



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

2018 ANNUAL REPORT

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Chairman's letter

Dear Shareholder,

Ferrovie dello Stato Italiane group, which includes Anas in its consolidation scope as from 18 January, reported a very strong profit for 2018 and a robust financial position and cash flows, thanks to the unremitting commitment of each of our 82,944 employees, to whom the board expresses its sincere thanks.

While reference should be made to the extensive disclosures provided in the directors' report and in the notes to the financial statements, the following five key aspects of the group's performance and operating segments are briefly discussed below:

- financial results;
- investments;
- the new business plan;
- the internal control and risk management system improvement process;
- our commitment to sustainability.

Financial results

The group recognised revenue of €12.1 billion (+30% on 2017), with an overall increase of €2.8 billion (€2.4 billion of which due to the consolidation of Anas), and very positive gross operating profit (€2.5 billion) and operating profit (€0.7 billion). The profit for the year (€559 million) increased 32% on 2017, net of the non-recurring positive impacts of the new rate regime for electrical energy for railway traction.

The 8% increase in equity (€41.8 billion at the reporting date) and the 8.5% improvement in net financial debt (€6.7 billion) enabled a 3% decrease in the debt/equity ratio to 16%. The financial market acknowledged our robust growth and showed its confidence by confirming the ratings assigned to our Euro Medium Term Notes Programme, enabling us to embark on our future investment plans in a sustainable manner.

Investments

Thanks to the support of the government, the regions and other relevant bodies - and in contrast to the general slowdown in Europe and Italy - the group increased its investment volumes, picking up sharply in the second half of the year which ended with capital expenditure of €7.5 billion (+34% on 2017, +9% excluding Anas' investments).

The investments related to the railway infrastructure account for 64% (98% on the traditional network and 2% on the HS network), the road infrastructure (Anas) for 19%, transport for 15% (passenger transport for 13% and freight transport for 2%), while the remainder refers to the other services.

Overall, the investments of 2018 rank FS Italiane Group first by investment volumes in Italy and contributed to the creation of over 110,000 jobs nationally (estimated based on ISTAT (the Italian Social Security Institute) parameters, net of group employees).

The new business plan

Since the beginning of its term of office on 30 July 2018, the board of directors decided to mobilise and steer all group resources and the technical and managerial expertise of its various sectors to meet customer and user needs and to boost connectivity and integration in Italy.

As the country's main integrated mobility company, we have taken on a central role in the development of the mobility ecosystem in the post-digital age characterised by the spread of new, particularly innovative technologies (often enabled

by a digital component), significant changes to the regulatory and market frameworks at both Italian and European level (for instance, the Fourth Railway Package) and the growing awareness of regulators, consumers and the financial market around issues of sustainable development, the circular economy and combating emissions and climate change.

Leveraging the superiority of rail transport over other forms of transport in terms of emissions, energy consumption and travel safety, our aim is to drastically cut the proportion of people (still much higher than 80%) that travel by car and of road freight, consolidating customer satisfaction thanks to our reliability.

In passenger transport, particularly, we recognise the vital importance of meeting the comfort and security needs of the nearly 2 million commuters that travel on our trains daily. Regional service contracts were renewed with the Veneto, Liguria, Sicily, Lazio and Umbria regions in 2018, in addition to those previously agreed with other regions, and a decisive step in investments was made in Lombardy. Some of the initiatives that reflect this paradigm shift are the launch of the first customer care service in Europe for regional train passengers (520 employees involved across the country), the roll-out of investments to improve connectivity on board trains, as well as the introduction of an incentive system for management based on punctuality figures and service quality. We are confident we will see the initial results of our renewed commitment and of the confidence of our institutional operators in 2019. Some of the 2019 initiatives include the roll-out of the Rock and Pop regional trains and, during the second half of 2018, our suppliers agreed to significantly bring forward their original delivery plan.

In the transport and logistics segment, we will continue to support the roll-out of system-level initiatives - including infrastructural and regulatory ones - which will make rail transport reliable and competitive and attract significant modal shares. The goal of concentrating all FS Group companies operating in the European logistics market in a single industrial complex, the Mercitalia hub, was achieved in full in 2018. In order to achieve the long-awaited and major turnaround, we are supporting the extraordinary commitment of our employees by fast tracking the investment plans for both rolling stock and in the latest digital technologies that help meet customer needs and at least partly overcome the present weaknesses in railway transport in Europe.

In the last few weeks of 2018, we defined the key development strategies for FS Italiane Group and the main subsidiaries updated their business plans accordingly. In the next few months, also in light of the development of the operations involving the group and after our customary dialogue with institutional bodies, we will unveil our new business plan to our stakeholders.

The internal control and risk management system improvement process

Considering the role played by FS Italiane Group in Italy's economy, we encouraged the further improvement of the internal control and risk management system.

As well as strengthening the group companies' internal audit controls through initiatives to bolster the workforce and honing the shared work and reporting methods, we encouraged the implementation of specific mechanisms to combat corruption, which were introduced into the existing company procedures. Specifically, in the first year of application at FS Italiane S.p.A., we rolled out specific prevention tools for the processes 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".

During 2018, we also defined FS Italiane Group's Risk Management Framework, establishing the areas, responsibilities, methodologies and tools that support the risk-based decision-making process. We also began the process to join the tax co-operative compliance scheme with the tax authorities, which will be completed before the end of 2019, with the aim of managing, preventing and mitigating the tax risk inherent to operations. The issuance of the internal dealing code to flank the insider trading regulation completes the group's internal policies protecting against the risk of market abuses in relation to our listed bonds. We also implemented the new provisions of the GDPR and the group companies have

appointed a Data Protection Officer to ensure not only full compliance with the provisions of the law but also to protect the rights of the many citizens - for instance, the more than seven million customers that hold Trenitalia's CarteFreccia cards - that entrust the group companies with their personal and sensitive data.

We also approved and issued a new version of the code of conduct during the year, available on our website, which much more clearly sets out our deeply ingrained values which guide every one of the actions of the group and our employees.

Our commitment to sustainability

We are very proud of the shortened timeframe for our preparation of the Sustainability report, as well as of the honing of its structure and contents. This meant that the FS S.p.A.'s board of directors approved the Sustainability report at the same time as the draft Annual Report for the first time, an effort that also formally underscores the important link between the two documents.

To highlight the commitment of all the group companies, which fully share the principles of the United Nations' Global Compact and the sustainable development goals (SDGs), we note some of the many initiatives of 2018, which include the areas granted in 491 of our stations for non-profit projects of a social, cultural and environmental nature (+11% on 2017), for a total surface area of 118,000 sqm. The Help Centre social network project (18% centres active in 2018, 61% in central and southern Italy) is also worthy of note, offering over 400,000 aid actions per year. Thanks to the activities carried out in the second half of 2018, the new Rovereto and Viareggio Help Centres are ready to open their doors, taking the network to a total of 20 centres.

FS Italiane S.p.A.'s social sustainability is also reflected in the focus of all group companies on their employees. The many positive results include the increase in the number of employees in proportion to activity volumes (+8,508 employees, including 1,698 not from company acquisitions), the employment of many under-30s (up from 6% of group employees to 13%), being awarded Best Employer of Choice for Italian new graduates for the fifth year in a row, the reduction of accidents (-10.4%), and professional refresher courses (more than 570,000 training days in the main group companies, +30% on 2017). The many initiatives on the issue of gender diversity contributed positively to improving female employee numbers, both as a proportion of total group employees (16.6%, +1.4%), and in management roles (18.1%, +0.9%).

