Kingdom	8	1	7
Other European countries (EU, non-Euro)	4	11	(7)
Other non-EU European countries	36	19	17
Other countries	10	19	(9)
Total	**3,020**	**2,856**	**164**

17. Cash and cash equivalents

They can be analysed as follows:

millions of Euros

	31.12.2017	31.12.2016	Changes
Bank and postal accounts	565	1,060	(495)
Cash and cash on hand	48	38	10
Cash pooling accounts	1,221	1,239	(18)
Total	**1,834**	**2,337**	**(503)**

The decrease in this caption mainly refers to:

- "Bank and postal accounts", due to the payments related to the acquisitions of the year (residual investment in Centostazioni S.p.A., Metro 5 S.p.A., TrainOSE SA and Nugo S.p.A., totalling €176 million), as described in detail in the "Change in consolidation scope and extraordinary transactions" section, the payment of dividends to the MEF (€300 million) and group companies' financial needs;
- "Cash pooling accounts", which hold the payments made by the MEF for the Government Programme Contract and other EU grants.

For a breakdown of the changes in the balance, reference should be made to the statement of cash flows.

18. Tax assets

Tax assets of €113 million at 31 December 2017 decreased by €8 million on the previous year end (€121 million). They refer to prior year income tax receivables.

19. Equity attributable to the owners of the parent

Changes in the main equity captions in 2017 and 2016 are shown in the statement of changes in equity.

Share capital

At 31 December 2017, the parent's share capital, fully subscribed and paid up by the sole shareholder, the MEF, was made up of 36,340,432,802 ordinary shares, with a par value of €1 each, for a total of €36,340 thousand.

Legal reserve

The legal reserve, of €39 million, rose to the extent related to the profit of the parent allocated to this caption.

Extraordinary reserve

The extraordinary reserve, which was set up in the first half of the year with the parent allocating part of its profit to it (€50 million), has a nil balance following the partial demerger to Rete Ferroviaria Italiana S.p.A. which was carried out on 20 December 2017 pursuant to article 2506 of the Italian Civil Code, effective from 31 December 2017, by allocating part of the parent's equity, without consideration, based on the financial positions as at 30 June 2017. For additional information on the demerger, reference should be made to note 5 "Extraordinary transactions" in the separate financial statements.

Translation reserve

This reserve includes all exchange rate differences arising from the translation of the financial statements of foreign operations. It amounts to €3 million and is unchanged compared to 31 December 2016.

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 2017, this reserve was negative by €105 thousand (negative by €162 million at 31 December 2016) essentially due to the fair value measurement of hedging instruments at the reporting date (increase of €38 million) and the release of the portion of the year following the above-mentioned early termination of contracts (increase of €19 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 €362 million at the reporting date (31 December 2016: negative by €350 million).

Retained earnings

Net retained earnings of €1,923 million are mainly due to the retained earnings and losses carried forward of consolidated companies and prior year consolidation adjustments, as well as the effects of the acquisition of 100% of Centostazioni S.p.A. and the above-mentioned partial demerger of the parent's assets to Rete Ferroviaria Italiana S.p.A..

Finally, the decrease in the caption reflects the dividend distributed and paid to the shareholder on 7 July 2017 (€300 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.

20. Equity attributable to non-controlling interests

The following table shows the financial highlights of each subsidiary with significant non-controlling interests for the group, gross of intragroup eliminations. Consequently, these figures match the information provided by these companies in their financial statements. These figures reflect the consolidated financial statements of Netinera Deutschland group, gross of the intragroup eliminations.

millions of Euros

	Grandi Stazioni Immobiliare S.p.A.	Busitalia Simet S.p.A.	Ataf Gestioni S.r.l.	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
Balances at 31.12.2017									
Non-controlling interests (%)	40%	49%	30%	46.72%	12.07%	49%			
Current assets	6	3	36	93	28	214			
Non-current assets	61	13	38	69	540	680			
Current liabilities	(10)	(4)	(30)	(101)		(223)			
Non-current liabilities	(18)	(7)	(34)	(17)		(408)			
Net assets	39	5	10	44	568	263			
Net assets pertaining to non-controlling interests	**16**	**2**	**3**	**21**	**68**	**129**	**8**	**3**	**250**
Revenue	6	12	85	200		620			
Profit (loss) for the year		(1)	2	(3)		14			
Other comprehensive income									
Comprehensive income (expense)		(1)	2	(3)		14			
Profit (loss) attributable to non-controlling interests			**1**	**(1)**		**9**	**1**		**10**
Other comprehensive income attributable to non-controlling interests									
Net cash flows generated by operating activities	3	2	5	8		64			
Net cash flows used in investing activities				(8)	(70)	(9)			
Net cash flows generated by (used in) financing activities	(3)	(2)	(5)	(2)	67	(27)			
Total net cash flows for the year				(2)	(3)	28			
Dividends paid to non-controlling interests						(9)			

millions of Euros

	Grandi Stazioni Immobiliare S.p.A.	Centostazioni S.p.A.	Ataf Gestioni S.r.l.	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
Balances at 31.12.2016									
Non-controlling interests (%)	40%	40%	30%	46.72%	12.84%	49%			
Current assets	6	32	38	90	31	170			
Non-current assets	63	50	43	72	470	723			
Current liabilities	(7)	(39)	(33)	(94)		(202)			
Non-current liabilities	(22)	(6)	(40)	(21)		(428)			
Net assets	40	37	8	47	501	263			
Net assets pertaining to non-controlling interests	**16**	**15**	**2**	**22**	**64**	**129**	**7**	**2**	**257**
Revenue	3	76	83	201		603			
Profit for the year		8	1			6			
Other comprehensive income									
Comprehensive income		8	1			6			
Profit attributable to non-controlling interests		**3**				**4**	**7**		**14**
Other comprehensive income attributable to non-controlling interests									
Net cash flows generated by operating activities	1	25	8	12		50			
Net cash flows generated by (used in) investing activities		(2)	2	(14)	(150)	(15)			
Net cash flows generated by (used in) financing activities	7	(17)	(8)	3	108	(26)			
Total net cash flows for the year	8	6	2	1	(42)	9			
Dividends paid to non-controlling interests		(4)				(7)			

Net assets pertaining to non-controlling interests of €250 million decreased by €7 million on 31 December 2016 following the €15 million decrease due to the above-mentioned transaction which involved Centostazioni S.p.A. and which resulted the acquisition of full control over the company, the €2 million acquisition of Busitalia Simet S.p.A. and the €4 million increase due to the combined effect of the decrease in the percentage of net assets pertaining to non-controlling interests of Tunnel Ferroviario del Brennero S.p.A. and the increase in its share capital.

21. Non-current and current loans and borrowings

This caption amounts to €11,514 million and can be analysed as follows:

millions of Euros

Non-current loans and borrowings, net of the current portion	Carrying amount 31.12.2017	31.12.2016	Changes
Bonds	5,113	4,031	1,082
Bank loans and borrowings	2,874	3,276	(402)
Loans and borrowings from other financial backers	1,138	1,345	(207)
Total	**9,125**	**8,652**	**473**

millions of Euros

Current loans and borrowings and current portion of non-current loans and borrowings	Carrying amount 31.12.2017	31.12.2016	Changes
Bonds (current portion)	636	38	598
Bank loans and borrowings (current portion)	1,494	2,800	(1,306)
Loans and borrowings from other financial backers (current portion)	259	372	(113)
Total	**2,389**	**3,210**	**(821)**
Total loans and borrowings	**11,514**	**11,862**	**(348)**

"Bonds" comprise:

- seventeen bonds issued by the parent and fully subscribed by the Swiss investee, Eurofima SA (private placement). The aim of these bonds is to finance the investments for the plan to renew and upgrade rolling stock. Repayment will take place in one instalment at the maturity date. Coupons accrue every six months at the variable interest rate for sixteen bonds and at a fixed annual rate for the remaining bond. They are not listed on "official markets", domestic or foreign stock exchanges, cannot be traded and will be maintained in Eurofima's financial statements as the sole holder;
- eight tranches, for a total of €3,750 million, of the bonds related to the Euro Medium Term Notes Programme placed by FS S.p.A. on the Dublin Stock Exchange in 2013, 2014, 2015, 2016 and 2017. 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 1.50%, 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 and the eighth tranche, with a nominal amount of €100 million and a variable rate, matures on 19 December 2025.

The bonds (both current and non-current portions) increased by €1,680 million during the year essentially as a result of three new tranches for €1,700 million, partly offset by the repayment of the Eurofima bonds of €22 million.

Bank loans and borrowings (both current and non-current portions) decreased during the year by €1,708 million mainly due to the approximate €1,096 million decrease in short-term funding and €617 million in repayments of loans, provided by the EIB and Intesa Sanpaolo to finance the purchase of new rolling stock for the medium and long haul services and regional transport.

Loans and borrowings from other financial backers (both current and non-current portions) decreased by €320 million mainly as a consequence of the €196 million repayment of the loans and borrowings from Cassa Depositi e Prestiti for the railway infrastructure (traditional network and high speed), covered by the fifteen-year grants received in 2017. The other changes refer to smaller loans from funding transactions agreed to hedge factoring transactions and smaller loans and borrowings related to the leases of Netinera Deutschland group and the new companies which jointed the consolidation scope.

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 2016:

millions of Euros

Net financial debt	31.12.2017	31.12.2016	Change
Current net financial position	**(65)**	**353**	**(418)**
Cash pooling accounts	(1,221)	(1,239)	18
Receivables from the MEF for the fifteen-year grants to be collected	(580)	(573)	(7)
Loans and borrowings from other financial backers	259	372	(113)
Bank loans and borrowings	1,494	2,800	(1,306)
Bonds	636	38	598
Other financial liabilities	17	109	(92)
Other	(670)	(1,154)	484
Net non-current financial position (debt)	**7,338**	**6,407**	**931**
Receivables from the MEF for the fifteen-year grants to be collected	(1,623)	(2,122)	499
Loans and borrowings from other financial backers	1,138	1,345	(207)
Bank loans and borrowings	2,874	3,276	(402)
Bonds	5,113	4,031	1,082
Other	(164)	(123)	(41)
Total	**7,273**	**6,760**	**513**

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

	2016	Monetary items (statement of cash flows)	Non-monetary items				2017
			Change in consolidation scope	New leases	Hedging reserve	Other	
Disbursement and repayment of current and non-current loans	11,862	(424)	60	14		2	11,514
Change in other financial assets	2,956	456					2,500
Change in other financial liabilities	202	(72)			(53)		77
Total	**15,020**	**(40)**	**60**	**14**	**(53)**	**2**	**14,091**

22. Post-employment benefits and other employee benefits

millions of Euros

	2017	2016
Present value of post-employment benefit obligations	1,584	1,738
Present value of Free Travel Card obligations	49	47
Total present value of obligations	**1,633**	**1,785**

Changes in the present value of liabilities for defined benefit obligations are shown in the table below.

millions of Euros

	2017	2016
Defined benefit obligations at 1 January	1,785	1,799
Service costs	4	1
Interest cost (*)	18	18
Actuarial losses recognised in equity	13	30
Advances, utilisations and other changes	(187)	(68)
Total defined benefit obligations	**1,633**	**1,785**

(*) through profit or loss

Actuarial assumptions

The main assumptions for the actuarial estimate process are described below:

	2017	2016
Discount rate (post-employment benefits)	0.71%	1.25%
Discount rate (Free Travel Card)	1.30%	1.31%
Annual increase rate of post-employment benefits	2.63%	2.63%
Inflation rate (post-employment benefits)	1.50%	1.50%
Inflation rate (Free Travel Card)	1.50%	1.50%
Expected turnover rate for employees - post-employment benefits	3.42%	2.15%
Expected turnover rate for employees - Free Travel Card	3.17%	3.59%
Expected rate of advances	1.95%	1.96%
Death probability	RG48 mortality rate published by the General Accounting Office	
Disability	INPS tables broken down by gender and age	
Retirement age	100% upon meeting the Compulsory general insurance requirements	

The following sensitivity analysis shows the effects that would have been recorded in terms of changes in the present value of liabilities for defined benefit obligations, following reasonably possible changes in actuarial assumptions.
The last table shows the average duration of the defined benefit obligations and the disbursements provided by the plan.

millions of Euros

	Post-employment benefits	Free Travel Card	Other employee benefits
Inflation rate +0.25%	1,626	52	2.00
Inflation rate -0.25%	1,595	45	2
Discount rate +0.25%	1,586	47	2
Discount rate -0.25%	1,636	49	2
Turnover rate +1%	1,603		2
Turnover rate -1%	1,618		2
Plan duration	7	17	33
Payment - first year	207	3	0.2
Payment - second year	87	3	0.2
Payment - third year	172	3	0.2
Payment - fourth year	157	3	0.2
Payment - fifth year	191	3	0.2

23. Provisions for risks and charges

The opening and the closing balances of, and changes in, the provisions for risks and charges for 2017 are given below, indicating the current and non-current portions.

millions of Euros

Provisions for risks and charges	31.12.2016	Accruals	Utilisations and other changes	Release of excess provisions	31.12.2017
Provision for taxation	31	15	(16)	(9)	21
Other provisions	937	147	(148)	(13)	923
Total non-current portion	**968**	**162**	**(164)**	**(22)**	**944**

millions of Euros

Current portion of provisions for risks and charges	31.12.2016	Accruals	Utilisations and other changes	31.12.2017
Other provisions	44	9	(3)	50
Total current portion	**44**	**9**	**(3)**	**50**

The provision for taxation includes probable future tax charges. It decreased by a net €10 million due to the overall effect of the new assessment notices and payment orders for tax on buildings and registration tax received during the year and the settlement of tax notices.

"Other provisions" are broken down below.

The Bilateral fund for income assistance, set up for proactive income and employment assistance, amounts to €98 million. €52 million was used during the year for the projects launched during the year and €63 million was accrued for the extraordinary benefits to be paid in future years.

The provision for termination benefits amounts to €26 million. It was increased by accruals of approximately €7 million and decreased by utilisations of €15 million during the year, to cover costs incurred for the change management processes and the group's production structure rationalisation.

The provision for litigation with employees, which covers the probable charges arising from pending disputes and cases brought before the competent courts in respect of economic and career claims and compensation for occupational illness, amounts to €91 million. During the year, a total of €15 million was accrued. The provision was used by a total of €31 million to cover the social security contribution charges and costs related to disputes with personnel.

The provisions for litigation with third parties of €337 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 €26 million was accrued, with several income statement captions as balancing entries. Approximately €57 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. Approximately €2 million was released through profit or loss to reflect the smaller needs related to some pending disputes. During the year, the provisions were increased by €6 million following the above-mentioned consolidation of TrainOSE and Qbuzz.

The provision accrued to cover the charges related to the reclamation of polluted sites and the enhancement of works to be sold amounting to €51 million is unchanged compared to the previous year-end balance.

"Other provisions" of approximately €380 million include accruals for maintenance, workshop expense, expense related to buildings held for trading and disputes with agents. During the year, the group accrued €45 million for probable future risks and charges. It also released €10 million to profit or loss due to smaller-than-expected requirements for pending contractual disputes and used €17 million essentially to cover charges related to contractual obligations.

24. Non-current and current financial liabilities (including derivatives)

millions of Euros

	Carrying amount								
	31.12.2017			31.12.2016			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Hedging derivatives	41	16	57	81	10	91	(40)	6	(34)
Other financial liabilities	3	17	20	2	109	111	1	(92)	(91)
Total	**44**	**33**	**77**	**83**	**119**	**202**	**(39)**	**(86)**	**(125)**

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 be protected from the fluctuactions of the interest rates on non-current loans at variable rates.

The €34 million decrease is chiefly due to fair value losses thereon.

Other financial liabilities decreased by €91 million, mostly in conjunction with the factoring transactions whereby current bank loans and borrowings decrease in line with collections and the reduction in current trade receivables.

Fair value measurement

The hedging derivatives included in the group's portfolio are OTC and fall under Level 2 of the fair value hierarchy laid down in IFRS 7.

Financial instruments have been measured at fair value using financial models based on market standards. Specifically, this entailed:

- determining the net present value of future flows for swaps;
- calculating 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, Eur interest rate volatility curve and the credit default swap (CDS) curve of the parties to the derivative contract, which reflect the input widely accepted by market operators to calculate non-performance risk. This risk is calculated using adequate financial valuation techniques and models which include, inter alia, the following factors i) the risk exposure, being the potential mark-to-market exposure throughout the life of the financial instrument, ii) adequate CDS curves to reflect their probabilities of default (PD).

25. Other non-current and current liabilities

They can be analysed as follows:

millions of Euros

	31.12.2017			31.12.2016			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Advances for grants		3,965	3,965		3,410	3,410		555	555
Advances to customers					1	1		(1)	(1)
Social security charges payable	42	283	325	48	319	367	(6)	(36)	(42)
VAT liabilities		8	8		17	17		(9)	(9)
Other liabilities with group companies		6	6		4	4		2	2
Other liabilities and accrued expenses and deferred income	118	1,101	1,219	94	1,134	1,228	24	(33)	(9)
Total	**160**	**5,363**	**5,523**	**142**	**4,885**	**5,027**	**18**	**478**	**496**

"Advances for grants" are mainly related to:

- additional accruals for FS S.p.A. in connection with the Tunnel Euralpin Lyon Turin Sas – TELT Sas (formerly Lyon Turin Ferroviarie Sas – LTF Sas) project, as already described in the note to "Other non-current and current assets" to which reference should be made;
- the accruals mainly recognised by RFI S.p.A. against the grants related to assets from the government (MEF and MIT), the EU and other, for infrastructural investments.

The table below shows the changes in advances for grants related to the FS Italiane group:

millions of Euros

	31.12.2016	Increase	Decreases	Other changes	31.12.2017
Advances for grants:					
- MEF	1,351	3,660	(3,597)		1,414
- MIT	1,585	702	(235)	(9)	2,043
- European Regional Development Fund	89	388	(432)		45
- Trans-European Network	155	64	(5)	(18)	196
- Other	229	151	(122)	9	267
Total	**3,410**	**4,965**	**(4,391)**	**(18)**	**3,965**

The increases in advances for grants from the MEF and the MIT include the new receivables related to the grants allocated during the year, as described in the notes to "Other non-current and current assets" and "Financial assets".

The decrease in advances refer to the recognition of grants under "Property, plant and equipment", "Intangible assets" and "Equity investments", to which reference should be made for additional information. Furthermore, €98 million refers to grants recognised in profit or loss to cover financial expense.

"Other changes" refer to the repayment of the financial grants related to Trans-European Network (TEN-T) networks (€18 million) and the reclassification from the MIT to Other public administrations (€9 million).

26. Non-current and current trade payables

They can be analysed as follows:

millions of Euros

	31.12.2017			31.12.2016			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Suppliers	91	4,109	4,200	14	3,985	3,999	77	124	201
Payments on account	5	83	88	1	65	66	4	18	22
Group companies		44	44		33	33		11	11
Payables for construction contracts		16	16		14	14		2	2
Total	**96**	**4,252**	**4,348**	**15**	**4,097**	**4,112**	**81**	**155**	**236**

The €201 million increase is essentially due to payables to suppliers and is the result of the greater investments made in the last few months of 2017 and the partially offsetting impact of the split payment mechanism applied by group companies starting from July 2017. Furthermore, the acquisitions of the year generated greater payables amounting to €80 million (of which €30 million related to Trenitalia c2c Ltd, €24 million to TrainOSE SA and €16 million to Qbuzz BV).
Payments on account refer to advances received from ordinary customers and group companies and rose by €22 million on 31 December 2016. The increase is mainly due to the advances related to the sale of assets received from Rete S.r.l. (power lines) of €16 million.

27. Tax liabilities

The balance at 2017 year end, equal to €18 million (€4 million at 2016 year end), includes the IRAP tax of group companies (€10 million) and the income taxes of foreign companies (€7 million).

28. Revenue from sales and services

The table and comments below give a breakdown of changes in revenue from sales and services.

millions of Euros

	2017	2016	Change
Revenue from transport services	**7,067**	**6,385**	**682**
Passenger traffic products	3,610	3,164	446
Cargo traffic products	839	860	(21)
Market revenue	**4,449**	**4,024**	**425**
Public service contracts and other contracts	360	248	112
Fees from the regions	2,258	2,113	145
Public service contract fees	**2,618**	**2,361**	**257**
Revenue from infrastructure services	**1,325**	**1,282**	**43**
Other service revenue	**209**	**193**	**16**
Capitalisation of work on buildings held for trading and other changes in product inventories	**4**	**5**	**(1)**
Revenue from contract work in progress	**27**	**43**	**(16)**
Total	**8,632**	**7,908**	**724**

Revenue from "Passenger traffic products" rose by €446 million on 2016, highlighting the strong performance of the various passenger service sectors.

Indeed, revenue from medium and long haul passenger transport increased by €114 million essentially in Italy thanks to the recovery in demand for mobility, combined with the progressive improvement of the macro-economic scenario, and the increase in the commercial offer of "Freccia" products in order to better meet customers' meets.

Revenue from the domestic regional transport sector rose by €74 million in Italy thanks to the major and systematic anti-evasion measures, despite the decrease in train-km. Revenue from the international market rose by €207 million mainly as a result of consolidation of Trenitalia c2c Ltd (€177 million) and TrainOSE SA (€19 million) and greater volumes on the existing routes related to the traffic on the German market (€11 million).

Revenue from the road transport sector rose by €28 million in Italy, mainly as a result of the consolidation of companies, including Busitalia Campania (€8 million), which became operative in January 2017, Busitalia Simet (€10 million), which joined the group in April 2017, and Ferrovie del Sud Est e Servizi Automobilistici – FSE S.r.l. (€8 million) which, in 2016, contributed to consolidated revenue only in December. Revenue from the international market also increased, up by €24 million, following Busitalia group's acquisition of the Dutch companies on 31 August 2017 (Qbuzz BV and Utrech Mobility Services BV).

The decrease in revenue from "Cargo traffic products" (down around €21 million) was caused by the reduction in the domestic and international markets of €14 million and €7 million, respectively, and mainly refers to the termination of the cargo business from Netinera Deutschland group.

Public service contract fees rose by €112 million. The increase refers to the renewal of the 2017-2026 public service contract between Trenitalia, the MEF and the MIT, which will ensure a sound financial balance to support the investment plan in the

sector, guaranteeing a higher service quality level through the upgrading of rolling rock (€96 million) and the consolidation of TrainOSE SA (€16 million).

"Fees from the regions" rose by €87 million in Italy, mainly as a consequence of the consolidation of new companies (Ferrovie del Sud Est e Servizi Automobilistici – FSE S.r.l. - +€74 million - and Busitalia Campania S.p.A. - +€25 million). The increase was partly offset by the recognition of some adjustments related to the completion of expiring contracts (-€10 million). The international market also contributed positively (€58 million), thanks to the penetration of the Dutch market through Qbuzz BV (€44 million) and greater fees from Netinera group (€13 million).

The table below gives a breakdown of fees by public service contracts with the government:

millions of Euros

	2017	2016	Changes
Rate and service obligations: for passenger transport	342.4	246.9	95.5
Total	**342.4**	**246.9**	**95.5**

Revenue from infrastructure services includes:

- revenue from the government for grants related to income, which increased by €51 million due to contribution of Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.;
- revenue from the sale of electrical energy for traction decreased by €15 million due to the recalculation of the special rate regime pursuant to Law no. 167 of 20 November 2017, as described in detail in the directors' report paragraph "Developments in Italian legislation";
- revenue from toll services increased by €14 million as a result of greater volumes and 1 ISTAT (the Italian National Statistical Institute) adjustment, and
- revenue from ferry services, unchanged from the previous year.

"Other service revenue" refers to traffic-related services and services provided to railway companies. The increase is mostly due to rise in services for rolling stock maintenance (€12 million), other transport-related services (€4 million) and leases (€4 million). It was partly offset by greater accruals of approximately €5 million to provisions for disputes with customers.

Revenue for contract work in progress decreased by €16 million and is essentially due to the drop in engineering services engagements, especially in relation to the international market, and the sharp negative swing of the dollar, which is the reference currency for many foreign contracts.

29. Other income

This caption can be analysed as follows:

millions of Euros

	2017	2016	Change
Leases	152	180	(28)
Recharging of condominium expenses and IRES tax	9	18	(9)
Sale of buildings and land held for trading	23	11	12
Sale of advertising spaces	12	15	(3)
Revenue from property management	**196**	**224**	**(28)**
Other sundry income	**471**	**796**	**(325)**
Total	**667**	**1,020**	**(353)**

The €28 million reduction in "Revenue from property management" is mostly due to the drop in revenue from leases, the recharge of condominium expenses and the sale of advertising spaces (€40 million), mainly attributable to the sale, on 1 July 2016, of the retail business unit of Grandi Stazioni Rail S.p.A. (formerly Grandi Stazioni S.p.A.), partly offset by the increase in the sale of buildings and land held for trading (€12 million).

Other sundry income, which includes revenue from penalties and sanctions, insurance compensation, commissions on ticket sales, health services provided to third parties, subcontracting and gains on the sale of assets and materials, decreased considerably mainly due to the above-mentioned sale of Grandi Stazioni Retail S.p.A., which generated a gain of €365 million in 2016. The decrease is partly offset by sundry income which rose by €40 million as a result of non-recurring items, essentially related to the sale of materials no longer in use.

30. Personnel expense

This caption can be analysed as follows:

millions of Euros

	2017	2016	Change
Wages and salaries	3,011	2,854	157
Social security charges	804	769	35
Other expense for employees	22	17	5
Post-employment benefits	186	179	7
Post-employment benefits/Free Travel Card service costs	4		4
Accruals/releases	15	29	(14)
Employees	**4,042**	**3,848**	**194**
Wages and salaries	5	6	(1)
Social security charges			
Other costs			
Consultants and freelancers	**5**	**6**	**(1)**
Other costs	**131**	**97**	**34**
Total	**4,178**	**3,951**	**227**

Personnel expense increased by €227 million on the previous year.