As shown by the growth of ethical and green finance which saw the group being rewarded for the issue of our first green bond in 2017, we are confident that the transition to sustainable models has already begun. We therefore launched the Corporate Forum for Sustainable Finance together with other large European companies in the first few weeks of 2019, with the aim of contributing to the increasing development of green and ethical financial instruments that reward the sustainability of business models.

As shown by the figures and disclosures contained in the draft Annual Report which we submit to the shareholder, Ferrovie dello Stato Italiane Group is solid, vibrant and well managed.

In full agreement with the shareholder, the Ministry of Infrastructure and Transport and the other institutional counterparties, we will continue our commitment to making the necessary improvements to the Italian mobility system and to ensure Ferrovie dello Stato Italiane remains a key integrated mobility operator in Europe.

The Chairman

Gianluigi Vittorio Castelli

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

Board of directors	In office since 1 January 2018¹	In office since 30 July 2018
Chairperson	Gioia Maria Ghezzi	Gianluigi Vittorio Castelli
CEO and General Manager	Renato Mazzoncini ²	Gianfranco Battisti
Directors	Francesca Moraci ³	Francesca Moraci ³
	Giovanni Azzone	Andrea Mentasti
	Simonetta Giordani	Flavio Nogara
	Federico Lovadina	Cristina Pronello
	Vanda Ternau ⁴	Vanda Ternau ⁴
Board of statutory auditors	In office since 4 July 2016	
Chairman	Carmine di Nuzzo	
Standing statutory auditors	Susanna Masi	
	Roberto Ascoli	
Alternate statutory auditors	Paolo Castaldi	
	Cinzia Simeone	

COURT OF AUDITORS' MAGISTRATE APPOINTED TO OVERSEE THE FINANCIAL MANAGEMENT OF FERROVIE DELLO STATO ITALIANE S.p.A.

Angelo Canale

MANAGER IN CHARGE OF THE COMPANY'S ACCOUNTING DOCUMENTS PREPARATION

Roberto Mannozi

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.

³ Resigned on 25 July 2018. Reappointed as a board member on 30 July 2018.

⁴ Resigned on 25 July 2018. Reappointed as a board member on 30 July 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.

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 fully relied upon. Actual results may differ, even significantly, from the data in these statements following myriad factors, including, but not limited to, the volatility and deterioration of capital and financial markets, changes in raw material prices, changes in macroeconomic conditions and economic growth and other changes in business conditions, changes in legislation and the institutional context (both in Italy and abroad), difficulties in carrying out production and providing services, including restrictions to the use of the infrastructural railway/road network, the use of plants and supplies and many other risks and uncertainties, most of which are beyond the group's control.

Key and glossary

Non-GAAP performance indicators

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

Gross operating profit: this is an indicator of the performance of operations and reflects the group's core business only. It is calculated as the difference between revenue and operating costs.

Operating profit: this is an indicator of the performance of operations and is calculated as the algebraic sum of gross operating profit and amortisation and depreciation, impairment losses (impairment gains) and provisions.

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

Other assets, net: these reflect the sum of assets and advances from the Ministry of the Economy and Finance for grants, deferred tax assets, other current and non-current assets and other current and non-current liabilities.

Working capital: this is the sum of net operating working capital and other assets, net.

Net non-current assets: these reflect the sum of property, plant and equipment, investment property, intangible assets and equity investments.

Other provisions: these reflect the sum of post-employment benefits and other employee benefits, the provision for litigation with employees and third parties, the provisions for other sundry risks and deferred tax liabilities.

Net invested capital (NIC): this is the algebraic sum of working capital, net non-current assets, other provisions and net assets held for sale.

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, loan assets with the Ministry of the Economy and Finance for current fifteen-year grants, cash and cash equivalents and current and non-current financial assets.

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

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

Gross operating profit margin: this profitability indicator is calculated as the ratio of gross operating profit to revenue.

Operating profit margin – ROS (return on sales): this sales profitability indicator is calculated as the ratio of operating profit to revenue.

Debt/equity ratio: this indicator is used to measure the group's debt. It is calculated as the ratio between net financial debt and equity.

ROE (return on equity): this is a profitability indicator for equity and is calculated as the ratio of profit (loss) for the year and average equity, using the average of opening equity (including the profit (loss) for the previous year) and closing equity (net of the profit (loss) for the year).

ROI (return on investment): this is a profitability indicator for invested capital through core business operations. It is calculated as the ratio of operating profit to average NIC (the average of opening and closing NIC).

Net asset turnover: this is an efficiency indicator that expresses invested capital's ability to transform into sales revenue. It is calculated as the ratio of operating revenue to average NIC (the average of opening and closing NIC).

Generated economic value: this indicator reveals how the group generates wealth for its stakeholders and it includes revenue from sales and services and other sundry income. It is calculated as the algebraic sum of other income, financial income and the share of profits (losses) of equity-accounted investees.

Distributed economic value: this indicator reveals how the group distributes the wealth it generates to stakeholders and it includes operating costs, employee remuneration, donations and other investments in the community, retained earnings and payments to financial backers and to the public administration.

Income other than directly generated economic value: this caption includes the financial statements caption "Other income" plus financial income.

Payments to financial backers in distributed economic value: this caption includes remuneration to financial backers, including distributed dividends, borrowing costs and other forms of debt.

Payments to public bodies in distributed economic value: this caption includes taxes and duties of the year included in the captions "Income taxes" and "Other operating costs", excluding deferred taxes.

Glossary

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

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

ARIS: All-relay interlocking system. This centralised system has one single button to control routes and routing and automatically shunts each individual body affected by the route.

ATC: Automatic train control. This system automatically controls the train's speed. It is the technological and functional evolution of the automatic train protection (ATP).

HS/HC: High speed/High capacity. This is the system of lines and means specifically developed for high speed transport and the consequent high capacity transport.

Average load: (pkm/tkm) This ratio expresses the number of passenger-km per train-km, i.e., how many people a train can transport on average.

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

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

Public service contracts: these are contracts between the Ministry of Infrastructure and Transport/Ministry of the Economy and Finance and Trenitalia S.p.A. whereby the former reimburses the latter for the cost of public passenger transport services that could not otherwise sufficiently self-fund.

Main line: this is a particularly important series of railway lines in terms of traffic volumes and the transport role that it plays, as it joins major network centres or hubs.

European Railway Agency (ERA): this is the EU agency establishing the mandatory requirements for European railways and builders in the form of technical interoperability specifications applicable to the European railway system. The ERA sets common safety targets, along with the related methods and common safety indicators, in compliance with Directive no. 2004/49/EC, as amended.

European Rail Traffic Management System (ERTMS): this is the system that integrates the various railway networks in the EU from a functional and operational standpoint and provides for the European Train Control System.

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.

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

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

Hub: this is a conventional term to define a railway area that generally coincides with major metropolitan destinations presenting highly dense and relatively complex medium-size to large stations and other railway systems that are interconnected by various lines, creating a continuation of the main routes into the same hub and other lines, built to manage various traffic flows and alternative routes, or service loops.

Doubling: this is the transformation of a single track to a double track.

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: train speed control system. This is the first functional stage of the ATC system for constant control over train speed, making it possible to activate the emergency brakes if the train exceeds the maximum speed allowed on the line or if it proceeds past stop signals.

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

Combined transport: this is intermodal transport mainly carried out by rail, river or sea, when the initial and terminal journeys are by road. Combined transport uses specific carriages and coded lines for the sections by rail.

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

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

Passenger-km (pkm): this is the sum of kilometres actually travelled by all transport service passengers over a given period of time. It is the commercial performance indicator for passenger transport.

The future is founded on history



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



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



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



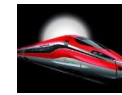
Ferrovie dello Stato becomes a company limited by shares.



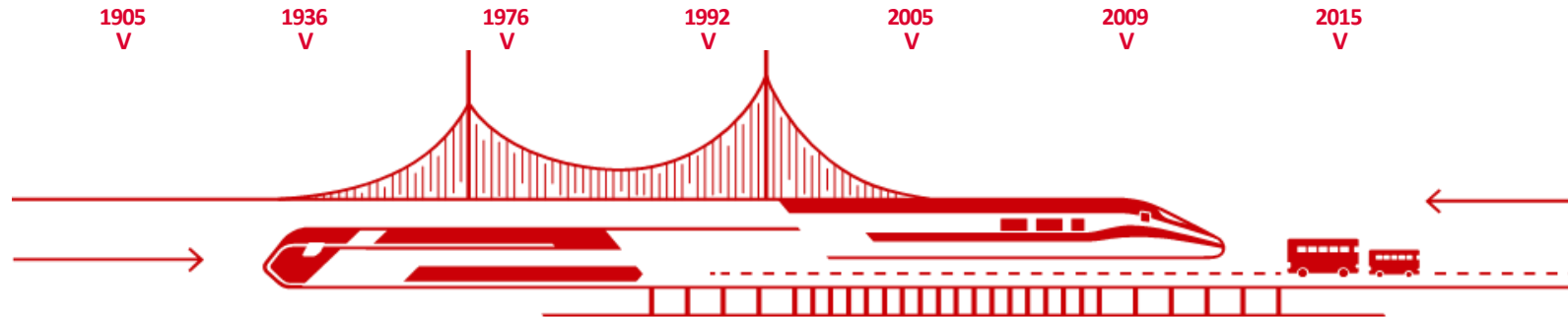
The new HS Rome-Naples line is completed and is the first to adopt the innovative ERTMS/ETCS. Engineers arrive from around the world, including Japan, the US, Russia and China, to study the Italian system, which boasts safe, quiet railway transport at 300 km/h.



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



Frecciarossa 1000 reaches speeds of 390.7 km/h, setting a new record.



1905
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1936
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1976
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1992
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2005
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2009
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1927
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1953
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2018
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Together with the Naples Mergellina station, the Rome-Naples express line is inaugurated, the first designed to reach fast speeds.

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

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

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

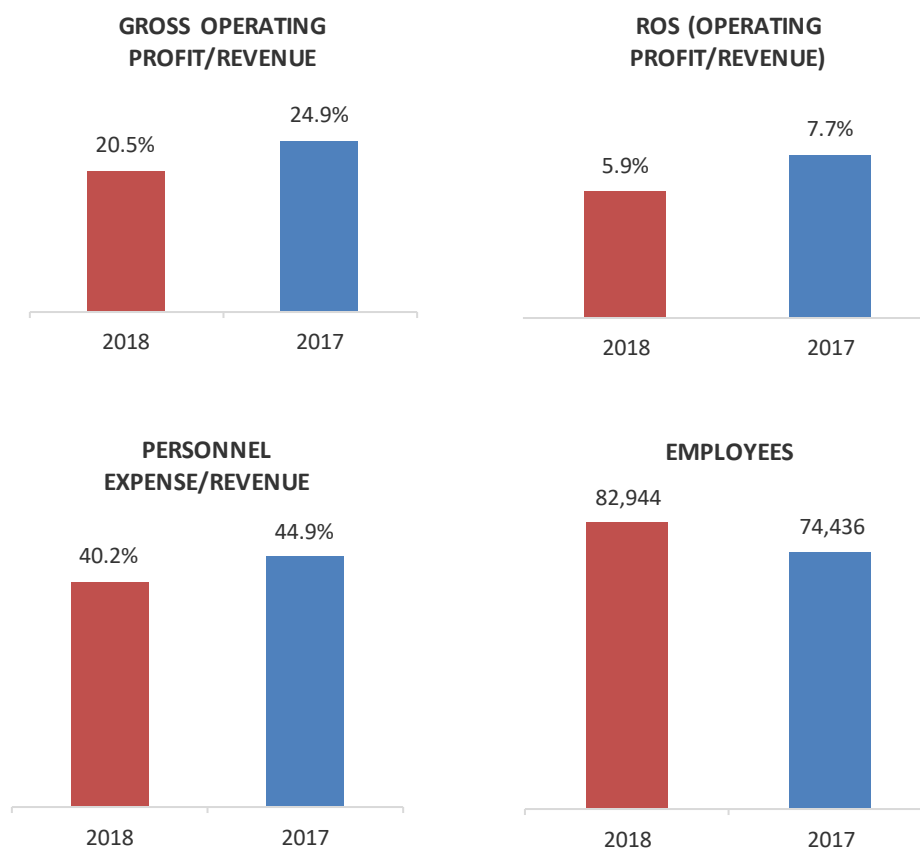
Ferrovie dello Stato group opens the HS line connecting Milan and Bologna. The works include an extraordinary suspension bridge over the Po River. Trains running on the new line set another record for Italian speed: 362 km/h.

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

ANAS S.p.A. joins FS Italiane group on 18 January 2018, after the Antitrust Authority gives its approval and following the resolution of FS S.p.A.'s shareholder approving the €2.86 billion capital increase following the contribution of the entire equity investment in Anas.



Group highlights



millions of Euros

Financial highlights	2018	2017	Change	%
Revenue	12,078	9,293	2,785	30.0
Operating costs	(9,602)	(6,982)	(2,620)	(37.6)
Gross operating profit	2,476	2,313	163	7.0
Operating profit	714	718	(4)	(0.6)
Profit for the year	559	552	7	1.3
	31.12.2018	31.12.2017	Change	
Net invested capital (NIC)	48,418	45,954	2,464	5.4
Equity (E)	41,763	38,681	3,082	8.0
Net financial debt (NFD)	6,655	7,273	(618)	(8.5)
NFD/E	0.16	0.19	(0.03)	
Investments of the year	5,871	5,407	464	8.6
Total cash flows used in the year	(38)	(503)	465	92.4

DIRECTORS' REPORT

Directors' report and non-financial information

Directors' report - Ferrovie dello Stato Italiane group

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

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

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

In compliance with the provisions of the Decree, like in the previous year, when such legislation was applied for the first time, the group decided to include the consolidated non-financial statement ("NFS") in the directors' report, also considering the nature of the information contained therein (also called "pre-financial").

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











To ensure comparability, quantitative information relates (where available) to the 2016-2018 three-year period. Any differences with respect to the previous NFS are due to the fine-tuning of the reporting methods.


The reporting scope was defined according to the group materiality by assessing the (real or potential) impacts with respect to the aspects covered by the Decree and considering, inter alia, the nature of the business and the size of the group companies ("Level 1" scope). Qualitative information for non-financial reporting (in compliance with the Standards) which entailed the extension of the Level 1 scope to all other consolidated companies, was also considered.

The relevant information was selected considering the various aspects of the Decree, the group's activities and the consequent impacts. In addition, the group considered the results of the materiality analysis and the "Guidelines on non-financial reporting" 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 (the Italian commission for listed companies and the stock exchange) on 18 January 2018.