Specifically, the increase in "Employees" (€194 million) is the result of the combined effect of the rise in the workforce, the application of the new national labour agreement for the mobility sector/railway sector which took full effect after it was signed at the end of 2016, and the change in the consolidation scope, following the inclusion of Trenitalia c2c Ltd (€36 million), Qbuzz BV (€36 million), Busitalia Campania S.p.A. (€20 million) and Ferrovie del Sud Est e Servizi Automobilistici – FSE S.r.l. (€53 million).

The increase in "Other costs" (€34 million) is mainly due to the above-mentioned change in the consolidation scope (€21 million).

The table below gives a breakdown of FS Italiane group's average number of employees by category:

PERSONNEL	2017	2016	Changes
Managers	751	719	32
Junior managers	11,044	10,954	90
Other	60,646	57,383	3,263
TOTAL	**72,441**	**69,056**	**3,385**

31. Raw materials, consumables, supplies and goods

They can be analysed as follows:

millions of Euros

	2017	2016	Change
Raw materials and consumables	905	834	71
Electrical energy and fuel for traction	138	333	(195)
Lighting and driving force	58	49	9
Change in buildings and land held for trading	26	7	19
Accruals/releases	9	7	2
Total	**1,136**	**1,230**	**(94)**

"Raw materials, consumables, supplies and goods" dropped by €94 million on 2016.

"Raw materials and consumables" rose by €71 million as a result of greater consumption of materials used for investment purposes (€51 million) and for operations (€20 million).

The decrease in "Electrical energy and fuel for traction" (€195 million) was mainly the result of the changes introduced in the electricity market following the coming into force of Law no. 167 of 20 November 2017, as described in the directors' report paragraph "Developments in Italian legislation", which generated lower electrical energy costs, in both the current and prior years. "Change in buildings and land held for trading" rose by €19 million on 2016. Reference should be made to Note 15 "Inventories and construction contracts" for additional information.

Finally, the group made larger accruals (€2 million) to reflect the analysis of obsolete and slow-moving inventories to be scrapped.

32. Services

This caption can be analysed as follows:

millions of Euros

	2017	2016	Change
Other transport-related services	87	78	9
Toll	332	268	64
Shunting services	27	27	
Cargo transport services	325	325	
Accruals/releases for transport services	3		3
Transport services	**774**	**698**	**76**
Contracted services and work	39	28	11
Cleaning and other contracted services	389	379	10
Maintenance and repair of intangible assets and property, plant and equipment	662	584	78
Accruals/releases for maintenance	(1)	(2)	1
Maintenance, cleaning and other contracted services	**1,089**	**989**	**100**
Property services and utilities	**80**	**78**	**2**
Administrative and IT services	**194**	**160**	**34**
External communications and advertising expense	**31**	**28**	**3**
Professional services and consultancies	52	46	6
Prize competitions and fees to other railway companies	6	5	1
Insurance	64	63	1
Sleeping carriages and catering	114	106	8
Agencies' fees	70	67	3
Engineering services	40	37	3
Other costs for services, accruals/releases	22	24	(2)
Other	127	120	7
Other sundry services	**495**	**468**	**27**
Total	**2,663**	**2,421**	**242**

The €242 million rise is mainly attributable to "Transport services" (€76 million), "Maintenance, cleaning and other contracted services" (€100 million) and "Administrative and IT services" (€34 million).

The increase in “Transport services” (€76 million) is mainly due to greater toll costs (€64 million) paid by Trenitalia c2c Ltd to operate trains in the British market. The rise in other transport-related services (€9 million) reflects the expansion of the group’s commercial offer.

The increase in “Maintenance, cleaning and other contracted services” (€100 million) is mainly due to the rise in “Maintenance and repair of intangible assets and property, plant and equipment” (€78 million), especially as a result of the roll-out of rolling stock.

The rise in “Administrative and IT services” (€34 million) is due to the consolidation of Trenitalia c2c Ltd (€8 million) and the roll-out of new systems.

Finally, the €27 million increase in “Other sundry services” is chiefly attributable to the rise in professional services and consultancies (€6 million), greater charges related to “Sleeping carriages and catering services” (€8 million) and the increase of other costs (€7 million).

33. Use of third-party assets

This caption can be analysed as follows:

millions of Euros

	2017	2016	Change
Operating lease payments	3	1	2
Lease payments, condominium expenses and registration tax	78	72	6
Leases and indemnities for rolling stock and other	149	109	40
Accruals/releases	(1)	1	(2)
Total	**229**	**183**	**46**

This caption increased by €46 million on 2016 mainly due to the rise in “Leases and indemnities for rolling stock and other” (€40 million) essentially as a result of the consolidation of new companies (€37 million). Specifically, the increase is attributable to Trenitalia c2c Ltd (€32 million) and TrainOSE SA (€5 million).

34. Other operating costs

This caption can be analysed as follows:

millions of Euros

	2017	2016	Change
Other costs	160	171	(11)
Losses	12	5	7
Accruals/releases	36	23	13
Total	**208**	**199**	**9**

“Other operating costs” rose by €9 million on 2016 following the increase in losses on the sale of rolling stock no longer included in the production cycle (€7 million) and larger accruals for doubtful receivables (€13 million), partly offset by the reduction in non-recurring “Other costs” (€11 million).

35. Internal work capitalised

Internal work capitalised amounts to €1,428 million and generally relates to the cost of materials, personnel and transport expense capitalised in 2017 against work performed on the infrastructure and value-increasing maintenance of the rolling stock carried out at the FS Italiane group's workshops.
The rise in capitalisations (€79 million) is mainly due to the increased use of materials as part of the technological upgrades and the extraordinary maintenance of the infrastructure.

36. Amortisation and depreciation

This caption can be analysed as follows:

millions of Euros

	2017	2016	Change
Amortisation	79	76	3
Depreciation	1,299	1,230	69
Total	**1,378**	**1,306**	**72**

The increase (€72 million) on 2016 is mainly due to investments in, and value-increasing maintenance of, rolling stock activities during the year.

37. Impairment losses (reversals of impairment losses)

This caption can be analysed as follows:

millions of Euros

	2017	2016	Change
Impairment losses on intangible assets		5	(5)
Impairment losses on property, plant and equipment and investment property	107	42	65
Impairment losses and reversals of impairment losses on receivables	45	23	22
Total	**152**	**70**	**82**

The €82 million increase on 2016 refers to the rolling stock to be scrapped.
The €22 million increase in "Impairment losses and reversals of impairment losses on receivables" mainly reflects the impairment losses recognised on specific positions.

38. Provisions

"Provisions", totalling €65 million (2016: €25 million), essentially include the accruals recognised by FS Italiane group companies for the extraordinary portion of the Bilateral fund for income assistance (see note 23 "Provisions for risks and charges").

39. Financial income

This caption can be analysed as follows:

millions of Euros

	2017	2016	Change
Financial income from non-current loans and receivables and securities	2	1	1
Financial income from derivatives		4	(4)
Other financial income	49	55	(6)
Exchange rate gains	11	2	9
Total	**62**	**62**	

"Other financial income" decreased by €6 million mainly as a consequence of the recognition of non-recurring financial income in 2016 related to the settlement deed between Mercitalia Logistics S.p.A. and the Technical and administrative unit together with the Office of the Prime Minister covering the receivables for services provided in the past to the Campania waste emergency commissioner, (approximately €18 million), partly offset by the greater financial income earned by the parent for interest accrued on the VAT credit claimed for reimbursement and the income on the Eurofima SA borrowings due to the negative rate (approximately €13 million).

Finally, "Exchange rate gains" rose by €9 million as a result of the exchange rate fluctuations of the year, mainly due to the transactions carried out in Swiss francs and Pound sterling.

40. Financial expense

This caption can be analysed as follows:

millions of Euros

	2017	2016	Change
Interest on financial liabilities	137	143	(6)
Financial expense for employee benefits	18	23	(5)
Financial expense on derivatives	3	2	1
Impairment losses on financial assets			
Exchange rate loss	14	1	13
Accruals/releases	4	1	3
Total	**176**	**170**	**6**

"Interest on financial liabilities", which includes interest expense on bonds, interest on non-current loans and borrowings from banks and other financial backers and sundry interest and fees, decreased by €6 million mainly as a consequence of the drop in the average cost of debt.

"Financial expense for employee benefits", which includes the measurement of post-employment benefits and the Free Travel Card, decreased by €5 million due to the change in the discounting rate applied to post-employment benefits and personnel who left the company.

The €13 million increase in the "Exchange rate loss" is mostly a result of the Pound sterling transactions involving the British-based Trenitalia c2c Ltd, which joined the consolidation scope in 2017 (approximately €8 million), and those in the Saudi, Qatar and Omani currencies related to the contracts managed by Italferr S.p.A. (approximately €6 million).
The above financial expense is shown net of government grants of €98 million (reference should also be made to note 25 "Other non-current and current liabilities").

41. Share of profits of equity-accounted investees

This caption, which includes the profits and losses of the group's associates and jointly controlled companies recognised using the equity method, shows a profit of €14 million, unchanged compared to 2016.
For additional information, reference should be made to note 12 "Equity-accounted investments".

42. Current and deferred taxes

Income taxes can be analysed as follows:

millions of Euros

	2017	2016	Change
IRAP	34	25	9
IRES	2	3	(1)
Foreign current taxes	7	6	1
Deferred taxes	16	(6)	22
Foreign deferred taxes	2	(2)	4
Adjustments to prior year income taxes	3		3
Total income taxes	**64**	**26**	**38**

Current taxes increased as a result of the IRAP (regional production tax) of the year, following the greater taxable income.
The IRES (corporate income tax) of €2 million is net of the "Income from the tax consolidation scheme" of €139 million, recognised on the tax losses transferred to the group over the years and used during the year, as their subsequent remuneration is not deemed probable.
In 2017, deferred taxes amount to €16 million. For additional information about changes in deferred taxes, reference should be made to note 11 "Deferred tax assets and deferred tax liabilities".

43. Loss attributable to assets held for sale

The loss of €2 million refers to the loss incurred by Kraftverkehr Osthannover GmbH in the period from 1 January 2017 to 30 September 2017. As described in note 4, the company was sold to third parties on 1 October 2017.

44. Contingent assets and contingent liabilities

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 assume additional liabilities, currently deemed improbable and/or unquantifiable. The main contingent assets and liabilities are described below.

- **Novara - Milan subsection: Appeal against the RFI – FCA award**
  After the appeal against the award, covering part of the claims recorded by FCA during the contract works, the appeal made by FCA to the Court of Cassation is pending and RFI S.p.A. has presented its counterclaim for more than €170 million. The ruling on the revocation proposed by FCA to the Rome appeal court is also pending (the hearing for the final briefs has been set for 6 June 2018). In its ruling no. 5276 filed on 23 September 2015, the Rome Court of Cassation allowed the appeal against the award proposed by RFI S.p.A., ordering that FCA returns to RFI S.p.A. most of the amount paid by the latter to FIAT (approximately €175 million). On 21 October 2015, RFI S.p.A. and FCA entered into an agreement implementing the above ruling of the Rome Court of Appeal until the ruling brought by FCA before the Court of Cassation becomes *res judicata*, including in the case of a postponement.

- **RFI vs ANAS – Satap: case pending before the Rome civil court**
  This dispute is based on a number of agreements signed in previous years by the then TAV S.p.A. with ANAS S.p.A. and the grantor of the Turin-Milan motorway concession ASTM (now SATAP) to modernise and extend the motorway as part of the overall upgrading of the multimodal Turin-Milan corridor concurrently with the construction of the new HS/HC Turin-Milan railway section. It was not possible for TAV S.p.A., RFI S.p.A. and ANAS S.p.A./SATAP S.p.A. to reach a compromise as the latter two parties rejected RFI S.p.A.'s requests for the allocation of some of the costs to upgrade the multimodal corridor to them for the motorway modernisation and extension part. Therefore, RFI S.p.A. issued a writ of summons to ANAS/SATAP to appear before the Rome Court on 9 June 2016. ANAS S.p.A. has summonsed the MIT which appeared in court. The hearing for the closing argument was held on 30 January 2018.

- **Appeal against ART resolution no. 70/2014**
  Various FS Italiane group companies (RFI S.p.A., the former Grandi Stazioni S.p.A. and Centostazioni S.p.A.) lodged three extraordinary appeals with the President of Italy against ART resolution no. 70 of 31 October 2014 "Regulation for fair and equal access to railway infrastructures and commencement of proceedings to define the criteria for the definition of the toll to use railway infrastructures"). Initially lodged with the Lazio regional administrative court, the appeals were then transferred to the Piedmont regional administrative court where RFI S.p.A.'s and former Grandi Stazioni S.p.A.'s cases were summarised. Trenitalia S.p.A. appeared in both proceedings. The appeals lodged by RFI and the former Grandi Stazioni S.p.A. were rejected with rulings nos. 541/2017 and 1025/2017. The companies filed an appeal against said rulings.

- **Appeal against ART resolution no. 96/2015**
  With an extraordinary appeal before the President of Italy, RFI S.p.A., Trenitalia S.p.A. and the former Grandi Stazioni S.p.A. appealed against ART resolution no. 96 of 13 November 2015 containing the principles and criteria for determining the fees to access and use the railway infrastructure. Their appeals were transferred to the Piedmont regional administrative court. RFI S.p.A. also appeared in the proceedings pending before the Piedmont regional administrative court for the railway transport operator Nuovo Trasporto Viaggiatori S.p.A.'s appeal against the same ART resolution

no. 96/2015. Since June 2016, while the FS Italiane group companies' appeals were pending, ART resumed adjusting the fees to access and use the railway infrastructures by passing resolutions no. 72/2016, no. 75/2016, no. 80/2016 and 140/2016. These resolutions were also appealed by Trenitalia S.p.A. and other railway transport companies. In particular, with a brief presenting additional grounds, in September 2016, Trenitalia S.p.A. appealed against resolutions no. 72 and no. 75/2016. As for resolution no. 80/2016, Trenitalia S.p.A. lodged its appeal individually before the Piedmont regional administrative court. Furthermore, with a brief presenting additional grounds, the latter company filed an appeal against Resolution no. 140/2016. In its ruling no. 1240/2017, the Piedmont regional administrative court rejected Trenitalia S.p,A.'s appeal against Resolution no. 80/2016 (and related provisions). As for the appeals filed against Resolution no. 96/2015 (and related provisions), RFI S.p.A. filed a statement declaring it no longer had any legal interest in bringing the proceedings following the subsequent measures adopted by ART. Having acknowledged RFI S.p.A.'s position, the Piedmont regional administrative court, in its ruling no. 1287/2017, declared the appeal filed by the railway infrastructure operator unenforceable. In its rulings nos. 57/2018 and 58/2018, the Piedmont regional administrative court rejected the appeals filed by Trenitalia S.p.A. (and another railway company) and the former Grandi Stazioni S.p.A., respectively.

45. Audit fees

Pursuant to article 37.16 of Legislative Decree no. 39/2010 and letter 16-bis of article 2427 of the Italian Civil Code, the total fees due to the independent auditors amount to €4,522 thousand and include the fees paid for services other than the statutory audit (€1,640 thousand).

46. Directors' and statutory auditors' fees

The following fees were paid to directors and statutory auditors for the performance of their duties:

thousands of Euros

RECIPIENTS	2017	2016	Change
Directors	1,217	1,213	5
Statutory auditors	100	100	
TOTAL	**1,317**	**1,313**	**5**

Directors' fees include the amounts envisaged for the positions of Chairperson 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 €76 thousand (2016: €65 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.

47. Related parties

Related parties were identified in accordance with IAS 24.

Transactions with key managers

The general conditions that govern transactions with key managers and the parties related to them are not more favourable than those applied, or that could have been reasonably applied, to similar transactions with managers other than key managers associated to the same entities at market conditions.

Key managers' fees are as follows:

millions of Euros

	2017	2016
Short-term benefits	13.5	12.2
Post-employment benefits	0.9	0.8
Other long-term benefits		
Termination benefits	0.4	0.6
Total	**14.8**	**13.6**

The benefits relate to the fees paid to the above parties. In addition to short-term benefits of €13.5 thousand paid out in 2017, a variable portion is to be paid in 2018, for an amount not exceeding €3.7 thousand (€2.2 thousand in 2016).

During the year, the key managers did not carry out any transactions, directly or through close family members, with FS Italiane group, group companies or other related parties.

Related party transactions

The main transactions between FS Italiane group and its related parties, which were all carried out on an arm's length basis, are described below.

Trade and other transactions

millions of Euros

	Receivables	Payables	Purchases for investments	Guarantees	Revenue	Costs
ENEL group	43	64		24	1	89
Eni group	2	4			11	7
Leonardo - Finmeccanica group		127			4	30
Invitalia group		1				
Anas group	3	3			6	
Cassa Depositi e Prestiti group	15	84		360	15	72
GSE group		1		150		322
Poste Italiane group	1				1	1
SO.G.I.NO. group	1				2	
EXPO 2015 S.p.A.	1					
EUROFER		1				15
PREVINDAI		2				3
Other pension funds	(2)	(17)				35
Other related parties	16	2			134	15
Total	**80**	**272**		**534**	**174**	**589**

Financial transactions

millions of Euros

	Receivables	Payables	Income	Expense
Eni group	4			
Cassa Depositi e Prestiti group		972		32
Poste Italiane group	2			
Total	**6**	**972**		**32**

The nature of the main transactions with independent related parties is described below.

Receivables from Enel group and Eni group mainly refer to lease payments and material transport costs, while payables related to sundry utility payments.

Receivables from Leonardo - Finmeccanica group mainly relate to lease payments, transport costs and lease of rolling stock, while payables refer to sundry maintenance (rolling stock, lines and software) and purchase of materials.

Payables to GSE group mainly refer to the purchasing of electrical energy for train traction.

Receivables from Cassa Depositi e Prestiti group mainly refer to lease and easement payments of land, while payables relate to loans and borrowings and electrical energy with Terna S.p.A..

Receivables from Poste Italiane group mainly refer to lease payments, while payables principally relate to postal charges.

48. Guarantees and commitments

Guarantees given mainly refer to:

- collateral on Trenitalia S.p.A.'s rolling stock, issued by the company in favour of Eurofima SA, guaranteeing non-current loans and borrowings through Ferrovie dello Stato Italiane S.p.A. (the liability with Eurofima SA at 31 December 2017 amounts to €1,989 million);
- guarantees issued by FS S.p.A. in favour of the EIB on behalf of RFI S.p.A. (€200 million) and Trenitalia S.p.A. (€23 million), guaranteeing non-current loans and borrowings granted by the above bank to the companies;
- guarantees issued on behalf of Trenitalia S.p.A. to the regions (€36 million), including in relation to the public service contracts agreed, and to other bodies by financial institutions;
- parent guarantees issued on behalf of the group to the tax authorities (€2,155 million);
- parent (€4 million) and bank (€7 million) guarantees issued on behalf of RFI S.p.A. to public authorities (including, but not limited to: good and timely performance of the works related to the HS/HC line and reclamation activities, against the disbursement of financial grants);
- guarantees issued on behalf of RFI S.p.A. and in favour of Terna S.p.A. for the service contract governing electrical energy dispatching by withdrawal points which feed rail traction and for other uses (€24 million) and parent 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 (€25 million);
- bank sureties issued to other parties such as bid bonds, performance bonds and advance payment bonds.

For additional information about the parent's guarantees and commitments issued on behalf of group companies, reference should be made note 41 of the notes to the separate financial statements.

49. Segment reporting by business segment

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

millions of Euros

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

millions of Euros

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

millions of Euros

2016	Transport	Infrastructure	Real Estate Services	Other Services	Adjustments and inter-segment eliminations	Ferrovie dello Stato Italiane group
Revenue from third parties	6,668	1,425	532	21	22	8,668
Inter-segment revenue	269	1,202	170	245	(1,626)	260
Revenue	**6,937**	**2,627**	**702**	**266**	**(1,604)**	**8,928**
Personnel expense	(2,299)	(1,506)	(31)	(141)	26	(3,951)
Other costs, net	(3,141)	(770)	(248)	(117)	1,593	(2,683)
Operating costs	**(5,440)**	**(2,276)**	**(279)**	**(258)**	**1,619**	**(6,634)**
Gross operating profit	**1,497**	**351**	**423**	**8**	**15**	**2,294**
Amortisation and depreciation	(1,174)	(94)	(26)	(13)		(1,306)
Impairment losses and accruals	(43)	(49)	(5)	2		(95)
Operating profit	**280**	**208**	**392**	**(3)**	**15**	**893**
Net financial income (expense)	(85)	(35)	(3)	67	(39)	(95)
Income taxes	(31)	(1)	(17)	36	(13)	(26)
Segment profit (attributable to the owners of the parent and non-controlling interests)	**164**	**174**	**372**	**100**	**(38)**	**772**

millions of Euros

31.12.2016	Transport	Infrastructure	Real Estate Services	Other Services	Adjustments and inter-segment eliminations	Ferrovie dello Stato Italiane group
Net invested capital	**10,218**	**33,219**	**1,744**	**311**	**(235)**	**45,257**

Reference should be made to the directors' report for information on the performance of the individual segments.

50. Events after the reporting date

January

Merger of Mercitalia Terminal into Serfer

On 1 January 2018, Serfer S.r.l. merged Mercitalia Terminal S.p.A. as per the deed signed on 19 December 2017.

Sale of the investments in Netinera group

On 1 January 2018, OHE AG sold its entire investment in Uelzener Hafenbetriebs – und Umschlag (UHU) and Osthannoversche Umschlags (OHU) to third parties for a total consideration of €0.8 million. The completion of the sale of the second investment, which is to a public body, is subject to the approval by the competent regional authorities.

Trenitalia, new service contract with the Veneto region

On 11 January 2018, Trenitalia entered into a new contract governing the provision of regional railway public transport services for the 15-year period from 2018 to 2032 with the Veneto region. The contract sets out the main characteristics of the railway offer and is aimed at improving the service quality for commuters.

Trenitalia, **new service contract with the Liguria region**

On 12 January 2018, Trenitalia entered into a new contract governing the provision of regional railway public transport services for the 15-year period from 2018 to 2032 with the Liguria region. The contract also provides for the updating of the entire fleet of the regional trains operating in the Liguria region by 2023.

Transfer of ANAS shares to FS Italiane

The transfer of ANAS shares to FS Italiane took place on 18 January 2018. The MEF transferred the entire investment in ANAS to FS Italiane S.p.A. following the approval Antitrust Authority. The MEF's subscription of the share capital increase of €2.86 billion is the final step of the procedure leading to the establishment the largest European road and railway integrated hub in terms of residents served and investments.

ANAS joins Rete Ferroviaria Italiana and Italferr, the subsidiary which operates in the design and engineering fields in Italy and abroad, and other group companies, including Trenitalia, Mercitalia and Busitalia, which are active in the passenger and cargo transport by rail and road.

The aim is to improve the quality and safety standards of the road network and maintenance, starting from road, viaduct and tunnel monitoring.

The collaboration between RFI and ANAS will also more efficiently and effectively link the logistic hubs: ports, airports, railway stations and modal interchange points.

Furthermore, the transaction will result in the sharing of know-how and technologies for the development of innovative products as well, like smart roads (for electric lorries and driverless cars, improving safety and the environment), making Italy one of the pioneers in this innovation.

The group will immediately benefit from the integration on international markets as well, where it will now control the entire range of projects and services linked to mobility infrastructures.

Based on the above, ANAS will contribute to the group's consolidated results starting from 2018, once the analyses of the contribution value under the group's accounting policies have been completed. The analyses will also take into account: i) the completion of the company's transition to IFRS; ii) the approval of its draft 2017 financial statements; iii) the conclusion,

shortly after the signing of the new 2021 Government Programme Contract between the MIT and ANAS S.p.A., of the formal discussions between the shareholder and the granting Ministry concerning the outcome of the Concession Agreement governing ANAS S.p.A.'s operations, specifically with respect to the estimate of the freely-transferable assets at the end of the agreement, i.e., 2032.

Brenner base tunnel: summit in Rome between FS Italiane and ÖBB

The meeting on the progress of the works for the new Brenner base tunnel was held in Rome on 19 January 2018.
A work group was set up with the top management of the ÖBB operating companies, including the operator of the Austrian railway infrastructure. The work group will constantly monitor the work in progress on the access routes to the Brenner base tunnel, on both the Italian (Verona - Brenner) and the German/Austrian (Munich - Brenner) sides, in order to ensure and monitor the construction of the access infrastructures necessary for the tunnel to be fully functional.
The Brenner base tunnel, which consists of two single-track tunnels, will link Fortezza (Italy) to Innsbruck (Austria). Once the works are completed, it will be 64 km long and will become the longest underground connection in the world.
It will increase the rail traffic capacity with the aim of reaching 400 trains/day on the Brenner pass. Furthermore, cargo transport by rail will increase and management of the cross-border traffic between Italy and Austria will become more efficient thanks to the new infrastructure which will no longer require that the trains interchange at the Brenner station, thereby reducing the journey time, also for passenger transport.

Mercitalia hub, TX Logistik AB receives the licence and safety certificate to operate in Sweden

On 19 January 2018, the Swedish authority Transportstyrelsen granted TX Logistik AB, wholly owned by TX Logistik, the licence and safety certificate to operate in Sweden.
The Swedish licence is an important part of the group's Scandinavian strategy to offer end-to-end transport services from Scandinavia to southern Europe.
The next step is to obtain the licence for Denmark and Norway in order to govern the production factors in cargo railway services in the European north-south axis as well.

2016 VAT reimbursement

On 19 January 2018, the group collected its VAT credit for 2016 totalling €444 million, of which €439 million and €5 million is refers to principal and interest, respectively.

Pioltello train accident

The incident on 25 January 2018 at Località Seggiano di Pioltello involving Trenord S.r.l. regional train no. 10452 travelling the Cremona and Milan Porta Garibaldi station route resulted in the deaths of three passengers and injuries to others. For additional information, reference should be made to the Other information section of the directors' report.

February

Italferr obtains the certification of its BIM management system

On 1 February 2018, ICMQ successfully completed the audit of the subsidiary Italferr's Building Information Modelling (BIM) management system. The certification confirms that Italferr can correctly and properly manage its operations using this methodology.

This skill is highlighted as a sign of distinction and excellence on the market.

The audit focused on examining that the BIM management system had been implemented to a good degree. Specifically, the skills and the training of the personnel involved, the IT infrastructure underlying the system, the new qualification system for assigning design-support services and the documentation produced up to now governing the entire development of the design process using the BIM system were illustrated.

Capital increase of Terminal Alptransit

On 1 February 2018, the shareholders Mercitalia Logistics S.p.A. and HUPAC SA subscribed the capital increase of the subsidiary Terminal Alptransit S.r.l., as resolved by the shareholders in their meeting of 29 December 2017.

Following this transaction, Mercitalia Logistics S.p.A. gained control of Terminal Alptransit S.r.l. with a 58% investment therein.

Reorganisation and enhancement of the Centostazioni network

FS Italiane S.p.A., Centostazioni S.p.A. and RFI S.p.A. identified and shared a process for the reorganisation and enhancement of the Centostazioni network which envisages the following main steps:

- Centostazioni' S.p.A.'s partial demerger in order to assign the more commercial-oriented business lines to a newco (Centostazioni Retail S.p.A.) which will develop them on the market;
- Centostazioni S.p.A.'s merger into RFI;
- RFI S.p.A.'s contribution of the economic and commercial exploitation rights to other commercial-oriented businesses to Centostazioni Retail S.p.A., if the tender for Centostazioni Retail S.p.A. on the market is successful.

Consequently, on 5 February 2018, Centostazioni S.p.A.'s board of directors approved the proposed demerger and the proposed merger and RFI's board of directors approved the proposed merger on 6 February 2018.

Finally, on 28 February 2018, the company's board of directors, in turn, expressed its favourable opinion on the approval of the partial demerger proposed by Centostazioni's shareholders, and on the approval of the merger of the latter into RFI S.p.A. proposed by Centostazioni's and RFI's shareholders.

FS Italiane and Indian Railways: the cooperation to develop the New Delhi – Jaipur railway connection begins

On 6 February 2018, the delegations of FS Italiane and Indian Railways reached an agreement on a collaboration roadmap in order to deliver, before summer, the feasibility study for the infrastructural upgrading of the rail corridor between New Delhi and Jaipur and to analyse the possibility of funding for this work. The project further strengthens the technical-specialist collaboration between FS Italiane group and Indian Railways, in line with the commitments set out in the memorandum of understanding signed in January 2017. The aim of this partnership is to develop railway traffic safety systems, infrastructure diagnostics and training for Indian personnel.

FS Italiane Best Employer of Choice again in 2018

For the fourth year in a row, on 8 February 2018, FS Italiane group was named the best employer of choice by recent graduates.

The 2018 Best Employer of Choice, a survey conducted by Cesop HR Consulting Company, confirmed FS Italiane as the best employer of choice among industrial and production companies. The survey considered a statistically representative sample of 2,500 recent Italian graduates who assessed a panel of 100 Italian and multinational companies.

Innovation, strength and vision, together with internationally-recognised know-how and technological excellence are the elements which enabled FS Italiane to win over major Italian and international companies which have always been popular among young people.

FS Italiane group is at the forefront of the development of opportunities for young graduates and has launched targeted initiatives as part of the network with universities and leading schools, in order to narrow the gap between universities and companies, create innovation, guide young students with mentoring and testimonials and recruit the top talent: employer branding online and on social media, meetings with recent graduates at job meetings, career and recruiting days, workplace orientation initiatives in collaboration with prestigious universities and schools, master degrees, degree theses, internships, workshops, seminars and competitions for ideas, recruitment of many university graduates according to merit-based and transparency criteria and ad hoc training programmes.

A few months ago, FS Competition, the group's recruiting day, led to the selection and hiring of 28 economics and engineering graduates (43% women) from several Italian universities, using a rapid and innovative approach.

Ninth capital increase of Tunnel Ferroviario del Brennero – Società di partecipazioni S.p.A.

On 26 February 2018, RFI S.p.A.'s portion, subscribed in the ninth capital increase of the subsidiary Tunnel Ferroviario del Brennero, which was approved by the shareholders in their meeting of 20 December 2017 and requested in one tranche of €140 million, was paid in. The portion, which RFI S.p.A. offered and paid in proportionally to its investment (87.92%) amounted to €123 million.

An outpost on the Persian Gulf

ANAS International Enterprise S.p.A.'s and Italferr's (FS Italian group's engineering company) projects in the Persian Gulf continued in tandem in February.

ANAS International Enterprise S.p.A. is the integrated engineering service company wholly-owned by ANAS, which is now part of FS Italiane group. It has operated in international markets, specifically the Persian Gulf, since 2012. In September 2012, following the award of an international tender to ANAS, a contract for quality control & quality assurance professional services for road surfaces was signed with the Qatar's authority for public works. The main target of the contract is to monitor quality levels throughout the entire road network as it develops in the Qatar Peninsula.

At the same time, Italferr S.p.A.'s projects in the region continued. Since 2013, the company has been developing the detailed design of the Doha underground's Red Line, which will connect the New Doha International Airport to the capital. Italferr S.p.A. is in charge of the design of the roadway, RAMS (Reliability, Availability, Maintainability and Safety) management, value management engineering, system assurance management, requirements management and interface management.

Since January 2014, Italferr has also participated in the design of all stations' MEP (Mechanical Electrical and Plumbing) systems, using the new BIM methodology. In a consortium with other leading companies in the sector, Italferr won a contract for project management consultancy services and technical assistance for work on the Lusail tram network. The

contract provides for the completion of civil works, the construction of technological and plant systems, the development of maintenance facilities and the supply of rolling stock serving the four planned lines.

Master agreement between the Lazio region and RFI

On 22 February 2018, the Lazio region and RFI S.p.A. entered into a master agreement whose strategic objectives are to plan and increase the railway traffic capacity on the Lazio regional lines, strengthen the infrastructure and technology, benefiting the punctuality and regularity of the services, and open new stops.

The master agreement is the technical tool enabling the Lazio region to reserve traffic capacity for the regional railway network and plan the use of railway infrastructure in the medium/long term based on the regional transport plan.

It also enables RFI S.p.A. to understand the actual mobility needs in the region, acting and planning, where necessary, infrastructural upgrades in order to optimise the development of regional services.

The Netherlands, Busitalia: QBuzz is awarded the provision of LPT services in the DEV area

On 23 February 2018, Qbuzz was awarded the provision of local public transport (LPT) services in the Netherlands, specifically in the Drechtsteden, Alblasserwaard en Vijfheerenlanden (DAV) area, between Utrecht and Rotterdam. The concession, which is worth €48 million per year and has an eight-year term, covers the management of the regional railway line between Geldermalsen and Dordrecht (the MerwedeLingelijn line) and the bus services in the DAV area.

March

FS Italiane S.p.A.: the agreement with the Turkish railways to provide railway employees with specialist per training is signed

On 5 March, Ferrovie dello Stato Italiane S.p.A. and the Turkish railways (TCDD) signed an agreement for the provision of specialist training to railway maintenance employees. FS Italiane S.p.A.'s technical-engineering know-how will be taught in two training courses designed to meet TCDD's needs.

The contract was signed during a joint working group in Rome, as per the memorandum of understanding (MoU) signed in 2017 in order to identify mutual areas of collaboration.

The ten-year collaboration between FS Italiane S.p.A. and TCDD is further strengthened.

Ferrovie del Sud Est S.r.l. - FSE S.r.l.'s deed of arrangement

On 14 March 2018, the proposed deed of arrangement received the majority of favourable votes. The deed of arrangement provides for the payment of the entire amount of €154 million due to privileged and pre-deductible creditors (who will be repaid within one year) and payment of 51% of the other €130 million due to unsecured creditors. Once the voting procedures are completed (this should formally take place in early April), the Insolvency court will set the hearing for the approval of the deed of arrangement and its formal enforcement.

Annexes

Consolidation scope and the group's equity investments

1. PARENT AND LIST OF SUBSIDIARIES

Parent

Name	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	36,340,432,802				

Operating segment: Transport

Name	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Ataf Gestioni S.r.l.	Florence	Italy	5,927,480	Busitalia - Sita Nord S.r.l. Non-controlling interests	70.00 30.00	70.00	Line-by-line
Bluferries S.r.l.	Messina	Italy	20,100,000	Rete Ferroviaria Italiana - RFI S.p.A.	100.00	100.00	Line-by-line
Busitalia - Sita Nord S.r.l.	Rome	Italy	73,000,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Busitalia Campania S.p.A.	Salerno	Italy	5,900,000	Busitalia - Sita Nord S.r.l.	100.00	100.00	Line-by-line
Busitalia Simet S.p.A.	Rome	Italy	3,000,000	Busitalia - Sita Nord S.r.l. Non-controlling interests	51.00 49.00	51.00	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	10,012,750	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	143,095,524	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	20,000	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
Mercitalia Terminal S.p.A. (formerly Società Gestione Terminali Ferro Stradali-SGT)	Pomezia-Rome	Italy	200,000	Mercitalia Logistics S.p.A.	100.00	100.00	Line-by-line
Mercitalia Transport & Services S.r.l. (formerly FS JIT Italia S.r.l)	Rome	Italy	500,000	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
Terminali Italia S.r.l.	Rome	Italy	7,345,686	Rete Ferroviaria Italiana - RFI S.p.A. Mercitalia Intermodal S.p.A. (formerly CEMAT S.p.A.)	89.00 11.00	94.86	Line-by-line
Trenitalia S.p.A.	Rome	Italy	1,654,464,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line

Name	Registered office	Main office	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
Autobus Sippel GmbH	Hofheim am Taunus (Germany)	Germany	50,000	Netinera Deutschland GmbH	100.00	51.00	Line-by-line
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	69.90	37.18	Line-by-line
Neißeverkehr GmbH	Guben (Germany)	Germany	1,074,000	Prignitzer Eisenbahngesellschaft mbH	80.00	40.80	Line-by-line
NETINERA Bachstein GmbH	Celle (Germany)	Germany	150,000	NETINERA Deutschland GmbH	95.34	51.00	Line-by-line
NETINERA Deutschland GmbH	Viechtach (Germany)	Germany	1,025,000	FS Italiane S.p.A. Non-controlling interests	51.00 49.00	51.00	Line-by-line
NETINERA Immobilien GmbH	Berlin (Germany)	Germany	240,000	NETINERA Deutschland GmbH	100.00	51.00	Line-by-line
NETINERA Werke GmbH	Neustrelitz (Germany)	Germany	25,000	Prignitzer Eisenbahngesellschaft mbH	100.00	51.00	Line-by-line
NiedersachsenBahn GmbH & Co. KG	Celle (Germany)	Germany	100,000	Osthannoversche Eisenbahnen Aktiengesellschaft	60.00	44.63	Line-by-line
NiedersachsenBahn Verwaltungsgesellschaft mbH	Celle (Germany)	Germany	25,000	Osthannoversche Eisenbahnen Aktiengesellschaft	60.00	26.78	Line-by-line
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	Utrecht (The Netherlands)	The Netherlands	400,000	Busitalia - Sita Nord S.r.l.	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
Sei Mobil Verkehrsgesellschaft mbH (formerly Lausitzer Nahverkehrsgesellschaft mbH)	Berlin (Germany)	Germany	26,000	Verkehrsbetriebe Bils GmbH	100.00	51.00	Line-by-line
Sippel-Travel GmbH	Frankfurt am Main (Germany)	Germany	127,950	Autobus Sippel GmbH	100.00	51.00	Line-by-line
Südbrandenburger Nahverkehrs GmbH	Senftenberg (Germany)	Germany	1,022,584	NETINERA Deutschland GmbH	100.00	51.00	Line-by-line
Thello SAS	Paris (France)	France	1,500,000	Trenitalia S.p.A.	100.00	100.00	Line-by-line
TrainOSE SA	Athens (Greece)	Athens	213,043,400	FS Italiane 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	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
Uelzener Hafenbetriebs- und Umschlaggesellschaft mbH	Uelzen (Germany)	Germany	102,258	Osthannoversche Eisenbahnen Aktiengesellschaft	74.00	33.02	Line-by-line

Utrecht Mobility Services BV	Utrecht (The Netherlands)	The Netherlands	18,000	Busitalia - Sita Nord S.r.l.	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

Name	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Rete Ferroviaria Italiana - RFI S.p.A.	Rome	Italy	31,525,279,633	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Italferr S.p.A.	Rome	Italy	14,186,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Tunnel Ferroviario del Brennero S.p.A.	Rome	Italy - Austria	498,790,910	Rete Ferroviaria Italiana - RFI S.p.A. Non-controlling interests	87.93 12.07	87.93	Line-by-line

Name	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
Infrastructure Engineering Services doo Beograd	Belgrade (Serbia)	Serbia	39,626,684 (1)	Italferr S.p.A.	100.00	100.00	Line-by-line

(1) Figures expressed in local currency

Operating segment: Real estate services

Name	Registered office	Main office	Share/Quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Centostazioni S.p.A.	Rome	Italy	8,333,335	FS Italiane S.p.A.	100.00	100.00	Line-by-line
FS Sistemi Urbani S.r.l.	Rome	Italy	532,783,501	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Grandi Stazioni Rail S.p.A.	Rome	Italy	4,304,201	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Grandi Stazioni Immobiliare S.p.A.	Rome	Italy	4,000,000	FS Italiane S.p.A. Eurostazioni S.p.A.	60.00 40.00	60.00	Line-by-line
Metropark S.p.A.	Rome	Italy	3,016,463	FS Sistemi Urbani S.r.l.	100.00	100.00	Line-by-line

Operating segment: Other services

Name	Registered office	Main office	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Fercredit - Servizi Finanziari S.p.A.	Rome	Italy	32,500,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Ferservizi S.p.A.	Rome	Italy	8,170,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Italcertifer S.p.A.	Florence	Italy	480,000	FS Italiane S.p.A.	55.66	55.66	Line-by-line

2. LIST OF JOINT VENTURES

Operating segment: Transport

Name	Registered office	Main office	Quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Terminal Alptransit S.r.l.	Milan	Italy	2,100,000	Mercitalia Logistics S.p.A. Non-controlling interests	50.00 50.00	50.00	Equity
Trenord S.r.l.	Milan	Italy	76,120,000	Trenitalia S.p.A. Non-controlling interests	50.00 50.00	50.00	Equity

Name	Registered office	Main office	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
Cisalpino SA	Berne (Switzerland)	Switzerland	100,750 (1)	Trenitalia S.p.A. Non-controlling interests	50.00 50.00	50.00	Equity
Berchtesgardener Land Bahn GmbH	Freilassing (Germany)	Germany	25,000	Die Länderbahn GmbH DLB	50.00 50.00	25.50	Equity
Kraftverkehr - GMBH - KVG Lüneburg	Lüneburg (Germany)	Germany	25,565	KVG Stade GmbH & Co. KG	100.00	13.75	Equity
Kraftverkehr Celle Stadt und Land GmbH	Celle (Germany)	Germany	1,099,300	Verkehrsbetriebe Osthannover GmbH Non-controlling interests	61.00 39.00	13.98	Equity
KVG Stade GmbH & Co. KG	Stade (Germany)	Germany	4,600,000	Verkehrsbetriebe Osthannover GmbH Non-controlling interests	60.00 40.00	13.75	Equity
KVG Stade Verwaltungs GmbH	Stade (Germany)	Germany	25,000	Verkehrsbetriebe Osthannover GmbH Non-controlling interests	60.00 40.00	13.75	Equity
ODEG Ostdeutsche Eisenbahngesellschaft mbH	Parchim (Germany)	Germany	500,000	Prignitzer Eisenbahngesellschaft mbH Non-controlling interests	50.00 50.00	25.50	Equity
ODIG Ostdeutsche Instandhaltungsgesellschaft mbH	Eberswalde (Germany)	Germany	250,000	ODEG Ostdeutsche Eisenbahngesellschaft mbH	100.00	25.50	Equity
Verkehrsbetriebe Osthannover GmbH	Celle (Germany)	Germany	600,000	Osthannoversche Eisenbahnen AG	100.00	22.92	Equity

(1) Figures expressed in local currency

Operating segment: Infrastructure

Name	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% *of equity ratio*	Consolidation method
Abroad							
Italferr+Altinok partnership	Istanbul	Turkey	1,000 (1)	Italferr S.p.A. Altinok Müşavir Mühendislik Taahüt San. Ve Tic. Ltd. Şti.	50.10 49.90	50.10	Equity
SWS Italferr Adi Ortakligi	Ankara	Turkey	1,000 (1)	Italferr S.p.A. Merkezi İtalya İstanbul Merkez Şubesi SWS Global Mühendislik Proje Taahhüt San. ve Tic. A.Ş.	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	FS Italiane S.p.A. Non-controlling interests	50.00 50.00	50.00	Equity

(1) Figures expressed in local currency

3. LIST OF ASSOCIATES

Operating segment: Transport

Name	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Alpe Adria S.p.A.	Trieste	Italy	120,000	Mercitalia Rail S.r.l. Non-controlling interests	33.33 66.67	33.33	Equity
City Boat S.r.l.	Florence	Italy	1,300,000	Busitalia - Sita Nord S.r.l. Non-controlling interests	25.00 75.00	25.00	Equity
Eurogateway S.r.l.	Novara	Italy	99,000	Mercitalia Intermodal S.p.A. (formerly CEMAT S.p.A.) Mercitalia Rail S.r.l. Non-controlling interests	37.00 11.00 52.00	30.71	Equity
FNM S.p.A. (formerly Ferrovie Nord Milano S.p.A.)	Milan	Italy	230,000,000	FS Italiane S.p.A. Non-controlling interests	14.74 85.26	14.74	Equity
La Spezia Shunting Railways S.p.A.	La Spezia	Italy	1,000,000	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	36.7	Equity
Pol Rail S.r.l.	Rome	Italy	2,000,000	Mercitalia Rail S.r.l. Non-controlling interests	50.00 50.00	50.00	Equity
Quadrante Europa Terminal Gate S.p.A.	Verona	Italy	16,876,000	Rete Ferroviaria Italiana - RFI S.p.A. Non-controlling interests	50.00 50.00	50.00	Equity

Name	Registered office	Main office	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
Cesar Information Services - CIS Scrl	Brussels (Belgium)	Belgium	100,000	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 64.50	4.82	Equity
CeBus Verwaltungsgesellschaft mbH	Celle (Germany)	Germany	25,000	Kraftverkehr Celle Stadt und Land GmbH Celler Straßenbahngesellschaft mbH Non-controlling interests	34.40 1 64.60	4.81	Equity
Celler Straßenbahngesellschaft mbH	Celle (Germany)	Germany	571,450	Kraftverkehr Celle Stadt und Land GmbH Non-controlling interests	34.70 65.30	4.85	Equity
EVG Euregio - Verkehrsgesellschaft mbH & Co. KG	Münster (Germany)	Germany	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
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
Osthannoversche Umschlagsgesellschaft mbH	Wittingen (Germany)	Germany	153,600	Osthannoversche Eisenbahnen AG Non-controlling interests	33.33 66.66	14.88	Equity

Operating segment: Infrastructure

Name	Registered office	Main office	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Brenner base tunnel – Brenner Basistunnel BBT SE	Bolzano	Italy - Austria	10,240,000	Tunnel Ferroviario del Brennero S.p.A. Non-controlling interests	50.00 50.00	43.58	Equity

Operating segment: Other services

Name	Registered office	Main office	Quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Italiacamp S.r.l.	Rome	Italy	114,500	FS Italiane S.p.A. Non-controlling interests	20.00 80.00	20.00	Equity

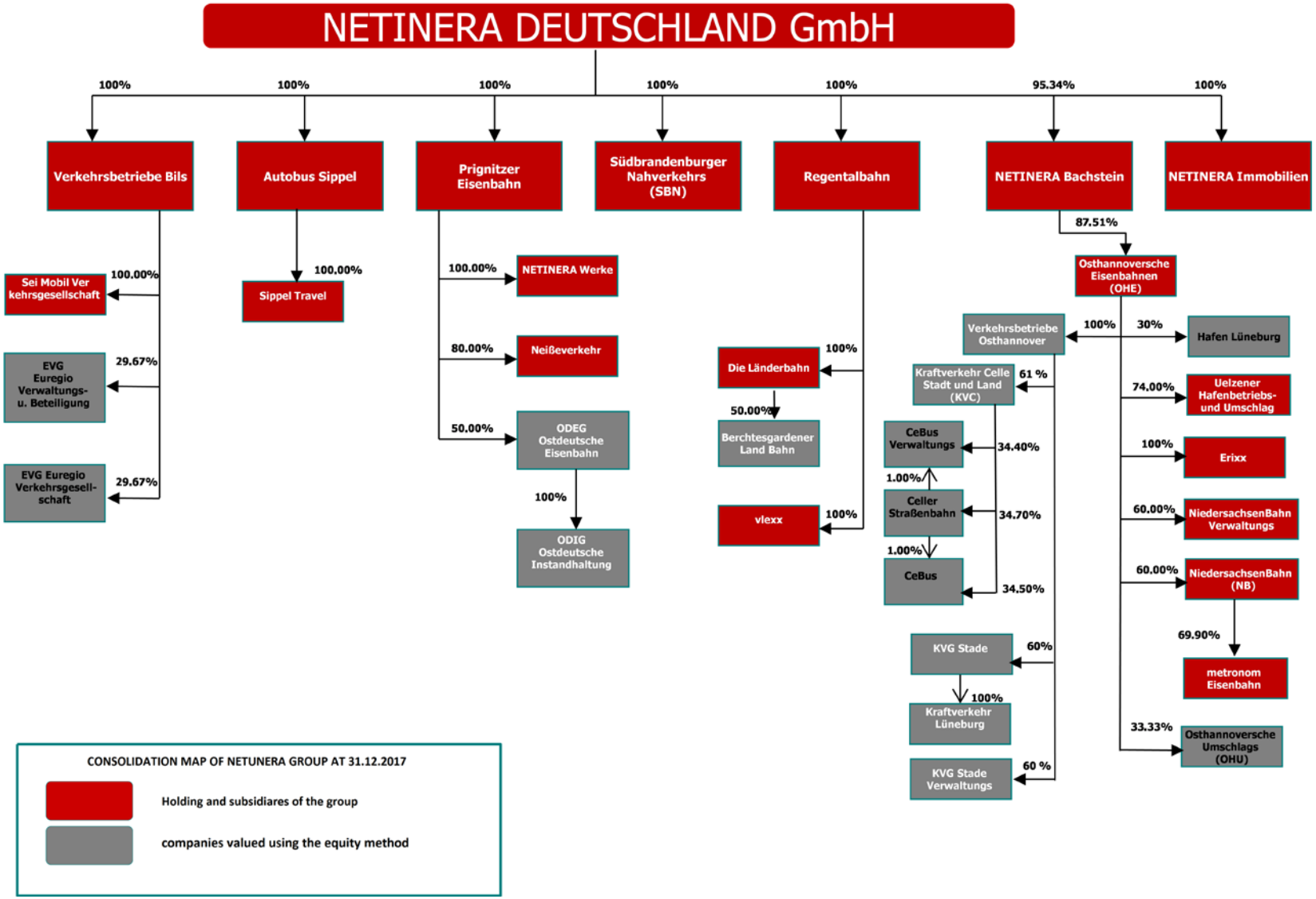
4. LIST OF OTHER UNCONSOLIDATED EQUITY INVESTMENTS

Name	Registered office	Share/quota capital	Investor	% of voting rights
Busitalia Parma Scarl	Parma	50,000	Busitalia - Sita Nord S.r.l. Non-controlling interests	60.00 40.00
Nord Est Terminal - NET S.p.A. in liquidation	Padua	200,000	RFI S.p.A. Non-controlling interests	51.00 49.00
NUGO S.p.A	Rome	1,000,000	FS Italiane S.p.A.	100.00
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
TAV S.r.l.	Rome	50,000	FS Italiane S.p.A.	100.00
Terminal Tremestieri S.r.l. in liquidation	Messina	900,000	Bluferries S.r.l. Non-controlling interests	33.33 66.67
TPER Scarl	Bologna	1,000,000	Trenitalia S.p.A. Non-controlling interests	70.00 30.00

(1) Figures expressed in local currency

5. CONSOLIDATION MAP OF FERROVIE DELLO STATO ITALIANE GROUP




NETINERA DEUTSCHLAND GmbH
100%
100%
100%
100%
100%
95.34%
100%
Verkehrsbetriebe Bils
Autobus Sippel
Prignitzer Eisenbahn
Südbrandenburger Nahverkehrs (SBN)
Regentalbahn
NETINERA Bachstein
NETINERA Immobilien
100.00%
Sei Mobil Verkehrsgesellschaft
29.67%
EVG Euregio Verwaltungs- u. Beteiligung
29.67%
EVG Euregio Verkehrsgesellschaft
100.00%
Sippel Travel
100.00%
NETINERA Werke
80.00%
Neißeverkehr
50.00%
ODEG Ostdeutsche Eisenbahn
100%
ODIG Ostdeutsche Instandhaltung
100%
Die Länderbahn
50.00%
Berchtesgardener Land Bahn
100%
vlexx
87.51%
Osthannoversche Eisenbahnen (OHE)
Verkehrsbetriebe Osthannover
100%
30%
Hafen Lüneburg
Kraftverkehr Celle Stadt und Land (KVC)
61 %
74.00%
Uelzener Hafenbetriebs- und Umschlag
CeBus Verwaltungs
34.40%
100%
Erixx
1.00%
Celler Straßenbahn
34.70%
60.00%
NiedersachsenBahn Verwaltungs
1.00%
CeBus
34.50%
60.00%
NiedersachsenBahn (NB)
KVG Stade
60%
69.90%
metronom Eisenbahn
100%
Kraftverkehr Lüneburg
33.33%
Osthannoversche Umschlags (OHU)
KVG Stade Verwaltungs
60 %
CONSOLIDATION MAP OF NETUNERA GROUP AT 31.12.2017
Holding and subsidiares of the group
companies valued using the equity method

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 2017 pursuant to article 154-bis, paragraph 5, of Legislative decree no. 58/1998

1. The undersigned Renato Mazzoncini and Roberto Mannozzi, as respectively Chief Executive Officer and Manager in charge of the company's accounting documents preparation of Ferrovie dello Stato Italiane SpA, also pursuant to article 154-bis paragraphs 3 and 4 of Legislative decree no. 58 of 24 February 1998, certify:
   - the adequacy with regard to the characteristics of Ferrovie dello Stato Italiane Group and
   - the effective application

   of the administrative and accounting procedures in preparing the consolidated financial statements at 31 December 2017.
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.