The aim of the materiality analysis is to identify the most significant aspects for the group that are of the greatest interest to stakeholders, which could potentially influence their expectations and decisions. The group updated its materiality assessment process, using IT tools based on artificial intelligence to analyse the sentiment of external stakeholders (peers and other competitors from the group's operating segments, social and traditional media, voluntary and binding regulations), and management surveys and the examination of internal policies and documentation to analyse business priorities.

The most important aspects are set out below:

<p>The safety of people</p> <p>Commitment to the highest level of safety for our passengers and the community, including through the consolidation of a risk management and prevention culture</p> 	<p>Energy, climate change and air quality</p> <p>Combating climate change, the reduction of emissions, promotion of the efficient use of energy resources and renewables</p> 	<p>Service quality</p> <p>Focus on the service provided and received, including through the implementation of a customer-oriented organisational system</p> 	<p>The value of employees</p> <p>Commitment to the highest health and safety standards for our employees; the promotion of employees' physical and mental wellbeing; talent attraction and retention; merit-based promotion</p> 	<p>Intermodality</p> <p>Promotion of intermodal transport, alternative and collective mobility</p> 
<p>Circular economy</p> <p>Responsible use of raw materials, careful use of water resources, waste reduction and the prevention of soil and water pollution</p> 	<p>Human rights and a responsible chain</p> <p>Respect for the principles of the fundamental human rights, to help create a responsible chain</p> 	<p>Privacy and data security</p> <p>Security of customer information, combating cyber-terrorism and network security</p> 	<p>Ethics and integrity</p> <p>Prevention of any form of corruption and misconduct, ensuring integrity/transparency in business management</p> 	<p>Innovation and digitalisation</p> <p>Promotion of innovation and research and development in the pursuit of the continuous improvement of services</p> 

The above aspects and related implementing policies⁵ are covered by this report pursuant to the Decree and the Standards. To make the information included in the NFS as useful as possible, a table bridging the information required by the Decree and applicable to the group and the sections of this report is given below. Moreover, for ease of reading, the chapters or sections that include the information of the NFS are marked with a symbol to make them immediately recognisable ().

⁵Where the group may not have yet adopted policies related to the aspects referred to in Legislative decree no. 254/2016, because the necessity of doing so has not yet arisen, the group reserves the right to adopt them in the medium to long-term. In this regard, in this report, the term "policy" refers to formalised and approved documentation, whereas "practice" refers to practices or procedures.

Bridging table

Aspects of the Legislative decree	Annual report	Sustainability report	GRI - Core
	Reference	Reference	
Art. 3.1.a Business model and governance	Chairman's letter Business model Report on corporate governance and the ownership structure Group performance-Directly generated and distributed economic value Commitment to sustainable development: - Approach, commitment and practices	Content index The group and sustainability - Stakeholder engagement Internal controls and risk management system - Management systems	102-1 – 102-7 102-11 102-13 102-14 102-16 102-18 201-1
Art. 3.1.b Practices	Directors' report and non-financial information – Consolidated non-financial statement pursuant to Legislative decree no. 254 of 30 December 2016 - Methodology for reporting non-financial information Commitment to sustainable development: - Approach, commitment and practices - Environmental sustainability - The travel experience - Sustainable supply chain - Human capital - Commitment to the community Consolidation scope and the group's equity investments	The group and sustainability - Stakeholder engagement Content index	102-9 102-10 102-12 103-2 103-3 102-40 – 102-44 102-45 – 102-56
Art. 3.1.c Risk management model	Report on corporate governance and the ownership structure: internal controls and risk management system Risk factors		
Art. 3.2.a/c Energy and water resources	Environmental sustainability	Performance indicators	103-2 103-3 302-1 303-1
Art. 3.2.b/c Greenhouse gas emissions	Environmental sustainability	Performance indicators	103-2 103-3 305-1 305-2
Art. 3.2.d/c Personnel management	Commitment to sustainable development - Human capital Report on corporate governance and the ownership structure	Performance indicators Content index	102-8 103-2 103-3 401-1 402-1 403-2 404-1 405-1 406-1
Art. 3.2.e Human rights	Report on corporate governance and the ownership structure Risk factors	Content index	103-2 103-3 411-1 412-3

Aspects of the Legislative decree	Annual report	Sustainability report	GRI - Core
	Reference	Reference	
Art. 3.2.f Transparency and the fight against corruption	Report on corporate governance and the ownership structure Risk factors		103-2 103-3 205-2 415-1
Art. 3.1.c Supply chain	Commitment to sustainable development - Sustainable supply chain	Content index	103-2 103-3 204-1 308-2 407-1 408-1 409-1 414-1
Art. 3.2.d/c Community	Commitment to sustainable development - Commitment to the community	Content index	103-2 103-3
Art. 3.3 Methodology and principles	Directors' report and Non-financial information – Consolidated non-financial statement pursuant to Legislative decree no. 254 of 30 December 2016 - Methodology for reporting non-financial information		102-46 102-47 102-48 102-49 102-54 102-56
Art. 10.1.a Diversity policies	Report on corporate governance and the ownership structure Commitment to sustainable development - Human capital	Content index	103-2 103-3 405-1

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

Other material topics	Annual report	Sustainability report	GRI - Core
	Reference	Reference	
Service quality	Commitment to sustainable development - The travel experience		103-2 103-3
The safety of people	Travel safety		103-2 103-3 416-1
Effluents and waste and other environmental impacts	Commitment to sustainable development - Environmental sustainability	Performance indicators	103-2 103-3 301-1 306-2 307-1
Anticompetitive behaviour	Context and focus on FS Italiane group - Transport Authority ("ART") regulations and Other information		206-1
Passengers' privacy	Report on corporate governance and the ownership structure - Internal controls and risk management system	Content index	418-1

In accordance with the "Core" option provided for under the Standards, the GRI Content index is attached to the group's sustainability report. The references in the above table are to paragraphs of this report and in some cases to the 2018 sustainability report for follow-up, as shown in the above bridging table. Moreover, in order to comply with the Decree and the Standards, references are also made to the "Performance indicators" annex to the sustainability report.

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



Business model

The aim of FS Italiane group's business model is to enhance its various forms of capital (financial, production, human, intellectual, natural and social/interpersonal)⁶, organising activities and processes to create value for all stakeholders in the medium and long-term.

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

⁶In accordance with the IIRC - International Integrated Reporting Council framework.

BUSINESS MODEL

INPUT

Financial capital



All resources needed to finance our operations:

- equity
- debt capital (bonds, green bonds, bank loans)
- government grants (Government Programme Contract EU funds, etc.)

Physical capital



All property, plant and equipment needed to provide quality services:

- railway infrastructure
- road infrastructure
- trains
- buses

Human and Relationship capital



All the expertise, skills and experience of our human resources and the relationships developed with all stakeholders

Intellectual and organisational capital



All intangible assets that contribute to the creation of value:

- patents, rights, etc.
- trademarks
- organisational procedures
- IT systems

Natural capital



All natural resources managed (renewable and otherwise):

- energy
- soil
- water
- materials



INNOVAZIONE

Business model



ACTIVITIES

- investment planning, evaluation and management
- debt capital market
- project financing
- subsidised loans

- design of new infrastructure
- management, monitoring and maintenance of the railway/road infrastructure and fleets (trains, trams and buses)
- identification of intermodal transport services
- provision of passenger and freight transport services (market services¹ and universal services²)
- monitoring of and investment in travel safety

- HR selection and management
- training and development
- people care
- health and safety
- relationships with passengers, customers and suppliers
- relationships with institutions

- innovation
- organisation and administration
- planning and control
- risk management
- internationalisation

- energy management
- environmental management systems

OUTCOMES



- ✓ regional services
- ✓ high-speed services
- ✓ intermodal services
- ✓ integrated logistics services
- ✓ new infrastructures
- ✓ international services
- ✓ engineering services

IMPACTS



1) fully commercially-independent services not subject to government grants
 2) public transport services carried out at the request of the government or the regions which, under the service contracts, recognise the transport companies fees for complying with agreed conditions (frequency, tariffs, service levels and stops)

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 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.b⁷. 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

FS 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, also following Anas's entry into the group with effect from 10 January 2018, is to:

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

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

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

In this context, the parent FS Italiane S.p.A., which is wholly owned by the state through the Ministry of the Economy and Finance (the "MEF") mainly handles the strictly corporate activities that are typical of a holding company (i.e., investment management, shareholding control, etc.) and other business activities, 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

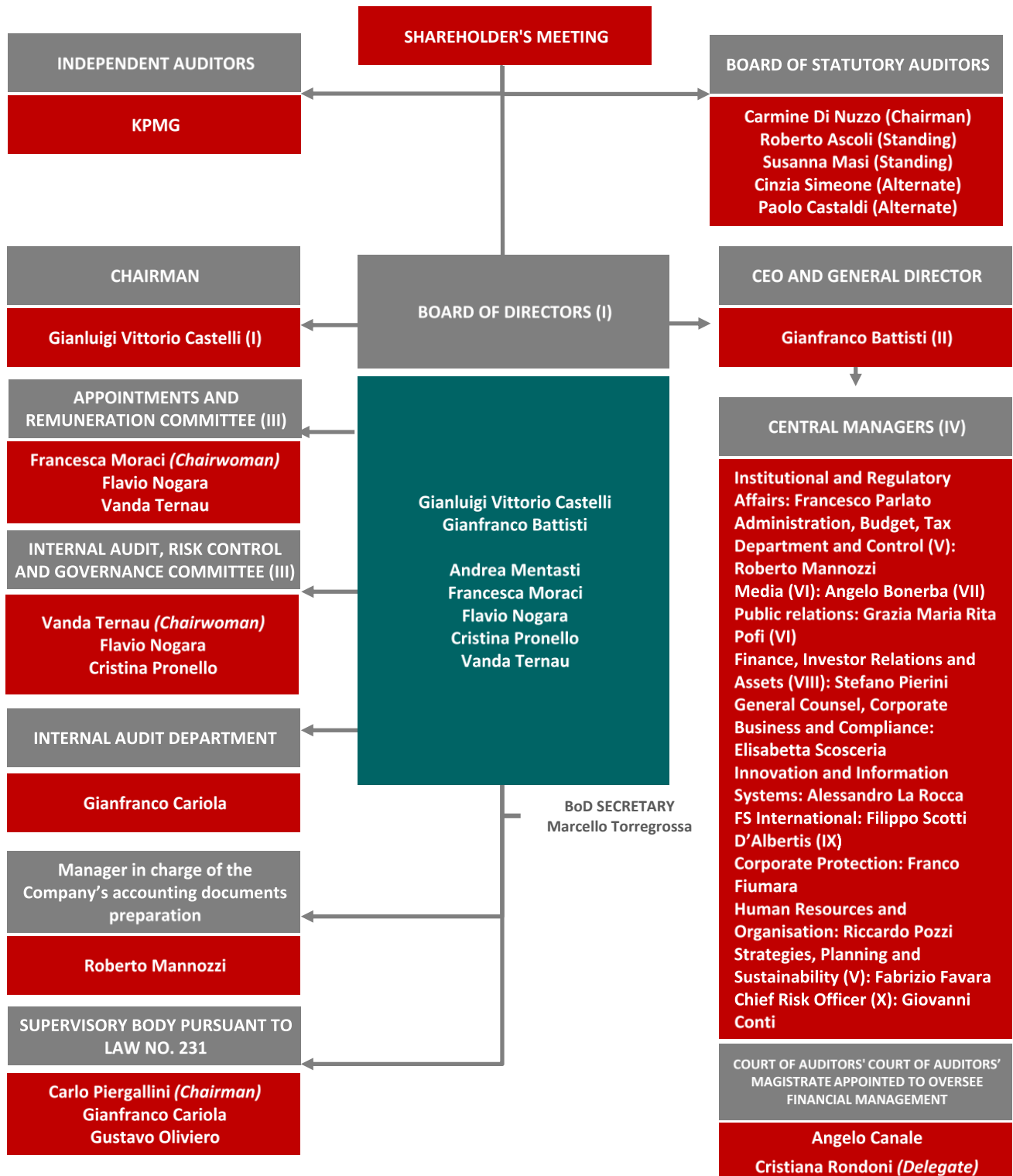
⁷ FS Italiane S.p.A. has issued bonds listed on regulated markets in the EU, with Italy as the originating member state. Consequently, it is subject to the regulatory obligations in place in Italy and the country where the bonds are placed. However, FS Italiane S.p.A. has not issued shares traded on regulated markets or multi-lateral trading systems. Accordingly, it exercises its right under article 123-bis.5 to not publish the information required by points 1 and 2 of said article, except for that required by letter b of point 2, i.e., information on the main characteristics of its risk management system and internal controls over financial reporting.

seven directors) and a board of statutory auditors (which is responsible for controls and is currently comprised of three standing statutory auditors and two alternate statutory auditors). The shareholder also appoints the independent auditors (currently KPMG S.p.A.), responsible for performing the statutory audit. Pursuant to article 12 of Law no. 259/1958, the Court of Auditors' Magistrate appointed to oversee the financial management of 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 chairman, following the shareholder's resolution in this respect and as permitted by law; (iii) establishes committees, if necessary, responsible for consultation and proposals (two committees were set up: the Appointments and Remuneration Committee and the Audit, Risk Control and Governance Committee); (iv) appoints the Manager in charge of the Company's accounting documents preparation; and (v) appoints the managing director.

At 31 December 2018, FS Italiane S.p.A.'s share capital amounted to €39,204,173,802.00 and was fully paid up.

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



(I) Composition established by resolution of the shareholder dated 30 July 2018. Reference should be made to the relevant section of this report for information on the composition prior to this date.

(II) Appointed CEO and general director with respective BoD resolutions of 31 July 2018 and 2 August 2018.

(III) Composition established with BoD resolution of 31 July 2018.

(IV) The CEO and general director was appointed interim head of the Foreign equity investments governance department with organisational measure no. 35/AD dated 19 November 2018; Barbara Morgante left the group. With organisational measure no. 43/AD of 31 December 2018 the Foreign Equity Investments department was abolished.

(V) With organisational measure no. 30/AD of 31 October 2018: the Administration, Financial Statements and Tax Issues department changed its name to Administration, Budget, Tax Department and Control; the Strategies, Planning, Control and Sustainability Department changed its name to Strategies, Planning and Sustainability Department.

(VI) With organisational measure no. 24/AD of 26 September 2018: The Media department was established and the CEO and general director appointed as its interim head; the Public Relations department was established and Grazia Maria Rita Pofi appointed as its head.

(VII) With organisational measure no. 29/AD of 31 October 2018 and with effect from 1 November 2018: Angelo Bonerba was appointed head of the Media department.

(VIII) With organisational measure no. 2/AD of 9 March 2018, the Finance and Assets department changed its name to Finance, Investor Relations and Assets.

The shareholder's meeting

FS Italiane S.p.A.'s sole shareholder is the Ministry of the Economy and Finance. Three shareholder's meetings were held in 2018 (extraordinary 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 (the "BoD") is made up of three to nine members appointed by the shareholder.