27 marzo 2018

Renato Mazzoncini
Chief Executive Officer

Roberto Mannozzi
Manager in charge of the company's accounting documents preparation

KPMG S.p.A.
Revisione e organizzazione contabile
Via Ettore Petrolini, 2
00197 ROMA RM
Telefono +39 06 80961.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

Independent auditors' report pursuant to 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 2017, the income statement and 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 2017 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 "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.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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Bologna Bolzano Brescia
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Varese Verona

Società per azioni
Capitale sociale
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R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani,
25 20124 Milano MI ITALIA

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 "Basis of preparation" – 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 8 "Property, plant and equipment", note 9 "Investment property" and note 10 "Intangible assets"

Key audit matter	**Audit procedures addressing the key audit matter**
The consolidated financial statements at 31 December 2017 include assets relating to railway infrastructure and rolling stock under property, plant and equipment, investment property and intangible assets. 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: — the estimated production volumes expressed as train-km for the railway infrastructure; — 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; — the estimated residual value; — the impacts of any changes to the regulatory framework. 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.	Our audit procedures included: — 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; — analysing the reasonableness of estimates of total production volumes expressed as train-km; — analysing the reasonableness of the criteria used to identify the components of rolling stock; — 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; — analysing the reasonableness of the estimates made by the internal departments involved in the calculation of the residual value; — assessing the appropriateness of the disclosures provided in the notes about the depreciation of railway infrastructure and rolling stock.

Provisions for risks and charges - claims from suppliers for additional consideration

Notes to the consolidated financial statements: section "Basis of preparation" – paragraphs "Provisions for risks and charges" and "Use of estimates and valuations" and note 23 "Provisions for risks and charges"

Key audit matter	**Audit procedures addressing the key audit matter**
The Ferrovie dello Stato Italiane Group's business is exposed to claims from suppliers for additional consideration. The consolidated financial statements at 31 December 2017 include accruals to other provisions for these claims under "Provisions for risks and charges". 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. 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.	Our audit procedures included: — 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; — 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; — 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; — 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; — 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; — 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; — assessing the appropriateness of the disclosures provided in the notes about the provisions for risks and charges.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Ferrovie dello Stato Italiane S.p.A. 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 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 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 April 2014, the shareholders of Ferrovie dello Stato Italiane S.p.A. 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 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 directors of Ferrovie dello Stato Italiane S.p.A. are responsible for the preparation of the Group's directors' report and report on corporate governance and ownership structure at 31 December 2017 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 2017 and their compliance with the applicable law and to state whether we have identified material misstatements.

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 consolidated financial statements of the Ferrovie dello Stato Italiane Group at 31 December 2017 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, 31 March 2018

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 2017

Financial statements

Statement of financial position

Euros

	Notes	31.12.2017	31.12.2016
Assets			
Property, plant and equipment	6	46,282,439	45,912,015
Investment property	7	470,311,514	496,581,439
Intangible assets	8	35,856,757	36,567,865
Deferred tax assets	9	180,180,053	209,764,905
Equity investments	10	35,273,538,100	35,131,499,060
Non-current financial assets (including derivatives)	11	6,593,786,366	5,675,844,687
Non-current trade receivables	14	5,310,908	6,097,873
Other non-current assets	12	169,304,672	937,430,282
Total non-current assets		**42,774,570,809**	**42,539,698,126**
Inventories	13	408,021,446	489,140,792
Current trade receivables	14	141,488,206	125,646,941
Current financial assets (including derivatives)	11	2,363,461,243	2,594,210,723
Cash and cash equivalents	15	412,805,816	984,494,166
Tax assets	16	82,933,518	86,430,873
Other current assets	12	1,253,256,788	988,372,683
Total current assets		**4,661,967,017**	**5,268,296,178**
Total assets		**47,436,537,826**	**47,807,994,304**
Share capital	17	36,340,432,802	36,340,432,802
Reserves	17	38,807,634	6,868,981
Valuation reserves	17	256,442	251,083
Retained earnings	17	256,834,398	
Profit for the year	17	230,910,168	638,773,063
Total equity		**36,867,241,444**	**36,986,325,929**
Liabilities			
Non-current loans and borrowings	18	6,490,148,566	5,675,526,623
Post-employment benefits and other employee benefits	19	9,123,252	11,160,014
Provisions for risks and charges	20	153,999,878	171,147,753
Deferred tax liabilities	9	331,073,192	428,103,401
Non-current financial liabilities (including derivatives)	21		372,822
Other non-current liabilities	22	257,085,846	1,013,665,270
Total non-current liabilities		**7,241,430,734**	**7,299,975,883**
Current loans and borrowings and current portion of non-current loans and borrowings	18	1,609,669,422	2,096,878,874
Current trade payables	23	112,642,012	79,601,131
Current financial liabilities (including derivatives)	21	329,421,663	275,049,399
Other current liabilities	22	1,276,132,551	1,070,163,088
Total current liabilities		**3,327,865,648**	**3,521,692,492**
Total liabilities		**10,569,296,382**	**10,821,668,375**
Total equity and liabilities		**47,436,537,826**	**47,807,994,304**

Income statement

Euros

	Notes	2017	2016
Revenue from sales and services	24	154,038,407	137,363,176
Other income	25	28,104,744	19,328,292
Total revenue		**182,143,151**	**156,691,468**
Personnel expense	26	(53,031,014)	(53,887,166)
Raw materials, consumables, supplies and goods	27	(24,848,271)	(6,616,521)
Services	28	(90,347,086)	(70,589,474)
Use of third-party assets	29	(3,558,144)	(3,442,392)
Other operating costs	30	(28,789,883)	(32,906,271)
Internal work capitalised	31	68,851	175,917
Total operating costs		**(200,505,547)**	**(167,265,907)**
Amortisation and depreciation	32	(21,376,666)	(19,994,276)
Net reversals of impairment losses	33	(4,889,162)	(1,055,258)
Operating loss		**(44,628,224)**	**(31,623,973)**
Gains on equity investments	34	149,574,755	130,901,228
Other financial income	34	174,663,247	577,383,046
Losses on equity investments	35	(175,112)	(326,791)
Other financial expense	35	(157,959,122)	(142,052,956)
Net financial income		**166,103,768**	**565,904,527**
Pre-tax profit		**121,475,544**	**534,280,554**
Income taxes	36	109,434,624	104,492,509
Profit from continuing operations		**230,910,168**	**638,773,063**
Profit for the year		**230,910,168**	**638,773,063**

Statement of comprehensive income

Euros

	Notes	2017	2016
Profit for the year		**230,910,168**	**638,773,063**
Items that will not be reclassified to profit or loss:			
Actuarial gains (losses)	17/19	15,407	(145,969)
Tax effect on actuarial gains (losses)	17/19	(10,048)	39,636
Other comprehensive income (expense), net of the tax effect		**5,359**	**(106,333)**
Comprehensive income		**230,915,527**	**638,666,730**

Statement of changes in equity

Euros

	Equity								
		Reserves							
		Other reserves			Valuation reserves				
	Share capital	Legal reserve	Extraordinary reserve	Other reserves	Actuarial reserve	**Total reserves**	Retained earnings (losses carried forward)	Profit for the year	**Total equity**
Balance at 1 January 2016	**36,340,432,802**			**(100,000,000)**	**357,416**	**(99,642,584)**		**137,379,615**	**36,378,169,833**
Share capital decrease									
Dividend distribution								(30,510,634)	(30,510,634)
Allocation of profit for the previous year		6,868,981		100,000,000		106,868,981		(106,868,981)	
Other changes									
Comprehensive income of which:									
Profit for the year								638,773,063	638,773,063
Net losses recognised directly in equity					(106,333)	(106,333)			(106,333)
Balance at 31 December 2016	**36,340,432,802**	**6,868,981**			**251,083**	**7,120,064**		**638,773,063**	**36,986,325,929**
Share capital decrease									
Dividend distribution								(300,000,012)	(300,000,012)
Allocation of profit for the previous year		31,938,653	50,000,000			81,938,653	256,834,398	(338,773,051)	
Demerger to RFI			(50,000,000)			(50,000,000)			(50,000,000)
Comprehensive income of which:									
Profit for the year								230,910,168	230,910,168
Net profit recognised directly in equity					5,359	5,359			5,359
Balance at 31 December 2017	**36,340,432,802**	**38,807,634**			**256,442**	**39,064,076**	**256,834,398**	**230,910,168**	**36,867,241,444**

STATEMENT OF CASH FLOWS

Euros

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

Notes to the separate financial statements

1. Company business

Ferrovie dello Stato Italiane S.p.A. was set up in accordance with Italian law and is based in Italy. Its registered office is in Piazza della Croce Rossa 1, Rome.

Due to its significant controlling investments and in compliance with IFRS 10 - Consolidated financial statements, the company prepares consolidated financial statements which show equity and profit attributable to the owners of the parent of €38,380 million and €542 million, respectively.

2. Basis of preparation

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

The separate financial statements have been prepared and presented in Euro, which is the company's functional currency, i.e. the currency of the primary economic environment in which the company operates. All amounts included in the tables of the following notes, except as otherwise specified, are expressed in thousands of Euros.

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

- the statement of financial position has been prepared by classifying assets and liabilities as "current/non-current";
- the income statement has been prepared by classifying operating costs by nature;
- the statement of comprehensive income includes the profit for the year, as well as any other changes in equity captions attributable to transactions that are not carried out with owners in their capacity as owners;
- the statement of cash flows has been prepared by reporting cash flows arising from operating activities using the indirect method.

These separate financial statements have been prepared on a going-concern basis, as the directors established that there are no financial or operational indicators or any other indications of critical issues about the company's ability to meet its obligations in the foreseeable future and, specifically, in the next twelve months. Reference should be made to note 4 "Financial risk management" for a description of the company's financial risk management procedures.

The separate financial statements have been prepared on the historical cost basis, except where fair value measurement is mandatory.

The company has consistently applied the accounting policies to all periods presented in these separate financial statements.

The reclassifications of certain captions in the year to better present the company's financial position, also affected the prior year corresponding balances. The notes to the individual financial statements captions describe in detail the amount of each reclassification of 2016 balances.

On 27 April 2018, the directors approved the draft separate financial statements at 31 December 2017 and their submission to the shareholder pursuant to article 2429 of the Italian Civil Code. These separate financial statements will be subsequently presented for the shareholder's approval within the terms set by law and will be filed within the terms established by article 2435 of the Italian Civil Code. The shareholder is entitled to make changes to these separate financial statements. For the purposes of IAS 10.17, the directors authorised these separate financial statements for issue on 27 March 2018, which is the date when they approved them.

KPMG S.p.A. was assigned the engagement to carry out the statutory audit for the 2014-2022 period pursuant to Legislative decree no. 39/2010.

3. Accounting policies

The accounting policies and measurement criteria are the same as those applied in preparing the consolidated financial statements, to which reference should be made, except for the recognition and measurement of investments in subsidiaries, associates and joint ventures, which are recognised at acquisition or incorporation cost. If there is an indication of impairment, the recoverability of their carrying amount is checked by comparing the carrying amount and the higher of the investment's value in use, calculated by discounting forecast cash flows, where possible, and its fair value, less costs to sell. Impairment losses are reversed when the reasons that led to their recognition no longer exist. In this case, reversal shall never exceed the original cost. The amount of loss exceeding the carrying amount is recognised in a specific provision under liabilities to the extent that the company deems necessary to meet legal or inherent obligations to cover the loss and/or restore the share capital required by the law. Should the subsequent performance of the impaired investment improve to the point that the reasons for the impairment losses no longer apply, such losses are reversed within the limits of the impairments recognised in previous years, under "Gains (losses) on equity investments". Other equity investments, other than subsidiaries, jointly controlled entities and associates not listed in an active market and for which a suitable measurement model would not be reliable, are measured at cost.

Dividends from investees are taken to profit or loss in the year they are resolved.

New standards

Reference should be made to the consolidated financial statements.

Use of estimates and valuations

Reference should be made to the consolidated financial statements.

4. Financial risk management

The activities that the company carries out expose it to various types of risks that include market risk (interest rate, price and currency risk), liquidity risk and credit risk.
This section provides information on the company's exposure to each of the risks listed above, the objectives, policies and processes for the management of these risks and the methods used to assess them, as well as capital management. These financial statements also include additional quantitative information. The company's risk management focuses on the volatility of financial markets and is aimed at minimising potential undesired effects on its financial position and results of operations.

Credit risk

Credit risk is the risk that a customer or one of the counterparties of a financial instrument may cause a financial loss by not complying with an obligation. It mainly arises from trade receivables and the company's financial investments with third parties. However, the company's financial assets mainly relate to loans granted to FS Italiane group companies; therefore, they do not generate a significant credit risk.
The main trade receivables relate to sales of property held for trading, with the payments made in instalments or deferred payments backed by bank guarantees. Accordingly, there is a very low credit risk involved.
The recoverability of trade receivables is forecast considering each individual position, taking account of the instructions given by the heads of department and by the internal and external legal advisors who handle recovery procedures. Accordingly, trade receivables whose recovery is uncertain at the reporting date are impaired.
With regard to credit risk deriving from investing activities, the company applies a liquidity investment policy which defines the minimum requirements of the financing counterparty in terms of creditworthiness and the related concentration thresholds and the types of financial products that can be used.

The table below shows the company's exposure to credit risk:

thousands of Euros

	31.12.2017	31.12.2016
Non-current financial assets (including derivatives)	6,593,786	5,675,845
Non-current financial assets (including derivatives)	**6,593,786**	**5,675,845**
Non-current trade receivables	5,457	6,244
Allowance for impairment	(146)	(146)
Non-current trade receivables, net of the allowance for impairment	**5,311**	**6,098**
Other non-current assets	1,273	1,291
Allowance for impairment	(1,073)	(1,073)
Other non-current assets, net of the allowance for impairment	**200**	**218**
Current trade receivables	161,350	153,009
Allowance for impairment	(19,862)	(27,362)
Current trade receivables, net of the allowance for impairment	**141,488**	**125,647**
Current financial assets (including derivatives)	2,363,461	2,594,211
Current financial assets (including derivatives)	**2,363,461**	**2,594,211**
Cash and cash equivalents	**412,806**	**984,494**
Other current assets	723,091	660,717
Other current assets	**723,091**	**660,717**
Total exposure, net of the allowance for impairment (*)	**10,240,143**	**10,047,230**

*Tax assets and equity investments are not included

The tables below show the exposure to credit risks by counterparty, in absolute terms and as a percentage, excluding cash and cash equivalents.

thousands of Euros

	31.12.2017	31.12.2016
Public administration, Italian government and regions	686,307	615,266
Ordinary customers	47,510	60,492
Other debtors	4,924	5,512
Group companies	9,088,596	8,381,466
Total exposure, net of the allowance for impairment	**9,827,337**	**9,062,736**

	31.12.2017	31.12.2016
Public administration, Italian government and regions	6.9%	6.8%
Ordinary customers	0.5%	0.7%
Other debtors	0.1%	0.1%
Group companies	92.5%	92.5%
Total exposure, net of the allowance for impairment	**100%**	**100%**

The tables below gives a breakdown of financial assets at 31 December 2017 and 2016 by overdue amounts, net of the allowance for impairment.

thousands of Euros

	31.12.2017					
		Overdue by				
	Not overdue	0-180	180-360	360-720	beyond 720 days	Total
Public administration, Italian government and regions (gross)	682,648	256	364	1,094	5,954	690,315
Allowance for impairment	(533)	(41)	(48)	(105)	(3,280)	(4,007)
Public administration, Italian government and regions (net)	**682,115**	**215**	**316**	**989**	**2,674**	**686,308**
Ordinary customers (gross)	38,601	3,254	2,031	2,384	17,241	63,511
Allowance for impairment	(1,809)	(518)	(372)	(704)	(12,598)	(16,001)
Ordinary customers (net)	**36,792**	**2,736**	**1,659**	**1,680**	**4,643**	**47,510**
Other debtors (gross)	4,924				1,073	5,997
Allowance for impairment					(1,073)	(1,073)
Other debtors (net)	**4,924**					**4,924**
Group companies	9,039,602	11,439	7,568	9,312	20,675	9,088,596
Group companies (net)	**9,039,602**	**11,439**	**7,568**	**9,312**	**20,675**	**9,088,596**
Total exposure, net of the allowance for impairment	**9,763,433**	**14,390**	**9,543**	**11,981**	**27,992**	**9,827,338**

thousands of Euros

	31.12.2016					
		Overdue by				
	Not overdue	0-180	180-360	360-720	beyond 720 days	Total
Public administration, Italian government and regions (gross)	610,641	439	785	415	7,819	620,099
Allowance for impairment	(254)	(47)	(92)	(74)	(4,366)	(4,833)
Public administration, Italian government and regions (net)	**610,387**	**392**	**693**	**341**	**3,453**	**615,266**
Ordinary customers (gross)	47,329	16,057	2,026	2,334	15,421	83,167
Allowance for impairment	(9,443)	(336)	(364)	(835)	(11,697)	(22,675)
Ordinary customers (net)	**37,886**	**15,721**	**1,662**	**1,499**	**3,724**	**60,492**
Other debtors (gross)	5,512				1,073	6,585
Allowance for impairment	(1,073)				(1,073)	(2,146)
Other debtors (net)	**4,439**					**5,512**
Group companies	8,323,011	33,842	1,941	9,502	13,170	8,381,466
Group companies (net)	**8,323,011**	**33,842**	**1,941**	**9,502**	**13,170**	**8,381,466**
Total exposure, net of the allowance for impairment	**8,975,723**	**49,955**	**4,296**	**11,342**	**20,347**	**9,062,736**

Liquidity risk

Liquidity risk is the risk that an entity may have difficulties in complying with the obligations associated with financial liabilities to be settled by delivering cash or another financial asset.

The company's financial debt is mainly due to the payment of loans to FS Italiane group companies. It adopts asset liability management techniques in collecting debt and loan principal from the group companies. Currently, the loans received and bonds issued 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, the company agreed a three-year revolving and committed backup credit facility in 2015 (€1,500,000 thousand) for general purposes. Based on the above facility and substantially applying the same terms and conditions in terms of restrictions and commitments for the parties, FS Italiane S.p.A. has granted two three-year intragroup credit lines (revolving and committed) to the subsidiaries Trenitalia S.p.A. (€800,000 thousand) and RFI S.p.A. (€400,000 thousand).

Furthermore, again to meet temporary cash requirements, the company has numerous uncommitted credit lines granted by banks.

The following tables shows the due dates of financial liabilities, including interest to be paid, and trade payables:

thousands of Euros

31 December 2017	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	Beyond 5 years
Non-derivative financial liabilities							
Bonds	5,752,266	6,169,337	14,368	664,478	419,163	2,140,477	2,930,851
Bank loans and borrowings	1,551,176	1,598,997	704,461	110,830	411,401	372,305	
Loans and borrowings from other financial backers	796,018	850,834	100,000	100,000	200,139	450,695	
Loans and borrowings from group companies	329,782	329,422	329,422				
Total non-derivative financial liabilities	**8,429,242**	**8,948,590**	**1,148,251**	**875,308**	**1,030,703**	**2,963,477**	**2,930,851**
Trade payables	**112,642**	**112,642**	**112,642**				

thousands of Euros

31.12.2016	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	Beyond 5 years
Non-derivative financial liabilities							
Bonds	4,071,967	4,401,247	22,467	53,096	667,103	1,996,195	1,662,386
Bank loans and borrowings	2,735,285	2,806,484	1,800,276	110,925	111,281	784,002	
Loans and borrowings from other financial backers	964,907	1,051,047	100,024	100,016	200,134	650,873	
Loans and borrowings from group companies	275,422	275,422	275,422				
Total non-derivative financial liabilities	**8,047,581**	**8,534,200**	**2,198,189**	**264,037**	**978,518**	**3,431,070**	**1,662,386**
Trade payables	**79,601**	**79,601**	**79,601**				

Derivative and non-derivative financial liabilities

The contractual flows of variable-rate loans have been calculated using the forward rates estimated at the reporting date. The amounts include both principal and interest.

thousands of Euros

31 December 2017	Carrying amount	Within one year	1-5 years	Beyond 5 years
Non-derivative financial liabilities				
Bonds	5,752,266	636,000	2,305,165	2,811,101
Bank loans and borrowings	1,551,176	797,568	753,608	
Loans and borrowings from other financial backers	796,018	175,743	620,275	
Loans and borrowings from group companies	329,782	329,782		
Total non-derivative financial liabilities	**8,429,242**	**1,939,093**	**3,679,048**	**2,811,101**
Trade payables	**112,642**	**112,642**		

thousands of Euros

31.12.2016	Carrying amount	Within one year	1-5 years	Beyond 5 years
Non-derivative financial liabilities				
Bonds	4,071,967	38,348	2,449,718	1,583,901
Bank loans and borrowings	2,735,285	1,889,395	845,890	
Loans and borrowings from other financial backers	964,907	168,889	796,018	
Loans and borrowings from group companies	275,422	275,422		
Total non-derivative financial liabilities	**8,047,581**	**2,372,054**	**4,091,626**	**1,583,901**
Trade payables	**79,601**	**79,601**		

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	beyond 5 years
Variable rate	4,334,129	4,432,661	1,645,306	646,801	917,378	1,223,176
Fixed rate	4,095,111	4,516,290	378,613	383,903	2,046,099	1,707,675
Balance at 31 December 2017	**8,429,240**	**8,948,951**	**2,023,919**	**1,030,704**	**2,963,477**	**2,930,851**
Variable rate	5,277,863	5,374,430	2,076,230	614,777	1,079,287	1,604,136
Fixed rate	2,769,965	3,160,017	386,242	363,742	2,351,783	58,250
Balance at 31 December 2016	**8,047,828**	**8,534,447**	**2,462,472**	**978,519**	**3,431,070**	**1,662,386**

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 2017, 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	16,731	(13,182)
Interest income from loans	(16,731)	13,182
Total		

Currency risk

The company is currently active in Italy as well as in Eurozone countries.

In February 2017, in order to enable Trenitalia UK Ltd (the British-based company set up in 2016 and wholly-owned by Trenitalia S.p.A.) to acquire NXET Trains Limited, the FS Italiane S.p.A. granted an intragroup loan of GBP60 million to Trenitalia UK (the residual amount was raised by means of a GBP13 million capital increase carried out by Trenitalia S.p.A. in favour of Trenitalia UK). Cross currency swaps hedging the currency risk were agreed in relation to the intragroup loan granted by FS Italiane to Trenitalia UK.

The company also has loans and borrowings in Swiss francs totalling CHF45 million.

The company is not exposed to any currency risk on the bonds in Swiss francs as they are covered by the related intragroup loans granted to the subsidiary Trenitalia S.p.A. at the same amount and in the same currency.

Capital management

The company's main objective with respect to capital risk management is to safeguard its ability to continue as a going concern, while ensuring returns for shareholders and benefits for the other stakeholders. The company also intends to maintain an optimal capital structure in order to reduce the cost of debt.

Financial assets and financial liabilities by category

To complete financial risk information, the table below gives a reconciliation between financial assets and financial liabilities as reported in the statement of financial position by categories of financial assets and financial liabilities identified pursuant to IFRS 7.

31 December 2017	Loans and receivables	Loans and borrowings
Non-current financial assets (including derivatives)	6,593,786	
Non-current trade receivables	5,311	
Other non-current assets	169,305	
Current trade receivables	141,488	
Current financial assets (including derivatives)	2,363,461	
Cash and cash equivalents	412,806	
Tax assets	82,934	
Other current assets	1,253,257	
Non-current loans and borrowings		6,490,149
Other non-current liabilities		257,086
Current loans and borrowings and current portion of non-current loans and borrowings		1,609,669
Current trade payables		112,642
Current financial liabilities (including derivatives)		329,422
Other current liabilities		1,276,133

31.12.2016	Loans and receivables	Loans and borrowings
Non-current financial assets (including derivatives)	5,675,845	
Non-current trade receivables	6,098	
Other non-current assets	937,430	
Current trade receivables	125,647	
Current financial assets (including derivatives)	2,594,211	
Cash and cash equivalents	984,494	
Tax assets	86,431	
Other current assets	988,373	
Non-current loans and borrowings		5,675,527
Non-current financial liabilities (including derivatives)		373
Other non-current liabilities		1,013,665
Current loans and borrowings and current portion of non-current loans and borrowings		2,096,879
Current trade payables		79,601
Current financial liabilities (including derivatives)		275,049
Other current liabilities		1,070,163

5. Extraordinary transactions

As per the partial demerger deed signed on 20 December 2017, pursuant to article 2506 of the Italian Civil Code, Ferrovie dello Stato Italiane S.p.A. assigned part of its assets to Rete Ferroviaria Italiana S.p.A. (the "beneficiary"), without shares.

This transaction involved 169 real estate complexes which were previously transferred to the company by means of a demerger. Over time, these real estate complexes regained eligibility for classification as core assets, as their use in railway operations was resumed for a variety of reasons, mainly production requirements that arose in the meantime and the need for RFI S.p.A. to fully implement the provisions of Law no. 128/2017.

Consequently, the transaction will enable RFI S.p.A., in line with the strategic guidelines of FS Italiane group's 2017-2026 business plan, to involve the assets in the initiatives and funding typical of the network operator, while benefiting from the same assets' infrastructural potential.

The proposed demerger was based on the financial position at 30 June 2017 and the transaction was scheduled to become effective on 31 December 2017. As set out in the above deed, any changes in the balances of the assets and liabilities assigned to the beneficiary between the date of the financial position and the date the demerger became effective generated receivables from/payables to the demerged company and the beneficiary.

The demerged assets and liabilities are summarised below:

Euros

	30.06.2017	31.12.2017
Investment property	(18,370,774)	(18,914,225)
Total non-current assets	**(18,370,774)**	**(18,914,225)**
Inventories	(61,165,640)	(62,438,774)
Other current assets		1,816,585
Total current assets	**(61,165,640)**	**(60,622,189)**
Total assets	**(79,536,414)**	**(79,536,414)**
Reserves	50,000,000	50,000,000
Total equity	**50,000,000**	**50,000,000**
Other current liabilities	29,536,414	29,536,414
Total current liabilities	**29,536,414**	**29,536,414**
Total liabilities	**29,536,414**	**29,536,414**
Total equity and liabilities	**79,536,414**	**79,536,414**

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	61,453	523	13,189	1,104	**76,269**
Depreciation and impairment losses	(16,483)	(523)	(12,631)		**(29,637)**
Balance at 1.1.2016	**44,970**		**558**	**1,104**	**46,632**
Investments				360	**360**
Roll-outs	151		206	(357)	
Depreciation	(857)		(191)		**(1,048)**
Increases in grants			(39)		**(39)**
Other reclassifications	(10)			15	**5**
Total changes	**(716)**		**(24)**	**18**	**(722)**
Historical cost	57,822	395	3,879	1,124	**63,220**
Depreciation and impairment losses	(13,568)	(395)	(3,306)		**(17,269)**
Grants			(39)		**(39)**
Balance at 31.12.2016	**44,254**		**534**	**1,124**	**45,912**
Investments				1,871	**1,871**
Roll-outs	372		1,675	(2,047)	
Depreciation	(842)		(367)		**(1,209)**
Increases in grants					
Other reclassifications *	(1,153)			861	**(292)**
Total changes	**(1,623)**		**1,308**	**685**	**370**
Historical cost	56,677	395	5,554	1,809	**64,435**
Depreciation and impairment losses	(14,046)	(395)	(3,673)		**(18,114)**
Grants			(39)		**(39)**
Balance at 31.12.2017	**42,631**		**1,842**	**1,809**	**46,282**
Historical cost	(1,517)			861	**(656)**
Depreciation	364				**364**
Total reclassifications*	**(1,153)**			**861**	**(292)**

Land and buildings refer to a section of the Villa Patrizi building where the company has its registered office. The remaining section is included under investment property. The €1,871 thousand increase in this caption is mostly due to the extraordinary maintenance and the upgrading of the information systems at Villa Patrizi, offset by the depreciation of the year (€1,209 thousand).

With respect to reclassifications (€292 thousand), in 2017, following the smaller space in Villa Patrizi used by the company (-0.70% on 31 December 2016), a net €1,153 thousand was reclassified from Investment property. Other reclassifications (€861 thousand) refer to software for sundry investment projects which was duly reclassified to the relevant captions when it became an asset.

7. Investment property

Investment property at 31 December 2017 and changes therein are shown in the table below. The assets' estimated useful lives did not change during the year.

thousands of Euros

	2017		2016	
	Land	**Buildings**	**Land**	**Buildings**
Balance at 1 January				
Cost	486,167	429,213	498,414	434,580
Accumulated depreciation	(36,874)	(205,948)	(15,932)	(202,303)
Allowance for impairment	(155,848)	(20,129)	(185,533)	(33,529)
Carrying amount	**293,445**	**203,136**	**296,949**	**198,748**
Changes of the year				
Increase		4,636		10,140
Reclassifications*	(5,075)	4,577	(1,424)	434
Depreciation	(1,801)	(6,996)	(1,965)	(6,186)
Impairment losses	(2,563)	(133)		
Divestments**			(115)	
Extraordinary transactions***	(17,157)	(1,757)		
Total changes	**(26,596)**	**327**	**(3,504)**	**4,388**
Balance at 31 December				
Cost	398,525	424,456	486,167	429,213
Accumulated depreciation	(38,733)	(207,716)	(36,874)	(205,948)
Allowance for impairment	(92,943)	(13,277)	(155,848)	(20,129)
Carrying amount	**266,849**	**203,463**	**293,445**	**203,136**
Reclassifications*				
Cost	(40,791)	(738)	(12,132)	(15,507)
Accumulated depreciation	(57)	918	(18,977)	2,541
Allowance for impairment	35,773	4,397	29,685	13,400
Total	**(5,075)**	**4,577**	**(1,424)**	**434**
Divestments**				
Cost		(6)	(115)	
Accumulated depreciation		3		
Allowance for impairment		3		
Total			**(115)**	
Extraordinary transactions***				
Cost	(46,851)	(8,649)		
Accumulated depreciation	(1)	4,307		
Allowance for impairment	29,695	2,585		
Total	**(17,157)**	**(1,757)**		

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 €26,269 thousand decrease for the year is mainly due to the above-mentioned partial demerger of Ferrovie dello Stato Italiane S.p.A. to Rete Ferroviaria Italiane S.p.A. (€18,914 thousand), described in note 5 Extraordinary transactions, which was carried out in line with the strategic guidelines of FS Italiane group's 2017-2026 business plan and the measures aimed at reorganising the group's real estate assets.

The increases of the year total €4,636 thousand and mainly refer to the restructuring of the Pietrarsa Museum, used by (leased to) Fondazione FS (€3,262 thousand) and the extraordinary maintenance work on Villa Patrizi (€1,215 thousand).
During the year, as a result of the recurring appraisal and analysis of the company's real estate assets, and given the economic climate and, in particular, the downturn on the real estate market, the company recognised impairment losses of €2,696 thousand in order to align the carrying amount of the assets with their market value.
The net decrease in reclassifications refers to the transfer of buildings held for sale to Inventories (€1,651 thousand), while the residual portion (€1,153 thousand) relates to the transfer of the section of the 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 IT system.

Opening and closing balances are shown in the table below.

thousands of Euros

	Concessions, licences, trademarks and similar rights	Assets under development and payments on account	Total
Historical cost	153,882	6,978	160,860
Amortisation and impairment losses	(114,683)		(114,683)
Grants	(5,426)		(5,426)
Balance at 1.1.2016	**33,773**	**6,978**	**40,751**
Investments		12,745	12,745
Roll-outs	15,647	(15,647)	
Amortisation	(10,795)		(10,795)
Disposals and divestments	(1,096)		(1,096)
Increases in grants	(5,022)		(5,022)
Other reclassifications		(15)	(15)
Total changes	**(1,266)**	**(2,917)**	**(4,183)**
Historical cost	168,433	4,061	172,494
Amortisation and impairment losses	(125,478)		(125,478)
Grants	(10,448)		(10,448)
Balance at 31.12.2016	**32,507**	**4,061**	**36,568**
Investments		11,521	11,521
Roll-outs	3,768	(3,768)	
Amortisation	(11,371)		(11,371)
Other reclassifications		(861)	(861)
Total changes	**(7,603)**	**6,892**	**(711)**
Historical cost	172,201	10,953	183,155
Amortisation and impairment losses	(136,849)		(136,850)
Grants	(10,448)		(10,448)
Balance at 31.12.2017	**24,904**	**10,953**	**35,857**

9. Deferred tax assets and deferred tax liabilities

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2017 and changes of the year due to the main temporary differences between carrying amounts and the related tax amounts.

thousands of Euros

	31.12.2016	Incr. (decr.) through profit or loss	Other changes	31.12.2017
Deferred tax assets				
Differences related to intangible assets and PPE	85,766	(19,137)		66,629
Provisions for risks and charges and impairment losses with deferred tax deductibility	52,941	(4,080)		48,861
Differences related to buildings held for trading - inventories	70,842	(6,437)		64,405
Other	216	59	10	285
Total deferred tax assets	**209,765**	**(29,595)**	**10**	**180,180**
Deferred tax liabilities				
Provision for deferred tax liabilities				
Differences related to intangible assets and PPE	61,578	(2,028)		59,550
Differences related to buildings held for trading - inventories	25,239	(1,354)		23,885
Total provision for deferred tax liabilities	**86,817**	**(3,382)**		**83,435**
- Provision for IRES consolidation scheme	341,286	(93,648)		247,638
Total	**428,103**	**(97,030)**		**331,073**

Deferred tax assets and liabilities are mainly related to the misalignment between the carrying and tax amounts of property, plant and equipment and intangible assets, on which depreciation and amortisation are calculated, and buildings held for trading, in addition to the deferred deductibility applied to provisions for risks and charges and impairment losses on non-current assets. The changes in the year refer to the decrease in deferred tax assets and liabilities due to the net releases of provisions for risks and charges (€4,080 thousand) and the net releases due to the differences between the carrying and tax amounts of amortisation and depreciation of the year and the gains on the sale of assets (€22,133 thousand) to Rete Ferroviaria Italiane S.p.A. as per the above-mentioned partial demerger.

The provision for the IRES consolidation scheme includes the taxes transferred by the group companies and used to offset taxes related to the company and other subsidiaries that participate in the tax consolidation scheme. The provision also reflects the utilisations needed to remunerate the same companies for the tax losses previously transferred and offset against their taxable profit during the year. The company used €93,648 thousand of the provision during the year, mainly for Trenitalia S.p.A. and Mercitalia Logistics S.p.A..

10. Equity investments

The tables below show the opening and closing balances of equity investments, broken down by category, and changes therein in 2017 and 2016.

thousands of Euros

	Carrying amount at 31.12.2017	Carrying amount at 31.12.2016	Cumulative allowance for impairment
Equity investments in:			
Subsidiaries	35,110,278	34,998,547	32,794
Associates	53,392	23,084	
Jointly controlled entities	95,120	95,120	
Other companies	14,748	14,748	
Total	**35,273,538**	**35,131,499**	**32,794**

Changes in 2017

thousands of Euros

	Carrying amount at 31.12.2016	Changes of the year					Carrying amount at 31.12.2017	Cumulative allowance for impairment
		Acquisitions/ Subscriptions	Disposals/ Decreases	Impairment losses/ Reversals of impairment losses	Reclassifications	Other changes		
Investments in subsidiaries								
Centostazioni S.p.A.	3,050	65,731					68,781	
Fercredit S.p.A.	31,413						31,413	
Ferservizi S.p.A.	8,378						8,378	
Mercitalia Logistics S.p.A.	110,436				236,702		347,138	32,659
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.)	20				(20)			135
Italcertifer S.p.A.	738						738	
Italferr S.p.A.	8,047						8,047	
RFI S.p.A.	32,414,368						32,414,368	
Sita S.p.A. in liquidation								
Trenitalia S.p.A.	1,654,464				(236,682)		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					1,000	
Tav S.r.l.	50						50	
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.								
	34,998,547	**111,731**					**35,110,278**	**32,794**
Investments in associates								
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	
	23,084	**30,308**					**53,392**	
Investments in jointly controlled entities								
T.E.L.T. Sas (formerly L.T.F. Sas)	95,120	31,931				(31,931)	95,120	
	95,120	**31,931**				**(31,931)**	**95,120**	
Other companies								
BCC Bureau Central de Clearing	6						6	
Eurofima SA	14,584						14,584	
Hit Rail B.V.	97						97	
Isfort S.p.A.	61						61	
	14,748						**14,748**	
Total	**35,131,499**	**173,970**				**(31,931)**	**35,273,538**	**32,794**

The changes during the year relate to:

- **Centostazioni S.p.A. -** the purchase and sale agreement between Archimede 1 S.p.A. and Ferrovie dello Stato Italiane S.p.A. was signed on 15 November 2016 and performed in January 2017 following the Antitrust Authority's approval, with the acquisition of the residual 40% of Centostazioni S.p.A. for a total consideration of €65,731 thousand.
- **Trenitalia S.p.A. -** the deed for the demerger of Trenitalia S.p.A.'s Cargo business unit to Mercitalia Rail S.r.l. became effective on 1 January 2017. Consequently, the share capital of the demerged company and the beneficiary decreased and increased by €236,682 thousand, respectively.
- **Metro 5 S.p.A. -** on 9 June 2017, Ferrovie dello Stato S.p.A. acquired 36.70% of Metro 5 S.p.A. from Astaldi S.p.A. for a total consideration of €64,629 thousand, including a contract for the transfer of receivables arising from the subordinated loans granted to Metro 5 S.p.A. by Astaldi (€34,321 thousand).
- **Mercitalia Logistics S.p.A. -** as per the demerger deed of 19 June 2017 and effective from 1 July 2017, ownership of 100% of TX Logistik AG was transferred from Mercitalia Rail to Mercitalia Logistics.
- **TrainOSE SA -** on 14 September, Ferrovie dello Stato S.p.A. acquired 100% of TrainOSE S.A. from Hellenic Republic Asset Development Fund S.A. against a consideration of €45,000 thousand.
- **Nugo S.p.A. -** the company, wholly-owned by Ferrovie dello Stato S.p.A., was set up on 15 December 2017.
- **TELT SaS -** the carrying amount of this investment increased by €31,931 thousand, entirely offset by the increase in the grants related to assets received from the MEF for financial investments as per section 7122.

Changes in 2016

	Carrying amount at 31.12.2015	Changes of the year				Reclassifications	Decreases	Carrying amount at 31.12.2016	Cumulative allowance for impairment
		Acquisitions / Subscriptions	Disposals / Decreases	Impairment losses / Reversals of impairment losses	Other changes				
Investments in subsidiaries									
Centostazioni S.p.A.	3,050							3,050	
Fercredit S.p.A.	31,413							31,413	
Ferservizi S.p.A.	8,378							8,378	
Mercitalia Logistica S.p.A.	110,436							110,436	32,659
FS Sistemi Urbani S.r.l.	534,094							534,094	
Grandi Stazioni Rail S.p.A.	17,601					(14,456)		3,145	
Grandi Stazioni Immobiliare S.p.A.						616		616	
Grandi Stazioni Retail S.p.A.			(13,840)			13,840			
Netinera Deutschland GmbH (formerly FS2Move GmbH)	144,355							144,355	
Mercitalia Rail S.r.l.	20							20	135
Italcertifer S.p.A.	738							738	
Italferr S.p.A.	8,047							8,047	
RFI S.p.A.	32,414,368							32,414,368	
Sita S.p.A. in liquidation									
Trenitalia S.p.A.	1,612,874			41,590				1,654,464	
Busitalia - Sita Nord S.r.l.	43,373	42,000						85,373	
Tav S.r.l.	50							50	
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.									
	34,928,797	**42,000**	**(13,840)**	**41,590**				**34,998,547**	**32,794**
Investments in associates									
Ferrovie Nord Milano S.p.A.	23,061							23,061	
Italiacamp S.r.l.	23							23	
	23,084							**23,084**	
Investments in jointly controlled entities									
T.E.L.T. Sas (formerly L.T.F. Sas)	95,120	40,250			(40,250)			95,120	
	95,120	**40,250**			**(40,250)**			**95,120**	
Other companies									
BCC Bureau Central de Clearing	6							6	
Eurofima SA	14,584							14,584	
Hit Rail B.V.	97							97	
Isfort S.p.A.	61							61	
	14,748							**14,748**	
Total	**35,061,749**	**82,250**	**(13,840)**	**41,590**	**(40,250)**			**35,131,499**	**32,794**

In the following table, the carrying amounts of investments in subsidiaries, associates and jointly controlled entities are compared with the corresponding portions of equity.

thousands of Euros

	Registered office	Share/quota capital	Profit (loss) for the year	Equity (deficit) at 31.12.2017	% of investment	Attributable equity (a)	Carrying amount at 31.12.2017 (b)	Difference (b) - (a)
Investments in subsidiaries								
Busitalia - Sita Nord S.r.l.	Rome	73,000	1,742	87,962	100.00%	87,962	85,373	(2,589)
Centostazioni S.p.A.	Rome	8,333	7,982	37,368	100.00%	37,368	68,781	31,413
Fercredit S.p.A.	Rome	32,500	9,064	95,398	100.00%	95,398	31,413	(63,985)
Ferservizi S.p.A.	Rome	8,170	19,353	27,758	100.00%	27,758	8,378	(19,380)
Mercitalia Logistics S.p.A.	Rome	379,806	1,063	372,377	100.00%	372,377	347,138	(25,239)
FS Sistemi Urbani S.r.l.	Rome	532,783	112	550,220	100.00%	550,220	534,094	(16,126)
Grandi Stazioni Rail S.p.A.	Rome	4,304	4,275	38,994	100.00%	38,994	3,145	(35,849)
Grandi Stazioni Immobiliare S.p.A.	Rome	4,000	(241)	39,434	60.00%	23,660	616	(23,044)
Netinera Deutschland GmbH (formerly FS2Move GmbH)	Berlin	1,025	10,002	256,293	51.00%	130,709	144,355	13,646
Italcertifer S.p.A.	Florence	480	1,255	5,707	55.66%	3,177	738	(2,439)
Italferr S.p.A.	Rome	14,186	4,251	47,539	100.00%	47,539	8,047	(39,492)
RFI S.p.A.	Rome	31,525,280	261,501	33,340,830	100.00%	33,340,830	32,414,368	(926,462)
Sita S.p.A. in liquidation (*)	Florence	200	206	(16,654)	55.00%	(9,160)		9,160
TrainOSE SA	Athens	213,043	(611)	34,096	100.00%	34,096	45,000	10,904
Nugo S.p.A.	Rome	1,000		1,000	100.00%	1,000	1,000	
Trenitalia S.p.A.	Rome	1,417,782	276,242	2,387,398	100.00%	2,387,397	1,417,782	(969,615)
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	10,013	8,895	(132,898)	100.00%	(132,898)		132,898
Total						**37,036,450**	**35,110,278**	**(1,926,172)**
Investments in associates								
Metro 5 S.p.A.	Milan	53,300	4,305	82,472	36.70%	30,267	30,308	41
Ferrovie Nord Milano S.p.A (*)	Milan	230,000	17,574	332,739	14.74%	49,046	23,061	(25,985)
Italiacamp S.r.l (*)	Rome	10	161	271	20.00%	54	23	(31)
Total						**79,367**	**53,392**	**(25,975)**
Investments in jointly controlled entities								
T.E.L.T. Sas (*) (**)	Le Bourget du Lac	1,000		987,231	50.00%	493,616	95,120	(398,496)
Total						**493,616**	**95,120**	**(398,496)**
TOTAL						**37,609,433**	**35,258,790**	**(2,350,643)**

(*) 2016 financial statements figures
(**) The difference is due to the different treatment of the grants related to assets disbursed by the government, through RFI S.p.A., starting from 2007, which the company, pursuant to French GAAP, recognises in equity rather than as a direct decrease in the carrying amount of the assets.

No impairment loss is recognised on the difference between the carrying amount of the investments in Netinera Deutschland GmbH and Ferrovie del Sud Est S.r.l. and the related portions of equity because the investees' expected performance does not indicate that the investments are impaired.

The greater amount of Centostazioni S.p.A. is due to the acquisition described in the above paragraph on changes in equity investments and to that set out in the events after the reporting date paragraph.

The carrying amount of the investment in TrainOSE is equal to the price of a recent acquisition.

No impairment loss was recognised on the investment in TAV S.r.l. as it was inactive at the reporting date.

With respect to Sita S.p.A. in liquidation, the company provided for the possible adverse outcome of pending disputes in the provision for risks and charges.

The following table summarises the main statement of financial position and income statement captions of associates and jointly controlled entities. Figures are drawn from the 2016 and 2015 financial statements.

thousands of Euros

Investments in associates and jointly controlled entities 31.12.2016	% of investment	Current assets	Non-current assets	Assets held for sale	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit (loss)
Investments in associates											
FNM S.p.A.	14.74%	187,230	396,181	1,677	585,088	171,930	80,419	252,349	73,180	55,606	17,574
Italiacamp S.r.l (*)	20.00%	831	110		941	653	17	670	1,510	1,349	161
Investments in jointly controlled entities											
T.E.L.T. Sas (formerly L.T.F. Sas)	50.00%	29,909	992,035		1,021,944	34,372	341	34,713	159,570	159,570	

(*) Its financial statements are drawn up under Italian GAAP.

thousands of Euros

Investments in associates and jointly controlled entities 31.12.2015	% of investment	Current assets	Non-current assets	Assets held for sale	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit (loss)
Investments in associates											
FNM S.p.A.	14.74%	215,638	346,974	3,782	566,394	159,119	85,931	245,050	69,829	54,654	15,175
Italiacamp S.r.l (*)	20.00%	546	100		646	522	14	536	1,401	1,312	89
Investments in jointly controlled entities											
T.E.L.T. Sas (formerly L.T.F. Sas)	50.00%	73,934	855,678		929,612	101,596	271	101,867	89,424	89,424	

(*) Its financial statements are drawn up under Italian GAAP.

11. Non-current and current financial assets (including derivatives)

The following table gives a breakdown of financial assets at the 2017 and 2016 year ends:

thousands of Euros

	Carrying amount								
	31.12.2017			31.12.2016			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Hedging derivatives	2,714		2,714				2,714		2,714
Non-current loans and borrowings	6,591,072	908,305	7,499,377	5,675,409	298,955	5,974,364	915,663	609,350	1,525,013
Current loan assets		1,024,441	1,024,441		1,849,902	1,849,902		(825,461)	(825,461)
Other loan assets	0	430,715	430,715	436	445,354	445,790	(436)	(14,639)	(15,075)
Total	6,593,786	2,363,461	8,957,247	5,675,845	2,594,211	8,270,056	917,941	(230,750)	687,191

Financial assets increased by €687,191 thousand overall in 2017.

Hedging derivatives reflect the amount of the cross currency swaps, calculated on a fair value basis in accordance with IFRS 13, agreed to hedge the interest rate fluctuations of the loan disbursed to Trenitalia UK, as described in the "Financial and operational risk management" paragraph and below.

Non-current loans and borrowings at 31 December 2017 mainly relate to loans granted to the subsidiaries Rete Ferroviaria Italiana S.p.A. and Trenitalia S.p.A. totalling €6,475,849 thousand, of which €3,725,312 thousand related to the Euro Medium Term Notes programme. The €1,525,013 thousand increase is mainly due to the granting of new intragroup loans as follows:

- Trenitalia UK completed the acquisition of NXET Trains Limited on 10 February 2017. As part of this transaction, Ferrovie dello Stato Italiane S.p.A., Trenitalia UK's guarantor with Britain's Department for Transport (DfT), granted a GBP60,000 intragroup loan (approximately €70,500 thousand) to Trenitalia UK, in order to finance part of the acquisition;
- on 9 June 2017, as part of the acquisition of 36.7% of Metro 5 S.p.A. from Astaldi, Ferrovie dello Stato Italiane S.p.A. entered into a contract for the transfer of the receivables arising from the subordinated loans granted to Metro 5 S.p.A. by Astaldi (€34,321 million, of which €28,022 thousand and €6,299 thousand refer to principal and interest, respectively);
- on 22 June 2017, Ferrovie dello Stato Italiane S.p.A. placed bonds for €1,000,000 thousand as part of the EMTN Programme. The bonds have a fixed coupon of 1.5% and are redeemable on 27 June 2025. The issue was placed by a bank syndicate comprising Barclays, BNP Paribas, Credit Agricole CIB, Deutsche Bank, Goldman Sachs International, JP Morgan and UniCredit as the joint bookrunners. The proceeds will be used to finance the purchase of rolling stock for Trenitalia S.p.A.'s regional and medium to long haul transport services and Rete Ferroviaria Italian S.p.A.'s HS/HC infrastructure, with the agreement of intragroup loans between the parent, Ferrovie dello Stato Italiane S.p.A., and the two companies mentioned above, which has substantially the same characteristics and contractual conditions as the bond issue in terms of restrictions and the parties' commitments.
- on 30 November 2017, FS Italiane S.p.A. placed its first green bond, with a nominal amount of €600,000 thousand, as part of the EMTN Programme. The bonds have a fixed coupon of 0.875% and are redeemable on 7 December 2023. The issue is part of the Green Bond Framework set up by Ferrovie dello Stato Italiane S.p.A. in order to finance projects with a positive impact in terms of environmental sustainability. The proceeds will be used to renew the rolling stock for public transport, specifically the new electric multiple unit (EMU) trains to transport regional passengers and the new ETR 1000 HS trains to transport HS passengers. FS Italiane S.p.A. will use the proceeds of the placement to grant Trenitalia S.p.A. an intragroup loan with substantially the same characteristics and contractual conditions as the bond issue in terms of restrictions and the parties' commitments;

- on 19 December 2017, the European Investment Bank fully subscribed the bond issued by Ferrovie dello Stato Italiane S.p.A. as part of the EMTN Programme. It amounts to €100,000 thousand, bears interest at a floating rate and has an eight-year term. The bond will finance the purchase of the Pop and Rock regional trains envisaged in the new service contract entered into by Trenitalia S.p.A. and the Emilia Romagna region. These trains will be purchased also using the proceeds from the Green issue which was placed in November 2017. Once again, an intragroup loan was entered into between Ferrovie dello Stato Italiane S.p.A. and Trenitalia S.p.A., with substantially the same characteristics and contractual conditions as the bond issue in terms of restrictions and the parties' commitments;
- on 20 December 2017, Ferrovie dello Stato Italiane S.p.A. granted the subsidiary TX Logistik AG the first tranche (€12,150 thousand) of the intragroup loan to purchase 40 new electric locomotives. The loan, of a maximum amount of €135,800 thousand, is part of the decision of Ferrovie dello Stato Italiane S.p.A.'s board of directors on 26 October 2017 to grant two loans to the subsidiaries Mercitalia Rail S.r.l. and TX Logistik AG to make the rolling stock more modern and reliable, reducing its impact on costs and increasing the percentage of rolling stock owned by the companies.