In order to accept directorship of FS Italiane S.p.A., candidates must meet the specific professionalism and integrity criteria set out in the by-laws (article 10.6) and the MEF's requirements. Furthermore, the 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. The by-laws also provide that the composition of the BoD must be such that it ensures a balanced proportion of men and women, in accordance with the applicable regulations and the terms provided for thereby.

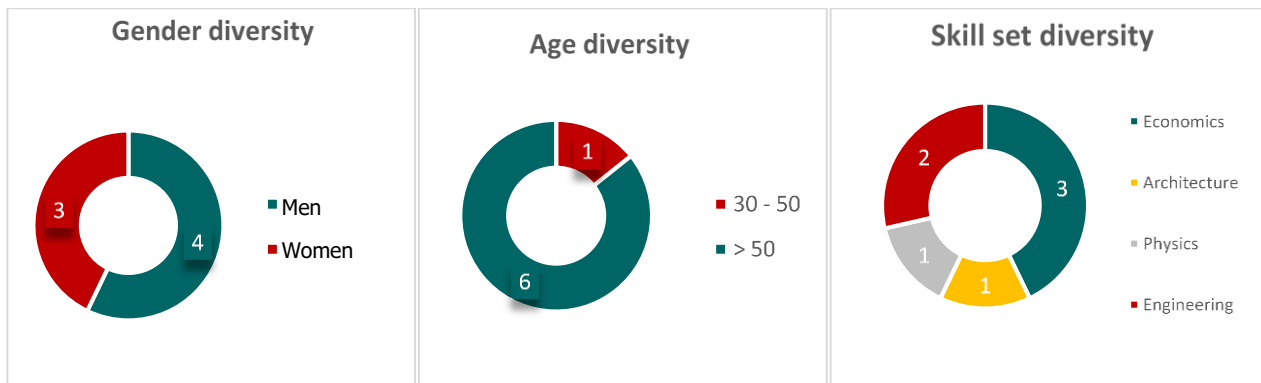
On 29 December 2017, the shareholder set the number of directors as seven and appointed the following members of the BoD - with a three-year term of office and, in any case, until the date of the meeting called to approve the financial statements as at and for the year ending 31 December 2020 - Gioia Maria Ghezzi (chairwoman), Renato Mazzoncini, Giovanni Azzone, Simonetta Giordani, Federico Lovadina, Francesca Moraci and Vanda Ternau.

Vanda Ternau and Francesca Moraci resigned as directors of FS Italiane S.p.A. on 25 July 2018.

On 30 July 2018 - following the removal of the directors in office - the shareholder maintained the number of directors at seven and appointed the following members of the BoD - for the 2018, 2019 and 2020 period and, in any case, until the date of the meeting called to approve the financial statements as at and for the year ending 31 December 2020 - Gianluigi Vittorio Castelli (chairman), Gianfranco Battisti, Andrea Mentasti, Francesca Moraci, Flavio Nogara, Cristina Pronello and Vanda Ternau.

In the meetings of 31 July 2018 and 2 August 2018, respectively, the BoD appointed Gianfranco Battisti as CEO and general director.

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



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

Duties and roles

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

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

Pursuant to the by-laws, the BoD delegates its duties, to the extent permitted by article 2381 of the Italian Civil Code, to one of its members (the CEO). Following the shareholder's resolution, the BoD can delegate operating duties to the chairman on the aspects that may be delegated pursuant to the law, indicated by the shareholder, and determine their actual content.

The chairman calls the meetings of FS Italiane S.p.A.'s BoD and chairs them. The BoD normally meets once a month and, in any case, whenever the chairman 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 18 times in 2018.

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

In particular, the BoD:

- retained exclusive responsibility for economic and strategic decisions such as defining - upon the CEO's proposal - the company's and the group's strategic guidelines; approving the company's and the group's annual and long-term business plans and budgets, which the CEO prepares; resolutions concerning the most significant financial transactions; resolutions, upon the CEO's proposal, on the purchase/sale of companies and business leases, on the purchase/sale of equity investments above a certain threshold and non-recurring transactions involving direct investees. Furthermore, the BoD also confirmed its exclusive responsibility for the appointment, upon the CEO's justified and documented proposal, of the strategic subsidiaries' boards of directors and boards of statutory auditors;

- entrusted the CEO with all powers to manage the company – which were compiled in a specific list for informational purposes only – except for those assigned to the chairman and those that the BoD exclusively retained (in addition to the powers that cannot be delegated by law); pursuant to article 12 of the by-laws, the CEO also ensures that the organisational and accounting system is consistent with the nature and size of the business and reports to the BoD and to the board of statutory auditors at least once every three months on the general performance of operations and outlook and on the company's and its subsidiaries' most significant transactions in terms of size or characteristics.

In the meeting of 25 September 2018, the BoD gave the chairman, pursuant to article 12.3 of the by-laws, specific powers for external and institutional affairs in collaboration with the CEO and the coordination of internal audit activities. The chairman and CEO have separate powers of representation of FS Italiane S.p.A. pursuant to article 13 of the by-laws.

Committees

FS Italiane S.p.A. limits the establishment of advisory and proposing committees within the BoD to those that are necessary. Accordingly, two committees have been set up: the Internal Audit, Risk Control and Governance Committee and the Appointments and Remuneration Committee. The establishment of the latter was most recently confirmed by the BoD's resolution of 31 July 2018⁸. The committees' composition, functioning and duties are governed by specific regulations approved by the BoD.

- Internal Audit, Risk Control and Governance Committee

As defined in the aforementioned BoD resolution of 31 July 2018, the members of this committee are: Vanda Ternau (chairwoman), Flavio Nogara and Cristina Pronello⁹. They are all non-executive and independent directors. This committee is responsible for supporting, by presenting proposals and advising, the BoD's assessments and decisions concerning internal controls and the risk management system, the approval of periodic financial reports, assessments of the board's size/composition, the company's and the group's corporate governance and social responsibility.

- Appointments and Remuneration Committee

This committee's members are Francesca Moraci (chairwoman), Flavio Nogara and Vanda Ternau. They are all non-executive and independent directors¹⁰. This committee is responsible for supporting, by presenting proposals and advising, the BoD with respect to, inter alia, the criteria and procedures for the appointment of key management personnel and members of FS Italiane S.p.A.'s boards of directors and boards of statutory auditors of FS Italiane S.p.A.'s direct subsidiaries, the co-opting of FS Italiane S.p.A.'s directors, remuneration guidelines and policies, incentives and the remuneration of FS Italiane S.p.A.'s CEO and chairman (should the chairman receive executive powers).

Directors' fees

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

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

⁸ See the note on page 22

⁹ See the note on page 22

¹⁰ See the note on page 22

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 2018/2020 three-year term of office: (i) the shareholder established the fees for the directors and BoD chairman in the meeting held 30 July 2018; during the same meeting, the shareholder also informed the BoD of the total maximum fee (including meeting fees) that could be given to the chairman pursuant to article 2389.3 of the Italian Civil Code in the event that he is assigned powers; (ii) at its meeting on 31 July 2018, the BoD determined the fee for Mr. Battisti's position as CEO (pursuant to article 2389.3 of the Italian Civil Code, including that as director); (iii) in the meeting of 2 August 2018, the BoD resolved on Mr. Battisti's fee as general director; (iv) in the meeting of 25 September 2018, following the resolutions of the shareholder, the BoD assigned powers for those matters authorised by the shareholder and resolved on the total fees of the chairman, Mr. Castelli. Both of Mr. Battisti's fees, as CEO and general director, include fixed and variable components; the variable components were linked to the achievement of objective and specific annual targets which the BoD defined upon the proposal of the Appointments and Remuneration Committee.