This increase is offset by repayment of loans by Rete Ferroviaria Italiana S.p.A. and Trenitalia S.p.A. during the year (€279,052 thousand), and the exchange adjustments to foreign currency loans (€6,270 thousand), against higher receivables for loan repayments (€11,152 thousand).

Current loan assets relate to loans granted to subsidiaries. The €825,461 thousand decrease is mainly due to the smaller loans (€1,099,906 thousand) granted to Trenitalia S.p.A. (€999,809 thousand) and Rete Ferroviaria S.p.A. (€100,097 thousand), offset by the greater loans granted to Mercitalia Logistics S.p.A. (€86,504 thousand), Mercitalia Rail S.r.l. (€98,835 thousand), Busitalia Sita Nord S.p.A. (€41,033 thousand) and Ferrovie del Sud Est e Servizi Automobilistici S.r.l. (€36,741 thousand).

The decrease in other loan assets (€15,075 thousand) is due to lower funds in intragroup joint current accounts with Trenitalia S.p.A.

12. Other non-current and current assets

thousands of Euros

	31.12.2017			31.12.2016			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other receivables from group companies		38,139	38,139		46,269	46,269		(8,130)	(8,130)
VAT receivables	169,105	530,105	699,210	937,212	327,614	1,264,826	(768,107)	202,491	(565,616)
MEF and MIT		681,901	681,901		611,292	611,292		70,609	70,609
Other government authorities		11	11		58	58		(47)	(47)
Sundry receivables and prepayments and accrued income	1,273	3,101	4,374	1,291	3,139	4,430	(18)	(38)	(56)
Total	170,378	1,253,257	1,423,635	938,503	988,372	1,926,875	(768,125)	264,885	(503,240)
Allowance for impairment	(1,073)		(1,073)	(1,073)		(1,073)			
Total net of the allowance for impairment	169,305	1,253,257	1,422,562	937,430	988,372	1,925,802	(768,125)	264,885	(503,240)

The reduction in Other receivables from group companies is chiefly a result of the decrease in the receivables from Rete Ferroviaria Italiana S.p.A. and Trenitalia S.p.A. (€4,446 thousand) following payment of receivables for the bilateral fund for income assistance, which was settled in 2016 with the transfer of all fund assets to INPS (Italy's social security institution), the decrease in group VAT receivables (€13,984 thousand) and the increase in receivables for tax consolidation (€10,230 thousand).

The €565,615 thousand decrease in "VAT receivables" is mostly attributable to the difference between reimbursements of €799,848 thousand received from the tax authorities and the recognition of the 2017 VAT receivable of €234,233 thousand. The reimbursements related to the following years:

- 2014: €225,989 thousand (principal) plus €7,678 thousand (interest), reimbursed on 17 July 2017;
- 2015: €363,663 thousand (principal) plus €7,971 thousand (interest), reimbursed on 18 December 2017;
- intra-annual VAT for the first quarter of 2016: €69,032 thousand (principal) and €859 thousand (interest), reimbursed on 25 January 2017;
- intra-annual VAT for the second quarter of 2016: €56,607 thousand (principal) and €1,070 thousand (interest), reimbursed on 16 August 2017;
- intra-annual VAT for the third quarter of 2016: €65,843 thousand (principal) and €1,136 thousand (interest), reimbursed on 16 October 2017.

The higher receivables from the MEF and the MIT relate to the 2017 portion of the grant as per section 7532 for the Turin - Lyon line, amounting to €102,540 thousand, net of the transfers of €31,931 thousand to TELT Sas to build the Turin - Lyon railway line, pursuant to section 7122.

Receivables broken down by geographical segment are as follows:

thousands of Euros

	31.12.2017	31.12.2016	Changes
Italy	1,423,326	1,926,599	(503,273)
Eurozone countries	197	108	89
United Kingdom	50	87	(37)
United States	62	81	(19)
Total	**1,423,635**	**1,926,875**	**(503,240)**

13. Inventories

thousands of Euros

	31.12.2017	31.12.2016	Changes
Buildings and land held for trading	569,097	669,522	(100,425)
Allowance for impairment	(161,076)	(180,381)	19,305
Carrying amount	**408,021**	**489,141**	**(81,120)**
Total inventories	**408,021**	**489,141**	**(81,120)**
Reclassifications			
Cost	47,058	(60,454)	107,512
Allowance for inventory write-down	(41,807)	68,428	(110,235)
Grants	(3,600)	(6,974)	3,374
Total reclassifications	**1,651**	**1,000**	**651**

Inventories comprise buildings held for sale. The €81,120 thousand net decrease on the previous year end is mostly due to the above-mentioned partial demerger of Ferrovie dello Stato Italiane S.p.A. to Rete Ferroviaria Italiane S.p.A. (€62,439 thousand), the disposals of the year (€64,579 thousand), net of utilisation of the related allowance for inventory write-down (€3,795 thousand), in order to align the carrying amount of the assets to their market value, offset by extraordinary maintenance on buildings (€2,785 thousand). Indeed, the recurring appraisal and analysis of the company's real estate assets continue, also considering the economic climate and, in particular, the real estate market downturn.

As already disclosed in note 7 to Investment property, during the year, the company reclassified €1,651 thousand related to buildings covered by sales plans from that caption to inventories.

14. Non-current and current trade receivables

thousands of Euros

	31.12.2017			31.12.2016			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Ordinary customers	5,458	58,055	63,513	6,245	76,923	83,168	(787)	(18,868)	(19,655)
Government authorities and other public authorities		8,402	8,402		8,749	8,749		(347)	(347)
Receivables from group companies		94,894	94,894		67,337	67,337		27,557	27,557
Total	5,458	161,351	166,809	6,245	153,009	159,254	(787)	8,342	7,555
Allowance for impairment	(147)	(19,863)	(20,010)	(147)	(27,362)	(27,509)		7,499	7,499
Total net of the allowance for impairment	5,311	141,488	146,799	6,098	125,647	131,745	(787)	15,841	15,054

Trade receivables from ordinary customers and government authorities, net of the allowance for impairment, decreased by €15,054 thousand following the payments of the year.

The receivables from group companies mainly refer to the trade receivables from RFI S.p.A. (€26,629 thousand), Mercitalia Logistics S.p.A. (€10,425 thousand), Ferservizi S.p.A. (€2,034 thousand), GS Rail S.p.A. (€13,627 thousand), Centostazioni S.p.A. (€2,830 thousand), Busitalia Sita Nord (€7,899 thousand), Italferr S.p.A. (€3,891 thousand), Trenitalia S.p.A. (€13,501 thousand) and Mercitalia Rail S.p.A. (€7,560 thousand). They essentially relate to a supply and service management contract and real estate items.

The maximum exposure to credit risk, broken down by geographical area, is as follows:

thousands of Euros

	31.12.2017	31.12.2016	Changes
Italy	164,943	158,266	6,677
Eurozone countries	1,277	988	289
United Kingdom	589		589
Total	**166,809**	**159,254**	**7,555**

15. Cash and cash equivalents

They can be analysed as follows:

thousands of Euros

	31.12.2017	31.12.2016	Changes
Bank and postal accounts	330,113	911,502	(581,389)
Cash and cash on hand	30	19	11
Cash pooling accounts	82,663	72,973	9,690
Total	**412,806**	**984,494**	**(571,688)**

This caption's decrease of €571,688 thousand is mostly attributable to the reduction in bank and postal account balances, principally reflecting the investments of the year (TrainOSE, Centostazioni and Metro5), as described in note 10 (Equity investments), Ferrovie dello Stato Italiane S.p.A.'s granting of an intragroup loan of approximately €70,500 thousand to finance Trenitalia UK's acquisition of NXET Trains Limited, and the payment of the 2016 dividends to the MEF €300,000 thousand.

16. Tax assets

Tax assets of €82,934 million at 31 December 2017 decreased by €3,497 million on the previous year end (€86,431 million). They refer to the advances paid, net of the taxes of the year.

17. Equity

Changes in the main equity captions in 2017 and 2016 are shown in the statement of changes in equity.

Share capital

At 31 December 2017, the company's share capital fully subscribed and paid up by the sole shareholder, the MEF, was made up of 36,340,432,802 ordinary shares, with a par value of €1 each, for a total of €36,340,432,802.

Legal reserve

This reserve amounts to €38,808 thousand at the reporting date, up by €31,939 thousand after allocation of the 2016 profit.

Extraordinary reserve

This reserve, which was set up following the allocation of a portion of the 2016 profit (€50,000 thousand), has a nil balance at 31 December 2017 as a consequence of the demerger to RFI, as described in the detail in the "Extraordinary transactions" paragraph.

Dividends

On 7 July 2017, dividends of €300,000 thousand were paid to the MEF.

Actuarial reserve

The actuarial reserve includes the effects of actuarial gains and losses on post-employment benefits and the Free Travel Card. An actuarial gain of €256 thousand, net of the tax effect, was recognised in 2017.

Retained earnings

This caption of €256,834 thousand refers to the allocation of part of the 2016 profit.

Profit for the year

2017 ended with a profit of €230,591 thousand.

The origin, availability and distributability of equity captions are shown below.

Origin	Balance at 31.12.2017 (a+b)	Unavailable portion (a)	Possibility of use	Available portion (b)
Share capital	36,340,433	36,340,433		
Income-related reserve:				
Legal reserve	38,808	38,808	B	
Valuation reserves				
Actuarial reserve	256			256
Retained earnings	256,834		A,B,C	256,834
Total	**36,636,331**	**36,379,241**		**257,090**

Key:
A: capital increase
B: coverage of losses
C: dividends

18. 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 31.12.2017	31.12.2016	Changes
Bonds	5,116,266	4,033,619	1,082,647
Bank loans and borrowings	753,608	845,890	(92,282)
Loans and borrowings from other financial backers	620,275	796,018	(175,743)
Total	**6,490,149**	**5,675,527**	**814,622**

thousands of Euros

Current loans and borrowings and current portion of non-current loans and borrowings	Carrying amount 31.12.2017	31.12.2016	Changes
Bonds (current portion)	635,999	38,348	597,651
Bank loans and borrowings (current portion)	797,567	1,889,395	(1,091,828)
Loans and borrowings from other financial backers (current portion)	175,743	168,889	6,854
Loans and borrowings from group companies (current portion)	360	247	113
Total	**1,609,669**	**2,096,879**	**(487,210)**
Total loans and borrowings	**8,099,818**	**7,772,406**	**327,412**

The caption increased by €327,412 thousand on the previous year end, mainly due to the signing of three loan agreements and the placement of bonds for a total of €1,700,000 thousand (described in note 10 "Non-current and current financial assets (including derivatives)"), offset by the decrease in short-term funding (€1,095,706) and the repayments of the loan granted by Cassa Depositi e Prestiti (€168,875 thousand), the EIB loan (€88,152 thousand) and the Eurofima bond (€21,883 thousand).

The terms and conditions of all non-current loans and borrowings, including the current portion, are summarised in the table below:

thousands of Euros

				31.12.2017		31.12.2016	
Creditor	**Currency**	**Nominal interest rate**	**Year of maturity**	**Nominal amount**	**Carrying amount**	**Nominal amount**	**Carrying amount**
EUROFIMA	€	*6M Euribor + Spread*	2018	400,000	400,008	400,000	400,006
EUROFIMA	€	*6M Euribor + Spread*	2018	149,400	149,404	149,400	149,403
EUROFIMA	€	*6M Euribor - Spread*	2019	160,000	160,019	160,000	160,015
EUROFIMA	€	*6M Euribor - Spread*	2019	183,000	183,017	183,000	183,015
EUROFIMA	€	*6M Euribor - Spread*	2018	62,700	62,702	62,700	62,702
EUROFIMA	€	*6M Euribor - Spread*	2020	62,700	62,701	62,700	62,701
EUROFIMA	€	*6M Euribor - Spread*	2026	190,000	190,050	190,000	190,033
EUROFIMA	€	*6M Euribor - Spread*	2026	100,000	100,026	100,000	100,017
EUROFIMA	€	*6M Euribor - Spread*	2027	128,700	128,766	128,700	128,741
EUROFIMA	€	*6M Euribor - Spread*	2026	116,000	116,029	116,000	116,019
EUROFIMA	€	*6M Euribor - Spread*	2022	120,000	120,077	120,000	120,054
EUROFIMA	€	*6M Euribor - Spread*	2024	122,200	122,229	122,200	122,221
EUROFIMA	€	*6M Euribor - Spread*	2027	65,700	65,731	65,700	65,719
EUROFIMA	€	*6M Euribor - Spread*	2020	47,400	47,401	47,400	47,401
EUROFIMA	CHF	fixed rate 2.57%	2020	38,455	38,716	41,903	42,188
EUROFIMA	CHF	fixed rate 2.795%	2017			21,883	22,338
EUROFIMA	€	*6M Euribor + Spread*	2025	42,500	42,512	42,500	42,529
EMTN PROGR. TR. 1	€	fixed rate 4.00%	2020	746,370	759,767	745,047	758,444
EMTN PROGR. TR. 2	€	fixed rate 3.50%	2021	598,026	599,119	597,568	598,661
EMTN PROGR. TR. 3	€	*6M Euribor + Spread*	2025	300,000	300,022	300,000	300,016
EMTN PROGR. TR. 4	€	*6M Euribor + Spread*	2022	349,214	349,907	349,025	349,854
EMTN PROGR. TR. 5	€	fixed rate 1.65%	2031	49,789	50,151	49,775	50,137
EMTN PROGR. TR. 6	€	fixed rate 1.50%	2025	996,787	1,004,472		
EMTN PROGR. TR. 7	€	fixed rate 0.875%	2023	599,424	599,784		
EMTN PROGR. TR. 8	€	*6M Euribor + Spread*	2025	100,000	100,015		
				5,728,365	5,752,625	4,055,501	4,072,214
EIB	€	fixed rate 4.685%	2021	395,890	396,714	484,042	485,051
CASSA DD.PP.	€	fixed rate 4.026%	2021	646,018	646,018	814,893	814,893
TLTRO I (RTI)	€	*6M Euribor + Spread*	2019	300,000	300,000	300,000	300,017
TLTRO II 1st tranche (CDP)	€	*6M Euribor + Spread*	2020	150,000	150,000	150,000	150,014
TLTRO II 2nd tranche (ISP)	€	*6M Euribor + Spread*	2020	150,000	150,000	150,000	150,000
Total loans and borrowings (*)				**7,370,273**	**7,395,357**	**5,954,436**	**5,972,189**

(*) The carrying amount of loans and borrowings does not include current borrowings at 31 December 2017 (€704,461 thousand) and 31 December 2016 (€1,800,217 thousand).

The table below analyses the net financial position, shown in the reclassified statement of financial position, as presented in the 2017 Directors' report compared with 31 December 2016:

thousands of Euros

Net financial debt	31.12.2017	31.12.2016	Change
Current net financial position	**(837,176)**	**(1,206,777)**	**369,601**
Cash pooling accounts	(82,662)	(72,973)	(9,689)
Loans and borrowings from other financial backers	175,743	168,889	6,854
Bank loans and borrowings	797,076	1,888,277	(1,091,201)
Bonds	634,807	37,281	597,526
Intragroup current account	(101,287)	(170,230)	68,943
Loan assets with group companies	(1,930,710)	(2,146,499)	215,789
Bank and postal accounts	(330,113)	(911,502)	581,389
Other	(30)	(20)	(10)
Net non-current financial position (debt)	**(103,638)**	**55**	**(103,693)**
Loans and borrowings from other financial backers	620,275	796,018	(175,743)
Bank loans and borrowings	753,608	845,454	(91,846)
Bonds	5,116,266	4,033,619	1,082,647
Loan assets with group companies	(6,591,073)	(5,675,036)	(916,037)
Other	(2,714)		(2,714)
Total	**(940,814)**	**(1,206,722)**	**265,908**

19. Post-employment benefits and other employee benefits

thousands of Euros

	31.12.2017	31.12.2016
Present value of post-employment benefit obligations	8,918	10,975
Present value of Free Travel Card obligations	205	185
Total present value of obligations	**9,123**	**11,160**

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

	2017	2016
Defined benefit obligations at 1 January	11,160	11,878
Service costs	*2*	*3*
Interest cost *(*)*	*100*	*122*
Actuarial (gains) losses recognised in equity (**)	(15)	146
Advances, utilisations and other changes	(2,124)	(989)
Total defined benefit obligations	**9,123**	**11,160**

(*) through profit or loss

(**) net of the tax effects

The decrease in the provision for post-employment benefits and the Free Travel Card (approximately €2 thousand) mainly refers to:

- the benefits paid to the personnel who left the company during the year (€2,452 thousand) and transfers of employees to and from other group companies (€215 thousand);
- the difference between the expected accrued amount at the end of the observation period and the expected present value of the benefits payable in the future as recalculated at the end of the period and of the updated valuation assumptions, that represents the actuarial gains/(losses). This calculation generated an actuarial gain of €15 thousand during the year, compared to the actuarial loss of €146 thousand in 2016.

Actuarial assumptions

The main assumptions for the actuarial estimate process are described below.

	2017	2016
Discount rate (post-employment benefits)	0.88%	0.86%
Discount rate (Free Travel Card)	1.67%	1.05%
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 analysis performed to assess the effects that would have been recorded in terms of changes in the present value of liabilities for defined benefit obligations, following reasonably possible changes in actuarial assumptions.

The last table shows the average duration of the defined benefit obligations and the disbursements provided by the plan.

	Post-employment benefits	Free Travel Card
Inflation rate +0.25%	9,008	221
Inflation rate -0.25%	8,809	190
Discount rate +0.25%	8,751	199
Discount rate -0.25%	9,070	211
Turnover rate +1%	8,857	
Turnover rate -1%	8,964	
Plan duration	8	13
Payment - first year	1,639	14
Payment - second year	391	13
Payment - third year	516	13
Payment - fourth year	586	13
Payment - fifth year	780	13

20. Provisions for risks and charges

The opening and the closing balances of, and changes in, the provisions for risks and charges for 2017 are given below.

thousands of Euros

	31.12.2016	Provisions	Utilisations	Other changes	Release of excess provisions	31.12.2017
Provision for taxation	283	9				292
Labour and civil litigation	7,066	414	(408)			7,072
Other minor risks	163,799		(11,289)	(5,874)		146,636
Total	**171,148**	**423**	**(11,697)**	**(5,874)**		**154,000**

The provision for labour and civil litigation was accrued to cover probable expenses due to the third-party litigation related to sales contracts (price reductions, compensation for damage incurred during sales negotiations), non-compliance with agreements or disputes about leases, claims for checks on property, pre-emption, etc. rights, as well as disputes with personnel. €408 thousand of the provision was used in 2017, mainly due to the disputes with personnel and to manage real estate, while €414 thousand was accrued after the company's prudent update of its risk valuation.

The provision for other minor risks mainly covers estimated expenses to be incurred for personnel and contractual costs borne by the former Ferrovie Real Estate S.p.A. connected to specific sales, called "high income and high building package", reclamation costs for certain sites, contractual risks and tax-related items.
The utilisations for the year (€11,289 thousand) refer to the recalculation of the sale price (€5,148 thousand) of the entire share capital of Grandi Stazioni Retail S.p.A. as per the sale contract agreed between Alba Bidco S.p.A., Ferrovie dello Stato S.p.A. and Eurostazioni S.p.A. on 27 June 2016, the costs incurred for the contractual obligations pertaining to the former Ferrovie Real Estate S.p.A. (€2,041 thousand) and the costs of management involved in the change management project (€4,100 thousand). The Other changes refer to the reclassification 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) as a result of the projects launched during the year.

21. Non-current and current financial liabilities (including derivatives)

thousands of Euros

	Carrying amount								
	31.12.2017			31.12.2016			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Other financial liabilities		329,422	329,422	373	275,049	275,422	(373)	54,373	54,000
Total		329,422	329,422	373	275,049	275,422	(373)	54,373	54,000

The increase in other financial liabilities is mainly due to the greater liability for the intragroup current accounts, specifically due to Rete Ferroviaria Italiana S.p.A. (€91,160 thousand), Mercitalia Rail S.r.l. (€14,349 thousand) and Grandi Stazioni Rail S.p.A. (€6,537 thousand), offset by the decrease in the same liability due to Italferr S.p.A. (€22,343 thousand), Ferservizi S.p.A. (€24,170 thousand), Centostazioni S.p.A. (€3,354 thousand), Bluferries S.r.l. (€2,791 thousand) and Mercitalia Logistics S.p.A. (€2,611 thousand).

22. Other non-current and current liabilities

thousands of Euros

	31.12.2017			31.12.2016			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Advances for grants		681,901	**681,901**		611,292	**611,292**		70,609	**70,609**
Social security charges payable		4,882	**4,882**		4,454	**4,454**		428	**428**
Other liabilities with group companies	249,486	529,813	**779,299**	1,011,411	373,124	**1,384,535**	(761,925)	156,689	**(605,236)**
Tax consolidation liabilities					21,481	**21,481**		(21,481)	**(21,481)**
Other liabilities and accrued expenses and deferred income	7,600	59,536	**67,136**	2,254	59,812	**62,066**	5,346	(276)	**5,070**
Total	257,086	1,276,132	**1,533,218**	1,013,665	1,070,163	**2,083,828**	(756,579)	205,969	**(550,610)**

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 receivables due from the MEF and MIT (see note 12).

The decrease in Other liabilities with group companies (€605,236 thousand) is principally due to the smaller intragroup VAT liabilities (€578,824 thousand) and the reduction in Other liabilities (€29,536 thousand). The first decrease is mostly due to the difference between the transfer of net VAT assets by the companies participating in the VAT consolidation scheme during the year (€221,023 thousand, including accrued interest) and amounts credited to Rete Ferroviaria Italiana S.p.A., Trenitalia S.p.A. and Mercitalia Logistics S.p.A. (principal of €781,134 thousand and interest of €188,714 thousand) following VAT reimbursements received during the year. The second decrease is due to the partial demerger to Rete Ferroviaria Italiana S.p.A., approved in October 2017, and effective from 31 December 2017.

The increase in Other liabilities and accrued expenses and deferred income (€5,070 thousand) is mainly due to the adjustment to the bilateral fund for income assistance. Note 20 (Provision for risks and charges) provides additional information thereon.

23. Current trade payables

They can be analysed as follows:

thousands of Euros

	31.12.2017	31.12.2016	Changes
Suppliers	46,379	35,289	11,090
Payments on account	7,550	7,239	311
Group companies	58,713	37,073	21,640
Total	**112,642**	**79,601**	**33,041**

Trade payables mainly consist of amounts due to suppliers (€46,379 thousand) and subsidiaries, specifically Rete Ferroviaria Italiana S.p.A. (€18,750 thousand), Ferservizi S.p.A. (€25,836 thousand), Grandi Stazioni Rail S.p.A. (€10,831 thousand), Fercredit S.p.A. (€2,578 thousand), Trenitalia S.p.A. (€1,237 thousand) and FS Sistemi Urbani S.r.l. (€1,290 thousand).
Liabilities with related parties are described in note 41 - Related party transactions.
Payments on account amount to €7,550 thousand and mainly refer to amounts received for expropriations not yet completed.
The fair value measurement of trade payables had no significant effect considering the short period of time between the moment the payable arises and its due date.

24. Revenue from sales and services

The table and comments below give a breakdown of revenue from sales and services.

thousands of Euros

	2017	2016	Changes
Revenue from property management	87,805	72,789	15,016
Fee income from the use of trademarks	25,190	26,112	(922)
Services	35,097	33,283	1,814
Capitalisation of work on property held for trading	2,436	3,356	(920)
Other services	3,510	1,823	1,687
Total	**154,038**	**137,363**	**16,675**

Revenue from sales and services increased by €16,675 thousand on 2016, mainly due to the combined effect of the following:

- increase in revenue from property management, which mainly includes leases, revenue from the commercial use of owned stations and from the sale of buildings and land held for trading. This increase was mainly due to the rise in revenue from the sale of property (€11,395 thousand), in addition to greater revenue from the sale of advertising spaces in owned stations (€774 thousand) and greater recharges of condominium expenses to tenants (€420 million) and the increase in leases (€2,427 thousand). The latter comprise the commercial use of the four large owned stations which rose by €2,606 thousand. This increase was partially offset by the net decrease in other revenue from leases to the group and the market (€179 thousand);
- greater revenue from recharges to group companies (€1,814 thousand), mainly for internal communications services (€1,189 thousand) and the new people experience service (€2,409 thousand), offset by the €2,456 thousand decrease in the company security, following the transfer of the access and correspondence surveillance service to Ferservizi S.p.A.;
- increase in revenue from foreign contracts (Egypt, Iran, Oman) (€1,364 thousand) and for the sale of advertising spaces (€323 thousand) as part of the provision of other services.

Buildings and land held for trading were sold during the year for a total of approximately €21,460 thousand, substantially in line with the previous year, generating a net gain of €393 thousand, recognised under “Revenue from property management”.

With respect to corresponding figures, for the purposes of a better presentation, €3,396 related to services provided as part of Relationships with trade unions was reclassified from “Other revenue from sales and services” to “Other income”, while €43 thousand related to Information services was reclassified from “Other income” to “Other revenue from sales and services”.

25. Other income

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Changes
Surety fee income	**4,928**	**3,338**	**1,590**
Repayments			
Managers' fees as corporate officers at FS Italiane group companies	372	614	(242)
Facilities	16,400	7,447	8,953
Other repayments	4,901	4,040	861
Total repayments	**21,673**	**12,101**	**9,572**
Other sundry income	**1,504**	**3,889**	**(2,385)**
Total	**28,105**	**19,328**	**8,777**

The €8,777 thousand increase is mainly due to recharging Grandi Stazioni Retail S.p.A. for station-related costs (maintenance, cleaning, etc.).

For information about corresponding figures, reference should be made to note 24 Revenue from sales and services.

26. Personnel expense

thousands of Euros

	2017	2016	Changes
Wages and salaries	37,224	31,917	5,307
Social security charges	10,325	8,750	1,575
Other expense for employees	2,938	5,897	(2,959)
Post-employment benefits	2,370	2,117	253
Accruals and releases	(3,896)	729	(4,625)
Employees	**48,961**	**49,410**	**(449)**
Wages and salaries	447	611	(164)
Social security charges	71	102	(31)
Consultants and freelancers	**518**	**713**	**(195)**
Temporary workers, seconded employees and trainees	1,764	987	777
Other costs	1,788	2,777	(989)
Other costs	**3,552**	**3,764**	**(212)**
Total	**53,031**	**53,887**	**(856)**

Personnel expense, which totals €53,031 thousand, decreased by €856 thousand on the previous year.

The decrease is due to:

- a reduction in costs for permanent employees (€499 thousand) due to the combined effect of the rise in wages and salaries and social security charges (€6,882 thousand) following the increase in fixed and related items, and the decrease in other costs for permanent employees (€2,959 thousand), due to the lower costs for leaving incentives paid to management involved in the change management project (€4,625 thousand);
- a decrease in costs for consultants and freelancers (€195 thousand) following the reduction in collaboration agreements;
- a decrease in other costs (€212 thousand), mostly due to smaller training costs (€1,100 thousand), offset by higher costs for seconded and temporary personnel (€777 thousand).

The table below gives a breakdown of the company's average number of employees by category:

	2017	2016	Changes
Personnel			
Managers	92	81	11
Junior managers	227	220	7
Other	207	179	28
Total	**526**	**480**	**46**

27. Raw materials, consumables, supplies and goods

They can be analysed as follows:

thousands of Euros

	2017	2016	Changes
Raw materials and consumables	510	429	81
Lighting and driving force	52	92	(40)
Change in buildings and land held for trading	24,286	6,096	18,190
Total	**24,848**	**6,617**	**18,231**

The increase in this caption is mainly due to the write-downs (€3,795 thousand) and the disposals of the year as described in note 13 (Inventories).

28. Services

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Changes
Maintenance, cleaning and other contracted services	**9,281**	**10,202**	**(921)**
Contracted services and work	911	617	294
Cleaning and other contracted services	401	298	103
Maintenance and repair of intangible assets and property, plant and equipment	8,514	9,287	(773)
Accruals/releases for maintenance	(545)		(545)
Property services and utilities	**25,520**	**23,362**	**2,158**
Administrative and IT services	**11,439**	**7,693**	**3,746**
External communications and advertising expense	**6,573**	**4,230**	**2,343**
Other sundry services	**37,534**	**25,102**	**12,432**
Professional services	3,508	2,898	610
Insurance	949	1,612	(663)
Consultancies	7,317	4,367	2,950
Facility management	18,010	11,491	6,519
Travel and accommodation	995	607	388
Other administrative services	1,317	328	989
Other services	5,438	3,799	1,639
Total	**90,347**	**70,589**	**19,758**

For some of the other services listed above, there is a balancing entry for the costs borne by Ferrovie dello Stato Italiane S.p.A. under other income for the recharges to group companies, limited to the portions related thereto.

The overall increase in services is mainly due to the rise in costs incurred with Ferservizi S.p.A. for real estate management, more IT services, greater external communications and advertising expense, greater professional services and consultancies, higher facility management costs, mostly in relation to Grandi Stazioni Rail S.p.A., which were entirely recharged to Grandi Stazioni Retail S.p.A., and greater costs for foreign contracts (Oman, Egypt, Iran), offset by lower maintenance costs to ensure the efficiency of the real estate assets and insurance costs.

29. Use of third-party assets

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Changes
Lease payments and condominium expenses	3,557	3,405	152
IT services and other	1	37	(36)
Total	**3,558**	**3,442**	**116**

The slight increase is mainly due to the greater indemnities for using spaces at the Milano Centrale and Genova Lagaccio stations, offset by the reduction in spaces leased.

30. Other operating costs

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Changes
Membership fees and contributions	8,438	8,924	(486)
Non-deductible VAT (pro rata)	3,565	4,204	(639)
Taxes and duties	14,719	14,641	78
Other sundry expense	1,732	2,483	(751)
Other costs, accruals/releases	336	2,654	(2,318)
Total	**28,790**	**32,906**	**(4,116)**

The €4,116 thousand decrease in other operating costs is mainly due to the combination of smaller contributions to Fondazione FS Italiane (€285 thousand), and membership fees (€201 thousand), smaller non-deductible VAT accrued during the year (€639 thousand) and the smaller accruals to the provision for civil litigation (€2,318 thousand).

31. Internal work capitalised

Internal work capitalised, amounting to €69 thousand (2016: €176 thousand), refers to personnel expense attributable to the production and development of software recognised under intangible assets.

32. Amortisation and depreciation

This caption can be analysed as follows:

	2017	2016	Changes
Amortisation	11,371	10,795	576
Depreciation	10,006	9,199	807
Total	**21,377**	**19,994**	**1,383**

The €1,383 thousand increase in this caption is a result of the increases in both property, plant and equipment and investment property and intangible assets during the year.

33. Impairment losses (reversals of impairment losses)

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Changes
Impairment losses on property, plant and equipment and investment property	2,696	114	2,582
Impairment losses and reversals of impairment losses on receivables	2,193	941	1,252
Total	**4,889**	**1,055**	**3,834**

The caption increased by €3,834 thousand on 2016, mainly as a result of higher depreciation of investment property and the larger accruals to the allowance for impairment made to reflect the estimated collections.

34. Financial income

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Changes
Gains on equity investments	149,575	130,901	18,674
Total gains on equity investments	**149,575**	**130,901**	**18,674**
Financial income from non-current loans and receivables and securities	128,252	126,184	2,068
Other financial income	40,551	409,424	(368,873)
Revaluations of financial assets		41,590	(41,590)
Exchange rate gains	5,860	185	5,675
Total other financial income	**174,663**	**577,383**	**(402,720)**
Total	**324,238**	**708,284**	**(384,046)**

Financial income decreased by €384,046 thousand on 2016, mainly due to:

- the €368,873 thousand decrease in other financial income, mainly generated by the smaller gains on disposals compared to 2016 related to the sale of Grandi Stazioni Retail S.p.A. to Alba Bidco S.p.A. (€383,279 thousand), offset by the increase in VAT interest accrued on the receivables claimed for reimbursement (€5,865 thousand), the €2,714 thousand in financial income related to the cross currency swaps hedging cash flows, which were measured using the Bloomberg (SWPM) pricing tool, greater interest and fees on the backup facility (€2,230 thousand) and greater interest on the Eurofima loans (€2,436 thousand) and on the short-term loans granted to the subsidiaries (€1,494 thousand). The loans are almost entirely related to Mercitalia Rail S.r.l. and Trenitalia C2C;
- the lack of "revaluations of financial assets" compared to the previous year, when the investment in Trenitalia S.p.A. was revalued by €41,590 thousand;
- the €2,068 thousand increase in interest income on the non-current loans, mainly accrued from Trenitalia S.p.A. (€7,706 thousand) following the bond issue and related to the EMTN Programme during the year, Trenitalia UK (€1,466 thousand) for the loan granted by Ferrovie dello Stato Italiane S.p.A. in order to acquire NXET Trains Limited, and Metro 5 S.p.A. (€1,126 thousand) for the receivables transferred as part of the acquisition of 36.7% of Metro 5 S.p.A. from Astaldi (see note 10 – Equity investments). These increases are offset by the reduction in interest accrued from Rete Ferroviaria Italiana S.p.A. (€8,009 thousand) which is the result of lower interest on the EIB and Cassa Depositi e Prestiti loans (€10,552 thousand), due to smaller residual liabilities and the extremely low rates (6M Euribor) applied to loans, and the greater interest (€2,543 thousand) related to the EMTN Programme following the placements of the year;
- the €18,674 thousand increase in dividends distributed by subsidiaries and associates, principally Rete Ferroviaria Italiana S.p.A. (€70,000 thousand), offset by the lower dividends paid by Trenitalia S.p.A. (€34,000) and Grandi Stazioni Rail S.p.A. (€12,310 thousand);
- the €5,675 thousand increase in exchange rate gains, mainly due to the current and non-current loans granted to the subsidiaries Trenitalia UK and Trenitalia C2C, as described in note 11 to "Current and non-current financial assets (including derivatives)".

35. Financial expense

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Changes
Impairment losses on financial assets	175	327	(152)
Total losses on equity investments	**175**	**327**	**(152)**
Interest on financial liabilities	149,156	141,724	7,432
Financial expense on employee benefits	129	152	(23)
Exchange rate loss	8,674	177	8,497
Total other financial expense	**157,959**	**142,053**	**15,906**
Total	**158,134**	**142,380**	**15,754**

Financial expense increased by €15,754 thousand on the previous year, mainly due to:

- the increase in exchange rate losses (€8,497 thousand) due to the current and non-current loans granted to the subsidiaries Trenitalia UK and Trenitalia C2C;
- the increase in interest on financial liabilities (€7,432 thousand), mainly due to the greater interest on the VAT receivable claimed for reimbursement (€5,776 thousand), greater expense to Trenitalia S.p.A. on the Eurofima loans (€2,218 thousand), greater interest on the bonds issued as part of the Euro Medium Term Notes Programme (€9,335 thousand) greater interest and fees due to non-utilisation of the backup facility (€1,445 thousand), offset by the overall decrease in expense on loans from Cassa Depositi e Prestiti, the EIB and Eurofima (€11,221 thousand) and bank and postal fees on bonds (€287 thousand).

36. Current and deferred taxes

Income taxes can be analysed as follows:

thousands of Euros

	2017	2016	Changes
IRAP		160	(160)
IRES	456	17,599	(17,143)
Income from the tax consolidation scheme	(138,973)	(113,123)	(25,850)
Deferred taxes	26,192	(5,594)	31,786
Adjustments to prior year income taxes	2,880	(3,534)	6,414
Accruals/releases	10		10
Total income taxes	**(109,435)**	**(104,492)**	**(4,943)**

Income taxes decreased by €4,943 thousand overall on 2016, mainly due to the combined effect of the following factors:

- decrease in current taxes, including IRAP down by €160 thousand due to the higher amount of personnel expense deducted as part of the new applicable scheme, and IRES down by €17,143 thousand, mainly due to the reduction in the pre-tax profit compared to the previous year;
- increase in the tax income from the tax consolidation scheme (€138,973 million; 2016: €25,850 thousand), recognised on the tax losses transferred to the group over the years and used during the year, as their subsequent remuneration is not deemed probable;
- the €31,786 thousand increase in deferred tax assets and liabilities (see note 9 to Deferred tax assets and deferred tax liabilities).

Reconciliation of the actual tax rate

	2017		2016	
	Euros	**%**	**Euros**	**%**
Profit for the year	230,910		638,773	
Total income taxes	(109,435)		(104,492)	
Pre-tax profit	121,475		534,280	
IRES theoretical tax (national tax rate)		**24.0%**		**27.5%**
Lower taxes:				
Dividends from investees	(142,096)		(124,536)	
Utilisation of provisions	(17,636)		(10,437)	
Other decreases	(16,958)		(412,763)	
Higher taxes:				
Accruals	1,999		29,334	
Impairment losses on equity investments			27	
Prior year expense	126		1,150	
Exchange difference	6		163	
Amortisation and depreciation	8,894		4,150	
Variation in inventories				
Non-deductible taxes	9,999		11,805	
Other increases	36,092		30,643	
Total IRES taxable profit	1,901		63,996	
Total current taxes (IRES)	**456**		**17,599**	**3.3%**
IRAP			**160**	**5.57%**
Difference on prior year estimated taxes	**2,890**		**(3,534)**	
Total deferred taxes	**26,192**		**(5,595)**	
Income from the tax consolidation scheme	**(138,973)**		**(113,122)**	
TOTAL INCOME TAXES	**(109,435)**		**(104,492)**	

37. Contingent assets and contingent liabilities

At the reporting date, there were no contingent assets or liabilities.

38. 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 (€240,213 thousand at the exchange rate ruling on 31 December 2017). Its payment would increase the carrying amount of the equity investment by the same amount.

39. 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 €551 thousand and include the fees paid for services other than the statutory audit (€253 thousand).

40. Directors' and statutory auditors' fees

	2017	2016	Changes
Directors	1,203	1,203	
Statutory auditors	100	100	
Total	**1,303**	**1,303**	

Directors' fees include the amounts envisaged for the positions of Chairwoman and Chief Executive Officer, as well as any amounts envisaged for the remaining board members. In addition to the above fees, the external member of the supervisory body received €76 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.

41. Related parties

Transactions with key managers

	2017	2016
Short-term benefits	5,554	4,392
Post-employment benefits	347	293
Termination benefits		618
Total	**5,901**	**5,303**

The benefits relate to the sundry remuneration paid to parties indicated.

In addition to short-term benefits of €5,554 thousand paid out in 2017, a variable portion is to be paid in 2018, for an amount not exceeding €1,900 thousand, once checks have been made on whether objectives have been reached.

Key managers did not receive any 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.

	RECEIVABLES	PAYABLES
Subsidiaries		
RFI S.p.A.	Area services	
	Finance	Technical party - property maintenance
	Tax and financial statements	Recharge of IT services
	Corporate business	Seconded personnel
	Legal/labour office	Health services
	Management administration	Training
	Organisation development	Leases
	Public and media relations	
	Company security	
	Institutional business	
	Strategies	
	Legal	
	Organisation and processes	
	Information systems	
	Communications services	
	People experience	
	Sales of property held for trading	
	Company officers	
	Seconded personnel	
	Insurance reimbursements	
	Recharge of IT services	
	Recharge of condominium expenses	
	Recharge of external relation services	
	Welfare reimbursement	
	Utilisation of trademark	
	Lease of land, offices and workshops	
	Recharge of costs for the Bilateral fund for income assistance	
Ferservizi S.p.A.	Area services	Property management
	Finance	Recharge of condominium expenses for asset protection
	Tax and financial statements	IT services
	Corporate business	Seconded personnel
	Legal/labour office	Railway hotels
	Management administration	Ticket purchase fees
	Company security	Asset enhancement fees
	Company officers	
	Industrial relations	Technical administration management services
	Organisation development	Personnel management
	Public and media relations	Accounting and treasury
	Institutional business	
	Strategies	
	Legal	Facilities and building management
	Organisation and processes	Administrative services
	Information systems	Training
	Communications services	Asset allocation services
	People experience	Station area management
	Seconded personnel	Assistance to person in charge
	Insurance reimbursements	Property litigation management
	Recharge of IT services	Maintenance, conservation and protection fees
	Utilisation of trademark	Catering services
	Lease and sub-lease of offices and workshops	
	Recharge of condominium expenses	
	Recharge of the Bilateral fund for income assistance	
	Welfare reimbursement	
Fercredit S.p.A.	Area services	
	Finance	
	Tax and financial statements	
	Corporate business	
	Legal/labour office	
	Public and media relations	
	Company security	
	Organisation development	
	Strategies	
	Legal	
	People experience	
	Company officers	
	Insurance reimbursements	
	Recharge of IT services	
	Recharge of condominium expenses	
	Lease and sub-lease of offices	
	Utilisation of trademark	
	Contributions to AGCM charges incurred	
	Institutional business	
	Communications	

Grandi Stazioni Rail S.p.A.	Area services	
	Finance	Facilities management
	Tax and financial statements	Property requisition compensation instalments
	Corporate business	Condominium expenses
	Legal/labour office	Management of non-core buildings
		Seconded personnel
	Public and media relations	
	Organisation development	
	Strategies	
	Information systems	
	Communications services	
	Institutional business	
	Company officers	
	Seconded personnel	
	Repurchase instalment	
	Insurance reimbursements	
	Advertising	
	Contributions to AGCM charges incurred	
	Welfare reimbursement	
Centostazioni S.p.A.	Area services	
	Finance	Seconded personnel
	Tax and financial statements	
	Corporate business	
	Management administration	
	Communications and media relations	
	Organisation development	
	Audit	
	Strategies	
	Institutional business	
	People experience	
	Information systems	
	Communications services	
	Company officers	
	Seconded personnel	
	Insurance reimbursements	
	Recharge of IT services	
	Contributions to AGCM charges incurred	
	Utilisation of trademark	
	Recharge of condominium expenses	
FS Sistemi Urbani S.r.l. FS Sistemi Urbani S.r.l.	Area services	
	Finance	Asset enhancement fees
	Tax and financial statements	Office rental
	Corporate business	Training funding
	Legal/labour office	Maintenance of buildings held for trading
	Management administration	
	Industrial relations	
	Public and media relations	
	Organisation development	
	Audit	
	Institutional business	
	Strategies	
	Legal	
	Company security	
	Organisation and processes	
	Information systems	
	Communications services	
	People experience	
	Company officers	
	Insurance reimbursements	
	Lease and sub-lease of offices	
	Utilisation of trademark	
	Recharge of condominium expenses	
	Recharge of costs for the Bilateral fund for income assistance	
	Recharge of IT services	
	Contributions to AGCM charges incurred	
Serfer S.r.l.	Finance area services	
	Insurance reimbursements	
	Contributions to AGCM charges incurred	
TX Logistik AG	Finance area services	
	Insurance reimbursements	

Trenitalia S.p.A.	Area services	
	Finance	Seconded personnel
	Tax and financial statements	Passenger transport costs
	Corporate business	Training funding
	Legal/labour office	Advertising and marketing
	Management administration	
	Industrial relations	
	Organisation development	
	Public and media relations	
	Company security	
	Institutional business	
	Strategies	
	Legal	
	Organisation and processes	
	Information systems	
	Company officers	
	People experience	
	Welfare reimbursement	
	Seconded personnel	
	Insurance reimbursements	
	Recharge of IT services	
	Utilisation of trademark	
	Lease and sub-lease of offices and workshops	
	Land rental	
	Recharge of condominium expenses	
	Recharge of the Bilateral fund for income assistance	
Italferr S.p.A.	Area services	
	Finance	Technical administration management services
	Tax and financial statements	Training funding
	Corporate business	Seconded personnel
	Legal/labour office	
	Management administration	
	People experience	
	Organisation development	
	Public and media relations	
	Institutional business	
	Strategies	
	Legal	
	Organisation and processes	
	Information systems	
	Communications services	
	Welfare reimbursement	
	Company officers	
	Seconded personnel	
	Insurance reimbursements	
	Recharge of IT services	
	Utilisation of trademark	
	Leases	
	Technical assistance in training projects	
	Contributions to AGCM charges incurred	
Mercitalia Logistics S.p.A.	Area services	Transport and shipping
	Finance	Training funding
	Tax and financial statements	Leases
	Corporate business	
	Industrial relations	
	Legal/labour office	
	Management administration	
	Organisation development	
	People experience	
	Audit	
	Institutional business	
	Strategies	
	Legal	
	Organisation and processes	
	Information systems	
	Company officers	
	Insurance reimbursements	
	Recharge of IT services	
	Office leases	
	Utilisation of trademark	
	Recharge of condominium expenses	
	Welfare reimbursement	
	Sales of property held for trading	
Busitalia - Sita Nord S.r.l.	Area services	
	Finance	Funded training
	Tax and financial statements	
	Corporate business	
	Legal/labour office	
	Management administration	
	Public and media relations	
	Organisation development	
	People experience	
	Audit	
	Institutional business	
	Strategies	
	Legal	
	Organisation and processes	
	Information systems	

	Communications services Company officers Seconded personnel Insurance reimbursements Recharge of IT services Utilisation of trademark Welfare reimbursement Office leases Recharge of condominium expenses Contributions to AGCM charges incurred	
Italcertifer S.p.A.	Finance area services Corporate business Management administration People experience Organisation development Legal Institutional business Seconded personnel Insurance reimbursements Communications Welfare reimbursement	
Mercitalia Intermodal S.p.A.	Finance Tax and financial statements Corporate business Audit Public and media relations Organisation development Information systems Communications services Company officers Insurance reimbursements Welfare reimbursement People experience	
Metropark S.p.A.	Finance Tax and financial statements Corporate business Legal/labour office Public and media relations Organisation development People experience Strategies Company security Legal Information systems Communications services Insurance reimbursements Lease and sub-lease of offices Recharge of condominium expenses Recharge of IT services Leases	
Netinera Deutschland GmbH	Insurance reimbursements Recharge of IT services Finance area services Strategies area services People experience Insurance reimbursements Recharge of IT services	
Ataf Gestioni S.r.l.	Contributions to AGCM charges incurred Finance area services Company officers	
Trenord S.r.l.	Finance area services Company officers Insurance reimbursements Lease and sub-lease of offices and workshops Recharge of condominium expenses	
Terminali Italia S.r.l.	Finance area Insurance reimbursements Office leases Recharge of condominium expenses	
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.	Finance area services External relations Recruitment and development Organisation Communications Company officers Contributions to AGCM charges incurred	
Thello Sas	Insurance reimbursements Finance area services	
Busitalia Rail Service S.r.l.	Finance area services	Advertising and marketing
Busitalia Veneto S.p.A.	Management administration Finance area services	
Busitalia Campania S.p.A.	Finance area services	
Bluferries S.r.l.	Insurance reimbursements	

	Finance area services	
	Corporate business	
T.E.L.T. Sas (formerly L.T.F. Sas)	Seconded personnel	
	Recruitment and development	
Grandi Stazioni Immobiliare S.p.A.	Company officers	
	Tax and financial statements services	
	Corporate business	
	Strategies	
City boat	Company officers	
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l.)	Seconded personnel	
	Area services	
	Finance	
	Tax and financial statements	
	Corporate business	
	Legal/labour office	
	Management administration	
	Public and media relations	
	Organisation development	
	Company security	
	Legal	
	Information systems	
	Communications services	
	Insurance reimbursements	
	Lease and sub-lease of offices	
	Recharge of condominium expenses	
	Recharge of IT services	
	Leases	
	People experience	
	Utilisation of trademark	
	Recharge of the Bilateral fund for income assistance	
	Contributions to the charges incurred	
Mercitalia Transport & Services S.r.l.	Finance area services	Transport and shipping
Mercitalia Terminal S.p.A.	Finance area services	
Associates		
Ferrovie Nord Milano S.p.A.	Legal area services	
	Company officers	
Associates of subsidiaries		
LI-NEA S.p.A.	Company officers	
Terminal Tremestieri S.r.l.	Company officers	
Eurogateway S.r.l.	Corporate business	
Logistica SA	Finance area services	
	Insurance reimbursements	
Other related parties (*)		
CDDPP group	Pedestrian crossings	Loans and borrowings
ENEL group	Land easement instalments	Electrical energy supply
Eni group	Land easement instalments	Gas supply
Invitalia group	Pedestrian crossings	
POSTE group	Operating buildings lease instalments	Postal charges
	Land lease instalments	
Eurofer	Insurance reimbursements	Grants
	Company officers	
Other pension funds		Insurance policies
Previndai		Grants
Fondazione FS	Office leases	Membership fees
	Insurance reimbursements	
	Recharge of condominium expenses	
	Seconded personnel	
Scarl, associations, EEIG, partnerships	Company officers	Sponsorships
		Membership fees to the railway recreational association
Finmeccanica group	Seconded personnel	Consultancies

(*) 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.				
Ferservizi S.p.A.	Ferservizi S.p.A.	Ferservizi S.p.A.			Ferservizi S.p.A.	
Trenitalia S.p.A.	Trenitalia S.p.A.	Trenitalia S.p.A.	Trenitalia S.p.A.		Trenitalia S.p.A.	
Italferr S.p.A.	Italferr S.p.A.	Italferr S.p.A.			Italferr S.p.A.	
Grandi Stazioni Rail S.p.A.	Grandi Stazioni Rail S.p.A.	Grandi Stazioni Rail S.p.A.	Grandi Stazioni Rail S.p.A.		Grandi Stazioni Rail S.p.A.	
Centostazioni S.p.A.	Centostazioni S.p.A.	Centostazioni S.p.A.			Centostazioni S.p.A.	
Bluferries S.r.l.	Bluferries S.r.l.	Bluferries S.r.l.				
Metropark S.p.A.	Metropark S.p.A.	Metropark S.p.A.				
Mercitalia Logistics S.p.A. FS Sistemi Urbani S.r.l.	Mercitalia Logistics S.p.A. FS Sistemi Urbani S.r.l.	Mercitalia Logistics S.p.A. FS Sistemi Urbani S.r.l.	Mercitalia Logistics S.p.A.		Mercitalia Logistics S.p.A. 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. Ferport S.r.l. in liquidation Busitalia Rail Service S.r.l. Busitalia Veneto S.p.A. Busitalia Campania S.p.A.	Mercitalia Intermodal S.p.A. Ferport S.r.l. in liquidation Busitalia Rail Serv S.r.l.				Mercitalia Intermodal S.p.A.	
Serfer	Serfer	Serfer	Serfer		Serfer	
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. Nord Est Terminal S.p.A. in liquidation	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					Sita S.p.A. in liquidation	
Mercitalia Transport	Mercitalia Transport	Mercitalia Transport			Mercitalia Transport	
& Services S.r.l.	& Services S.r.l.	& Services S.r.l.			& Services S.r.l.	
Mercitalia Terminal S.p.A.						
TAV S.r.l.						
		Grandi Stazioni	Grandi Stazioni			
		Immobiliare	Immobiliare			
					Cisalpino AG	
					Thello Sas	
					TELT	
			Trenitalia c2c		Trenitalia c2c	
			Trenitalia UK		Trenitalia UK	
			Ferrovie SudEst		Ferrovie SudEst	
					Qbuzz	
			Metro5			

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
Other related parties				Cassa DD.PP.		
		Poste Italiane				
						Eurofer
						Previndai

The tables below summarise statement of financial position and income statement amounts at 31 December 2017 for related party transactions.