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

The following table, including the footnotes, details the overall remuneration of the FS Italiane group's chairman, CEO and general director¹¹:

CHAIRMAN¹²	Annual fees as chairman
Fixed component: fees for the position	50,000
Variable component	-

CEO AND GENERAL DIRECTOR¹³	Annual fees as CEO
Fixed component: fees for the position	65,000
Variable component	25,000

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 Directives 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. informs the MEF of the outcome of its preliminary assessment of the quality and aptitude of the potential

¹¹ The remuneration for FS Italiane S.p.A.'s current chairman, CEO and general director was determined in line with those resolved for such positions in the previous term of office.

¹² Pursuant to article 2389 of the Italian Civil Code, the chairman's total gross annual fees, including the amounts set out in the above table, come to €238,000.00 in addition to a monthly amount of up to €5,000.00 for the lease of a furnished apartment.

¹³ The total gross annual fees paid to the CEO and general director come to €770,000.00, including the amounts set out in the above table and, for the position of general director, €580,000 as a fixed component and €100,000 as a variable component (the latter is due if 100% of the annual objective and specific targets are reached, which the BoD of FS Italiane S.p.A. defined on the basis of the Appointments and Remuneration Committee's proposal).

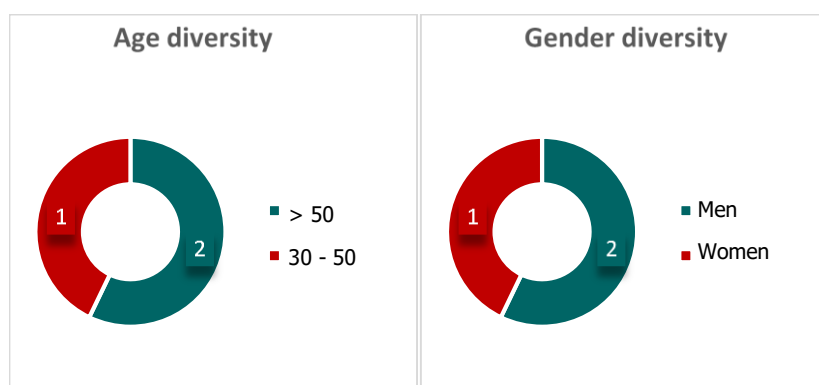
candidates, including a check that they met the eligibility requirements, so that the Treasury Department could verify that the appointment criteria and procedures were complied with.

Board of statutory auditors

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

Based on the resolutions dated 4 July 2016 and 29 July 2016, for the 2016-2017-2018 period, the shareholder appointed the standing statutory auditors Carmine Di Nuzzo (chairman), Roberto Ascoli and Susanna Masi and the alternate statutory auditors Cinzia Simeone and Paolo Castaldi.

The diversity of the members of the board of statutory auditors in 2018, 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 business and are enrolled in the register of certified auditors.

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

When FS Italiane S.p.A. was attributed the public interest entity status 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 internal controls, internal audit and the risk management system, the statutory audit and the independence of the independent auditors, particularly with respect to the type of any non-audit services they provide to the audited company.

In 2018, FS Italiane S.p.A.'s board of statutory auditors met 14 times and the statutory auditors participated in three shareholder's meetings and at 18 BoD meetings.

The internal controls and risk management system

The internal controls and risk management system (ICRMS) consists of the series of tools, organisational structures, rules and regulations within a company to ensure sound and proper business management in line with the BoD's business targets by identifying, measuring, managing and monitoring the main risks and structuring adequate information flows to guarantee the circulation of information. An effective ICRMS encourages knowledgeable decisions and helps safeguard company assets, the efficiency and effectiveness of business processes, the reliability of financial reporting and compliance with laws and regulations, the by-laws and internal regulations. Even if the ICRMS is adequate and functioning 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 implement, analyse and assess the ICRMS.

The ICRMS provides for three levels of control:

1. level 1 controls: to ensure the correct performance of operations and an adequate response to the related risks. These activities include periodically checking the effectiveness and efficiency of the design and 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 ordinary operations.
2. level 2 controls: to monitor the main risks with the aim of ensuring the effectiveness and efficiency of the related risk management and to monitor the adequacy and functioning of controls (for main risks). Level 2 controls also support level 1 in the definition and implementation of adequate management systems for the main risks and related controls. Management and other specific functions, like Risk management, Compliance and the Manager in charge of the Company's accounting documents preparation conduct level 2 controls.
3. level 3 controls: 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

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

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

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

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

Accordingly, the Internal audit department is responsible for:

- verifying the ICRMS' functioning 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 processes and to promote continuous improvements in governance and risk management.

All functions, units, processes and/or sub-processes and IT systems are subject to internal audits in relation 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 applicable regulations;
- safeguarding group assets.

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

Risk management

While management and the structures specialised in risk monitoring continue to play a crucial role in risk management (as they are responsible for level 1 controls 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., risk management, the Manager in charge of the Company's accounting documents preparation, anti-bribery & corruption, compliance and data protection). In this context, the group's chief risk officer (CRO) coordinates management of the group's overall risk governance process, as well as those areas falling under its responsibility (risk management and data protection officer).

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

The process to define FS Italiane group's risk management framework was completed in 2018. It established the existing and potential areas, responsibilities, methodologies and tools for the effective management of the process to identify, assess, measure, manage and monitor the group risks which supports the risk-based decision-making process. Adopting a single group-wide framework enables:

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

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

Compliance

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 guidelines 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 legal risk and the opportunities arising from the introduction of new laws and regulations, as well as their implications for 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 guidelines.

The Manager in charge of the Company's accounting document 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 27 March 2018 upon the CEO's proposal and with the approval of the board of statutory auditors, is Roberto Mannozi, head of the parent's Administration, budget and tax department. He will remain in office until the approval of the financial statements as at and for the year ending 31 December 2020.

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

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

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

Considering FS Italiane group's organisational and operational complexity, in order to reinforce and more effectively implement legislation, FS Italiane S.p.A.'s BoD decided to encourage the appointment of Managers in charge of the Company's accounting documents preparation by its main subsidiaries immediately. Currently, the following companies have appointed Managers in charge of the Company's accounting documents preparation: RFI S.p.A., Trenitalia S.p.A.,

Mercitalia Logistics S.p.A., Mercitalia Rail S.r.l., Busitalia-Sita Nord S.r.l., Ferservizi S.p.A. and, from November 2018, Fercredit S.p.A., Anas S.p.A. and its subsidiaries, Anas International Enterprise S.p.A. (AIE), Quadrilatero Marche Umbria S.p.A., Società Italiana Traforo Autostradale del Frejus S.p.A. (SITAF), have also appointed Managers in charge of the Company's accounting documents preparation.

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

The purpose of the risk management system and internal controls 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 (the "262 Model"), in line with the provisions of article 154-*bis* of the Consolidated Law on Finance and based on the applicable 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 BoD for approval - and to the subsidiaries' boards of directors for their approval of the sections relating to them (if they have a Manager in charge of the Company's accounting documents preparation) -, issues guidelines for the preparation of administrative/accounting procedures and for monitoring that such procedures are adequate and effectively operational and issues certifications on internal controls over financial reporting. The companies' managers in charge of accounting documents preparation implement and maintain the internal controls over financial reporting, continuously exchanging information with the parent's Manager in charge of the Company's accounting documents preparation. The stages and roles in the financial reporting control process are described below.