Trade and other transactions

thousands of Euros

Name	31.12.2017			2017	
	Receivables	Payables	Guarantees and commitments	Costs	Revenue
Subsidiaries					
Ataf Gestioni S.r.l.	52				98
Busitalia Campania S.p.A.	46				38
Busitalia Rail Service S.r.l.	970	3,646		23	9
Busitalia Veneto S.p.A.	677				84
Bluferries S.r.l.	334			(4)	13
Busitalia - Sita Nord S.r.l.	7,900	2,090		(378)	1,199
Centostazioni S.p.A.	2,934	640	30	(58)	229
Cisalpino AG	167				
City boat	1				1
Fercredit S.p.A.	185	1,406		(18)	383
Ferport Genova S.r.l. in liquidation		29			
Ferservizi S.p.A.	2,148	31,195	1,169	30,173	5,375
FSE S.r.l.	334		2,100		145
FS Sistemi Urbani S.r.l.	756	1,996	39	583	713
Grandi Stazioni Immobiliare S.p.A.	95				87
Grandi Stazioni Rail S.p.A.	14,688	12,089	7,698	18,897	8,265
Italcertifer S.p.A.	1,634	257		(5)	219
Italferr S.p.A.	4,429	6,020	441	36	1,906
Mercitalia Intermodal S.p.A.	955	339	24	(11)	103
Mercitalia Logistics S.p.A.	14,373	131	7,456	(100)	1,617
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l.)	14,580	29	3,248	(633)	2,339
Mercitalia Terminal S.p.A.	22				2
Mercitalia Transport & Services S.r.l.	4	1,715		4	3
Metropark S.p.A.	1,105	18		(6)	429
Netinera Deutschland GmbH	610		35,000	(168)	145
Nord Est Terminal S.p.A. in liquidation					
Qbuzz	68		29,813		65
Rete Ferroviaria Italiana S.p.A.	29,073	667,752	1,939,785	(4,525)	39,520
Mercitalia Shunting & Terminal S.r.l. (Serfer S.r.l.)	2,353	1,494	10	(8)	13
Sita S.p.A. in liquidation	90	144	234		
T.E.L.T. Sas (formerly L.T.F. Sas)	551		6,925	(1,430)	50
Terminali Italia S.r.l.	50	361		(7)	65
Thello Sas	8		1,832	(4)	8
Trenitalia S.p.A.	30,188	106,576	381,089	(6,393)	39,791
Trenitalia C2C	145		4,324		14
Trenord S.r.l.	316	18		(5)	317
Tunnel Ferroviario del Brennero S.p.A.		68	28		
TX Logistik AG	357		50	(13)	41
Trenitalia UK Ltd	494		131,114		494
Total	**132,692**	**838,013**	**2,552,409**	**35,950**	**103,780**
Associates					
Ferrovie Nord Milano S.p.A.	11				27
Total	**11**				**27**
Associates of subsidiaries					
BBT SE	10				
Eurogateway S.r.l.	10				10
LI-NEA S.p.A.	3				10
Terminal Tremestieri S.r.l.	5				5
Logistica SA	5			(4)	
Total	**33**			**(4)**	**25**
TOTAL	**132,736**	**838,013**	**2,552,409**	**35,946**	**103,832**
Other related parties					
ANAS group	1				
CDDPP group	247	10			43
ENEL group	55	30		476	18
Eni group	22	233		301	13
Finmeccanica group		200		141	
Invitalia group	1	4			
POSTE group	524	8		175	16
Eurofer	4	(84)		116	22
Other pension funds		8		1,982	
Scarl, associations, EEIG, partnerships				31	1
Fondazione FS	597	1		3,923	886
Previndai		537		480	
Total	**1,451**	**947**		**7,625**	**999**

Financial transactions

thousands of Euros

Name	31.12.2017			2017	
	Receivables and current accounts	Payables	Guarantees and commitments	Expense	Income
Subsidiaries					
Trenord S.r.l.					
Bluferries S.r.l.		16			
Busitalia - Sita Nord S.r.l.	41,033	135	6,056		183
Centostazioni S.p.A.		1,517	1,260	1	7,762
Cisalpino AG			13,674		83
Mercitalia Rail S.r.l. (formerly FS Telco)	99,231	14,349	4	1	1,263
Fercredit S.p.A.		314		1	9,500
Ferservizi S.p.A.	34	53,667		7	19,443
FS Sistemi Urbani S.r.l.		24,262	900	2	4
Grandi Stazioni Rail S.p.A.	41,016	7,407		1	368
Grandi Stazioni Immobiliare S.p.A.	2,302	247			16
Italcertifer S.p.A.		18	38		2
Italferr S.p.A.	5,018		24,031	1	7,816
Metropark S.p.A.		3,008			
Netinera Deutschland GmbH			203,311		4,764
Rete Ferroviaria Italiana S.p.A.	2,296,867	219,547	238,626	11,798	188,289
Qbuzz			2,724		1
Mercitalia Terminal S.p.A.					
Mercitalia Shunting & Terminal S.r.l. (Serfer S.r.l.)	3,967	1,193	9		70
Thello sas			102		
Terminali Italia S.r.l.		4			
Trenitalia S.p.A.	6,211,508	1,329	514,729	8,223	48,402
Trenitalia C2C			89,154		615
Trenitalia UK Ltd	72,186			2	1,520
TX Logistik AG	12,154		12,132		76
Mercitalia Logistics S.p.A.	86,505	2,375	1,672	32	335
Mercitalia Terminal S.p.A.					1
Mercitalia Transport & Services S.r.l.		36	329		1
FSE Trasporto Ferro	45,580		1,174		289
TOTAL	**8,917,401**	**329,424**	**1,109,925**	**20,069**	**290,803**
Associates					
Metro 5	35,447				1,126
Italiacamp S.r.l.				175	
Ferrovie Nord Milano S.p.A.					1,090
Total	**35,447**			**175**	**2,216**
TOTAL	**8,952,848**	**329,424**	**1,109,925**	**20,244**	**293,019**
Other related parties					
CDDPP group		796,018		31,134	
POSTE group					
ENI group					
TOTAL		**796,018**		**31,134**	

42. Guarantees

The table below details the guarantees issued by the company on behalf of subsidiaries, third parties or other subsidiaries, broken down by financial and non-financial.

thousands of Euros

Issued on behalf of	Financial	Non-financial
Rete Ferroviaria Italiana S.p.A.	238,626	1,939,785
Trenitalia S.p.A.	514,729	381,089
Netinera Deutschland GmbH	203,311	35,000
Busitalia - Sita Nord S.r.l.	6,056	
Centostazioni S.p.A.	1,260	30
Grandi Stazioni Rail S.p.A.		7,698
FS Sistemi Urbani S.r.l.	900	39
Tunnel Ferroviario del Brennero S.p.A.		28
Italferr S.p.A.	24,031	441
Ferservizi S.p.A.		1,169
Mercitalia Logistics S.p.A.	1,672	7,456
Sita S.p.A. in liquidation		234
TX Logistik AG	12,132	50
Italcertifer S.p.A.	38	
Mercitalia Shunting & Terminal S.r.l. (Serfer S.r.l.)	9	10
Mercitalia Intermodal S.p.A.		24
Thello Sas	102	1,832
Telt Sas		6,925
Mercitalia Transport & Services S.r.l.	329	
Mercitalia Rail S.r.l.	4	3,248
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.	1,174	2,100
Trenitalia C2C	89,154	4,324
Trenitalia UK Ltd		131,114
Qbuzz BV	2,724	29,813
Cisalpino AG	13,674	
Total	**1,109,925**	**2,552,409**

The financial guarantees are mainly comprised of guarantees and counter-guarantees issued to banks for loans and guarantees granted by the same banks to third parties on behalf of subsidiaries.

The non-financial guarantees are comprised of bid bonds, performance bonds, commercial guarantees and commitments in favour of the tax authorities.

The main non-financial parent guarantees were issued to the tax authorities (€2,163,011 thousand), to guarantee reimbursements of tax credits to the subsidiaries Rete Ferroviaria Italiana S.p.A., Trenitalia S.p.A., Mercitalia Logistics S.p.A., Ferservizi S.p.A., Grandi Stazioni Rail S.p.A., Italferr S.p.A., FS Sistemi Urbani S.r.l., Sita S.p.A. in liquidation, Centostazioni S.p.A., Cemat S.p.A. and Tunnel Ferroviario del Brennero S.p.A.. There was also a counter-guarantee of €13,674 thousand given to Deutsche Bank for the latter's issue of a bank guarantee to the tax authorities on behalf of Cisalpino AG, a company 50% held by Trenitalia S.p.A. (the parent guarantee only covers Trenitalia S.p.A.'s portion). The non-financial parent guarantees include one to GSE guaranteeing the service contract for energy supply signed with Rete Ferroviaria Italiana S.p.A. (€150,000 thousand) and the guarantees issued to Terna for the contracts signed by Rete Ferroviaria Italiana S.p.A. for the electrical energy dispatching service for withdrawal points which power rail traction and for other uses (guarantees of €22,400 thousand and €1,800 thousand, respectively).

Financial guarantees issued to banks for loans granted are as follows:

- from the EIB to the subsidiary Rete Ferroviaria Italiana S.p.A. (guarantee of €200,000 thousand);
- from EIB to the subsidiary Trenitalia S.p.A. (total bank counter-guarantee of €22,969 thousand and a parent guarantee issued in 2014 to replace three bank guarantees no longer considered adequate by the EIB as per the contract, for €21,963 thousand);
- from BNP Paribas Fortis and Unicredit AG to TX Logistik AG, a subsidiary of Mercitalia Logistics S.p.A. (total amount of two parent guarantees of €12,132 thousand);
- from BNP Paribas to the subsidiary Centostazioni S.p.A. (parent guarantee of €1,260 thousand).

Parent guarantees were also issued for the foreign group companies Netinera Deutschland GmbH (€238,311 thousand) and Trenitalia UK (GBP115,000 thousand).
Furthermore, a strong comfort letter (€420,000 thousand) was issued for the 2004 loan from OPI (now Intesa San Paolo) granted to Trenitalia S.p.A..
Guarantees were issued for foreign projects (counter-guaranteed by the company's banks and issued in the foreign countries via a local bank), mainly on behalf of Italferr S.p.A. (€9,031 thousand) and, for the remainder, on behalf of Italcertifer S.p.A. (€38 thousand).
Finally, the guarantees issued as part of foreign projects on behalf of the company include SAR25,402 (related to bid bond issued on behalf of Arriyadh Development Authority and Saudi Railway Company) and €22 thousand (related to bid bonds issued on behalf of the ICE and AICS agencies.

43. Events after the reporting date

2016 VAT reimbursement

On 19 January 2018, the company collected the 2016 VAT receivable, amounting to €444,088 thousand, of which interest and principal amount to €438,965 thousand and €5,123 thousand, respectively. This amount was concurrently reversed to Rete Ferroviaria Italiana S.p.A., Trenitalia S.p.A. and Mercitalia Logistics S.p.A..

Transfer of ANAS shares to FS Italiane

The transfer of ANAS shares to FS Italiane took place on 18 January 2018. The MEF transferred the entire investment in ANAS to FS Italiane S.p.A. following the approval Antitrust Authority. The MEF's subscription of the share capital increase of €2.86 billion is the final step of the procedure leading to the establishment the largest European road and railway integrated hub in terms of residents served and investments.
ANAS joins Rete Ferroviaria Italiana and Italferr, the subsidiary which operates in the design and engineering fields in Italy and abroad, and other group companies, including Trenitalia, Mercitalia and Busitalia, which are active in the passenger and cargo transport by rail and road.
The aim is to improve the quality and safety standards of the road network and maintenance, starting from road, viaduct and tunnel monitoring.
The collaboration between RFI and ANAS will also more efficiently and effectively link the logistic hubs: ports, airports, railway stations and modal interchange points.
Furthermore, the transaction will result in the sharing of know-how and technologies for the development of innovative products as well, like smart roads (for electric lorries and driverless cars, improving safety and the environment), making Italy one of the pioneers in this innovation.
The group will immediately benefit from the integration on international markets as well, where it will now control the entire range of projects and services linked to mobility infrastructures.

Based on the above, ANAS will contribute to the group's consolidated results starting from 2018, once the analyses of the contribution value under the group's accounting policies have been completed. The analyses will also take into account: i) the completion of the company's transition to IFRS; ii) the approval of its draft 2017 financial statements; iii) the conclusion, shortly after the signing of the new 2021 Government Programme Contract between the MIT and ANAS S.p.A., of the formal discussions between the shareholder and the granting Ministry concerning the outcome of the Concession Agreement governing ANAS S.p.A.'s operations, specifically with respect to the estimate of the freely-transferable assets at the end of the agreement, i.e., 2032.

Reorganisation and enhancement of the Centostazioni network

As described in the directors' report, in the 2017 Annual Report, the parties involved (FS Italiane S.p.A., Centostazioni S.p.A. and RFI S.p.A.) identified and approved a project for the reorganisation and enhancement of the Centostazioni network which envisages the following main steps:

- Centostazioni S.p.A.'s partial demerger in order to assign the more commercial-oriented business lines to a newco (Centostazioni Retail S.p.A.) which will develop them on the market;
- Centostazioni S.p.A.'s merger into RFI;
- RFI S.p.A.'s contribution of the economic and commercial exploitation rights to other commercial-oriented businesses to Centostazioni Retail S.p.A., if the tender for Centostazioni Retail S.p.A. on the market is successful.

Consequently, on 5 February 2018, Centostazioni S.p.A.'s board of directors approved the proposed demerger and the proposed merger and RFI's board of directors approved the proposed merger on 6 February 2018.

Finally, on 28 February 2018, the company's board of directors, in turn, expressed its favourable opinion on the approval of the proposed partial demerger of the subsidiary Centostazioni S.p.A. and the approval of the merger of the business unit comprised of four main stations (Centostazioni Rail) into RFI S.p.A., after its demerger.

Ferrovie del Sud Est S.r.l. - FSE S.r.l.'s deed of arrangement

On 14 March 2018, the proposed deed of arrangement received the majority of favourable votes. The deed of arrangement provides for the payment of the entire amount of €154 million due to privileged and pre-deductible creditors (who will be repaid within one year) and payment of 51% of the other €130 million due to unsecured creditors. Once the voting procedures are completed (this should formally take place in early April), the Insolvency court will set the hearing for the approval of the deed of arrangement and its formal enforcement.

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Proposed allocation of the profit for the year of Ferrovie dello Stato Italiane S.p.A.

The company's financial statements as at and for the year ended 31 December 2017 show a profit of € 230,910,167.66. Considering the fact that the legal reserve has not yet reached the minimum provided for by article 2430 of the Italian Civil Code, we propose allocating the profit for the year as follows:

- 5%, equal to €11,545,508.38 to the legal reserve;
- the remaining €219,364,659.28 to retained earnings.

Rome, 17 April 2018

The board of directors

The Chairwoman

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 2017 pursuant to article 154-bis, paragraph 5, of Legislative Decree no. 58/1998

1. The undersigned Renato Mazzoncini and Roberto Mannozzi, as respectively Chief Executive Officer and Manager in charge of the company's accounting documents preparation of Ferrovie dello Stato Italiane S.p.A., also pursuant to article 154-bis paragraphs 3 and 4 of Legislative decree no. 58 of 24 February 1998, certify:
   - the adequacy with regard to the characteristics of Ferrovie dello Stato Italiane SpA and
   - the effective application

   of the administrative and accounting procedures in preparing the separate financial statements at 31 December 2017.
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.

27 marzo 2018

Renato Mazzoncini
Chief Executive Officer

Roberto Mannozzi
Manager in charge of the company's accounting documents preparation

KPMG S.p.A.
Revisione e organizzazione contabile
Via Ettore Petrolini, 2
00197 ROMA RM
Telefono +39 06 80961.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

Independent auditors' report pursuant to 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 2017, the income statement and the statements of comprehensive income, cash flows and changes in equity 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 2017 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 Ferrovie dello Stato Italiane S.p.A. 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.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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Euro 10.150.950,00 i.v.
Registro Imprese Milano e
Codice Fiscale N. 00709600159
R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani,
25 20124 Milano MI ITALIA

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 "Basis of preparation"– paragraph "Equity investments" and note 10 "Equity investments"

Key audit matter	**Audit procedures addressing the key audit matter**
The separate financial statements at 31 December 2017 include investments in subsidiaries of €35,110,278 thousand recognised at acquisition or incorporation cost. At each reporting date, the directors check whether there is evidence that these equity investments may be impaired. 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. As disclosed in the notes to the separate financial statements at 31 December 2017, based on their analyses, the directors did not identify indicators of impairment in the Company's investments in subsidiaries. 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.	Our audit procedures included: — understanding the process adopted to measure investments in subsidiaries and to identify any related indicators of impairment; — checking 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; — assessing the appropriateness of the disclosures provided in the notes about the measurement of investments in subsidiaries.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Ferrovie dello Stato Italiane S.p.A. 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 April 2014, the shareholders of Ferrovie dello Stato Italiane S.p.A. 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 directors of Ferrovie dello Stato Italiane S.p.A. are responsible for the preparation of the Company's directors' report and report on corporate governance and ownership structure at 31 December 2017 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 2017 and their compliance with the applicable law and to state whether we have identified material misstatements.

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 separate financial statements of Ferrovie dello Stato Italiane S.p.A. at 31 December 2017 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, 31 March 2018

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 2017 ANNUAL REPORT SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS OF FERROVIE DELLO STATO ITALIANE S.p.A. (SINGLE-MEMBER COMPANY) AT 31 DECEMBER 2017 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 2017

Dear Shareholder,

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

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

The draft separate financial statements of FS Italiane S.p.A., which have been submitted for your approval, were approved by the board of directors in its meeting of 27 March 2018.

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.

The transactions carried out complied with the law and the by-laws and were not potentially in contrast with the shareholder's resolutions or such to jeopardise the integrity of the company's assets.

We have no specific comments to make on the adequacy of the company's organisational system, or on the adequacy of the administrative and accounting system or its reliability in fairly representing operations.

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 2017, 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 the information on corporate governance and ownership structure are consistent with the separate financial statements of FS Italiane S.p.A. at 31 December 2017.

The independent auditors also issued their audit report on the consolidated financial statements of Ferrovie dello Stato Italiane group at 31 December 2017expressing an

unqualified opinion.

With respect to the supervisory activities concerning the independence of the auditors entrusted with the legally-required audit, the board of statutory auditors, also in its role of Internal control and audit committee, note that, in the additional communication provided pursuant to article 11 of Regulation (EU) no. 537/2014, KPMG S.p.A. confirmed its independence pursuant to article 6.2.a) of the same Regulation. Based on the documentation and the information received, we have nothing to report about KPMG S.p.A.'s independence.

During the year and after the reporting date, we did not receive any complaints pursuant to article 2408 of the Italian Civil Code.

We did not have to intervene due to failure of the board of directors as per article 2406 of the Italian Civil Code.

No reports as per article 2409.7 of the Italian Civil Code were made.

During the year, we met 16 times. The minutes of these meetings are included in the relevant book.

In addition, we attended:

(i) four shareholder's meetings (on 8 June 2017 - ordinary, 26 October 2017 - extraordinary, 29 December 2017 - ordinary and 29 December 2017 - extraordinary);

(ii) 13 board of directors' meetings.

Such meetings were held in compliance with relevant legislation, regulations and by-laws. During the board of directors' meetings, the obligations to periodically report to the board of directors and the board of statutory auditors as per article 2381 of the Italian Civil Code were met.

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 auditing system with respect to financial reporting.

We also monitored the legally-required audit and 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, with specific reference to the adequacy of the provision of non-audit services.

We conducted our supervisory activities also through: (i) the information obtained during the periodic meetings with the Central Internal Audit Department; (ii) the examination of the company documents and the results of the work performed by the independent auditors; (iii) the information provided by the Supervisory Body set up pursuant to Legislative decree no. 231/2001; (iv) our active participation in the board of directors' and other committees' meetings.

At an organisational level, we acknowledged that, during the year, the Group Internal Audit Department and its operations were reorganised. Specifically, the new organisation provides for:

a. Internal Audit Departments at the parent and its top level and fully-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 overlooking the objective of effectively overseeing their own Internal Control and Risk Management Systems;

b. coordination by the FS Italiane S.p.A.'s Central Internal Audit Department of the group 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 Chairperson of the board of directors and functionally to the CEO and also to the Internal Audit Committees, if they have been established, as required by each company.

In 2017, with various organisational measures, the group's Central Risk Management/CRO, reporting directly to FS Italiane S.p.A.'s CEO, was further reinforced with the creation of specialised level 2 structures. Furthermore, a process began to strengthen the subsidiaries' Risk Management Departments in order to increasingly support the business with the risk management process.

Lastly, in 2017, the parent decided to strengthen the model already in place by further developing the integrated risk management framework for systematic control over the current and potential risks to which the group is exposed.

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 FS Italiane group (group measure no. 172), leading it to sign the United Nations Global Compact in 2017, the tenth principle of which is to "work against corruption in all its forms".

Confirming this commitment, in 2017, the parent FS Italiane S.p.A. voluntarily adopted a unified anti-corruption framework 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 (approved by FS Italiane S.p.A.'s BoD on 19 December 2017), implementing the anti-corruption policy guidelines (approved by FS Italiane S.p.A.'s BoD on 13 September 2017), 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..

Information on the sustainability of the FS Italiane group is included in the directors' report (page 102 and following pages) pursuant to Legislative decree no. 254 of 30 December 2016.

Also in our role of Internal control and audit committee, we checked the financial reporting process and received evidence of the activities carried out by the manager in charge of financial reporting. 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 and through meetings and information sharing with the independent auditors. With respect to the organisational model adopted pursuant to Legislative decree no. 231/2001, we were duly informed about the checks carried out during the year and have nothing to report in this respect.

We assessed and monitored the adequacy of the company's administrative/accounting system and its reliability in fairly presenting operations through (i) the information and documents obtained during the meetings with the manager in charge of financial reporting and the examination of the joint statements made by latter and the CEO on 27 March 2018; (ii) the information obtained from the competent department heads and (iii) the

examination of the company documents and the results of the work carried out by the independent auditors.

Based on our supervisory activities, to the extent of our duties, we believe that company's administrative/accounting system is adequate and reliable in fairly presenting operations.

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 legally-required audit of the separate and consolidated financial statements.

Based on the information received from them, no facts, circumstances or irregularities were noted which should be disclosed in this report.

Based on our supervisory and monitoring activities, we have nothing to report.

We examined the draft separate financial statements at 31 December 2017 and note the following:

c. 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;

d. 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;

e. after checking the directors' report's compliance with the law governing its preparation and its consistency with the information obtained as part of our supervisory activities, we have nothing to report in this respect;

f. to the extent of our duties, during the preparation of the separate financial statements, the directors did not apply any of the waivers permitted by article 2423.4 of the Italian Civil Code.

2016 ended with a profit of €230,910,168. For additional information, reference should be made to the notes to the separate financial statements.

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Finally, having considered the separate financial statements at 31 December 2017, the information provided by the directors and the findings of the independent auditors, to the extent of our duties, we are in favour of your approval of the draft financial statements of Ferrovie dello Stato Italiane S.p.A. at 31 December 2017, as submitted by the board of

directors to the sole shareholder.

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

Dear Shareholder,

The consolidated financial statements of Ferrovie dello Stato Italiane group ("FS group") at 31 December 2017, which have been submitted to you, comprise the required consolidated schedules and the notes thereto. They have been prepared in accordance with the IFRS (which include the International Accounting Standards (IAS)), endorsed by the European Union, and are accompanied by a directors' report and the statement of the CEO and the manager in charge of financial reporting thereon, as well as a schedule describing the group's consolidation scope and equity investments.

They also include the reconciliation at 31 December 2017 and 31 December 2016 between profit for the year and equity in FS Italiane S.p.A.'s separate financial statements and the related consolidated figures.

In the directors' report, which the independent auditors KPMG S.p.A. checked for consistency with the consolidated financial statements, the directors have described the group's and the parent's overall financial position and financial performance and provided detailed information about the specific operations of consolidated companies and the outlook.

We performed our supervisory activities in compliance with the code of conduct for boards of statutory auditors issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili). In accordance with such code of conduct, we referred to the legislation that regulates the preparation of consolidated financial statements.

We checked that:

g. the methods applied in identifying the consolidation scope were correct and that consolidation policies adopted for subsidiaries were in accordance with IFRS;

h. legislation governing the preparation and layout of consolidated financial statements and directors' reports was complied with;

i. the organisation of the parent was adequate for the flow of information in consolidation

procedures;

j. consolidation policies related to the elimination of intragroup income, expense, receivables and payables were complied with;

k. the group's directors' report was consistent with the data and figures presented in the consolidated financial statements in order to provide extensive disclosure on the group's financial performance and the risks it is subject to, in addition to significant events after the reporting date which did not have any effects on the 2017 consolidated financial statements.

We evaluated the consolidation scope, examined the consolidation policies and checked the adequacy of accounting policies applied.

The documentation examined and information received did not show any non-compliance with legislation governing the preparation of consolidated financial statements.

In our opinion, the consolidated financial statements as a whole correctly present the group's financial position and financial performance as at and for the year ended 31 December 2017.

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 2017 comply with the IFRS 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 2017.

Rome, 31 March 2018

THE BOARD OF STATUTORY AUDITORS

Carmine di Nuzzo	Chairman
Susanna Masi	Standing statutory auditor
Roberto Ascoli	Standing statutory auditor