The following aspects of the Model have been fine-tuned in recent years to be more closely aligned with the best practices of listed companies, during its progressive roll-out at the subsidiaries:

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

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

The scope stage identifies - with a risk-based approach - relevant companies and processes on which to focus 262 process activities.

The companies that fall within the scope are identified:

- on the basis of the various companies' contribution to specific combined financial statements captions - revenue, assets, net financial position/(debt), equity, gross operating profit (loss) and pre-tax profit (loss);
- considering qualitative factors based on risk profiles.

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

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

During the risk and control assessment, when the administrative/accounting procedure is prepared and together with the process owners, the staff of the Manager in charge of the Company’s accounting documents preparation assesses the 262 risks relating to the mapped process, using a qualitative and quantitative methodology that is tied to impact and probability parameters. The controls over such risks are identified and assessed for adequacy, with the identification of any needs to integrate or improve the design of the controls (at the reporting date, a total of roughly 4500 controls of the corporate procedures 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 logically and chronologically describe the activities that must be carried out to produce or record them, the internal controls and how they are conducted.

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

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

In the self-assessment stage, the individual control owners/process owners self-certify that the administrative/accounting procedure controls have been adequately designed and are effectively operational in the period considered by filling out questionnaires received via the information system supporting the 262 process. The control owners fill out the questionnaires on the design and operation of the individual controls, while process owners validate their responses, certifying the procedure as a whole or the part of the procedure that concerns them.

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 self-assessment process also makes it possible to continuously update the system of administrative/accounting procedures.

During the independent testing stage, the design and effective application of these controls are checked, on the basis of audit standards and methodologies, coordinated by the staff of the parent’s Manager in charge of the Company’s accounting documents preparation. They consist of the following steps: 1) preparation of a periodic plan of checks for the group, identifying a schedule and appointed teams; 2) definition of testing procedures (test scripts); 3) performance of tests and formalisation of results; 4) analysis and evaluation of any critical issues. The staff of the parent’s Manager in

charge of the Company's accounting documents preparation also conducts quality assurance checks on the test scripts to check that they comply with group standards. Teams of specialists consisting of resources from the staff of the Managers in charge of the Company's accounting documents preparation, internal audit resources and Ferservizi S.p.A. resources (with which the parent has signed a specific service contract) carry out testing activities. Furthermore, the outcome of tests on 262 controls that the independent auditors perform as part of the broader audit process is also considered.

The action plan 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 along with the relevant company structures.

Once this process is completed, the parent's Manager in charge of the Company's accounting documents preparation prepares a report on the activities performed in the period, sends the report to the BoD when the draft financial statements are approved and issues, jointly with the CEO, statements on the separate and consolidated financial statements pursuant to article 154-*bis*. The content of the report is based on the formats defined by Consob.

Similarly, the subsidiaries' 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) issue similar statements on the financial statements with joint signature of their CEOs for internal purposes. In addition to the statements described above, the group's model also provides for internal statements of the adequacy and functioning of the group's and the company's internal controls over financial reporting, which are issued by the administration managers and CEOs of the subsidiaries that do not fall within "scope 262", the managers of the parent's central departments and the outsourcers of administrative and IT services and all other services that affect financial reporting.

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

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

As for relationships between the Manager in charge of the Company's accounting documents preparation and the company bodies (CEO and BoD) and the control officers and bodies (the board of statutory auditors, including in its role of the Internal control and audit committee, the Internal audit, risk control and governance committee, the Supervisory body, the independent auditors, the Internal audit department and the Risk management department), the aforementioned regulation for the Manager in charge of the Company's accounting documents preparation defines the inter-relationships and reporting flows. Moreover, this is with the aim of sharing the planned activities and outcome of such activities to create synergies and optimise the control process. Specific information flows which include mapping the 262 controls relevant to the anti-corruption model have also been introduced in relation to the recent establishment of the Anti-bribery and corruption unit.

Moreover, following FS Italiane S.p.A.'s decision to adhere to Italy's tax co-operative compliance scheme, with the aim of preventing and mitigating the tax risk inherent to operations, the responsibilities and organisational structure of the Tax department were amended, with the establishment of a Tax compliance unit within the Tax department which reports directly to the Tax director as per organisational measure no. 1/DCRUO-DCABF dated 1 March 2018. FS Italiane group has chosen to implement a control model for the assessment, measurement and management of the tax risk within the

broader Tax control framework in order to achieve process economy and efficiency. Although such model is legally and functionally separate, it relies on the 262 Model, thereby benefiting from the controls and processes already successfully implemented pursuant to Law no. 262/2005, supplemented as necessary to ensure the tax obligations are properly fulfilled.

Finally, to integrate the above-mentioned Law no. 262/2005 compliance model and, more in general, to strengthen internal controls, the group has implemented group-wide models for SoD – Segregation of Duties and ITGC - Information Technology General Controls. The aim of the SoD model is to activate operational controls over processes with specific focus on financial reporting processes, to ensure that responsibilities are defined and duly assigned without functional overlapping or operational assignments that concentrate critical activities on one single operator. Another purpose of the SoD model is to provide a consistent and coherent view of the entire authorisation system for the management of roles and users in the information systems. The aim of the ITGC model is to define internal controls over IT processes to ensure the continuous and correct functioning of the business application systems that process the data used in financial reporting. The IT general controls includes controls over the stages of development and maintenance of application systems, the purchase of software, logical access security, etc.. Each year, the corporate IT functions - for the group's main subsidiaries where the ITGC model has been implemented - issue specific IT certifications to the Managers in charge of the Company's accounting documents preparation/administration managers on the functioning of financial reporting systems.

Planning and management control system

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

- in order to generate economic, environmental and social value for all stakeholders, the Central strategies, planning and sustainability department (CSPSD) identifies the group's strategies and the related planning, monitoring and strategic control process, as well as the related investment planning and control process and the optimisation and development of the group's business portfolio. Specifically, the 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 the implementation;
- the Administration, budget and tax department (ABTD) is in charge of the group's planning and management control system through the operational implementation of strategies (budgeting process), the calculation and the analysis of actual results; specifically, the CAFTCD ensures the preparation of the parent's and FS Italiane group's budget, defining the guidelines for the annual budget and management control process for the group and supporting the subsidiaries in the preparation of their budgets, and monitors their implementation;

Management control activities cover nearly all aspects of FS Italiane S.p.A. and group operations, encompassing various types of controls:

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

Management and operational control activities - which are based on analysing differences between actual and budgeted figures at the end of each month - 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

discrepancies 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 – to the auditors or entities in the same network.

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

The Court of Auditors' Magistrate appointed to oversee the financial management of FS Italiane, 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 oversee the financial management of the parent as Court of Auditors' Magistrate. During the hearing of 22-23 November 2016, the Court delegated the director Cristiana Rondoni to oversee the financial management of the parent.

Additional information on corporate governance

The code of conduct

In their meeting of 28 February 2018, the board of directors approved the updated FS Italiane group code of conduct, with a view to ensuring it continues to be highly effective both internally and externally in light of the changes to the group and the new business plan. 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. FS Italiane group's code of conduct, which the group companies are required to adopt via a resolution of the respective boards of directors, applies to company officers, managers, employees and everyone who, directly or indirectly, permanently or temporarily, transacts and interacts with group companies. The code of conduct sets out the group's fundamental values (such as integrity and honesty, responsibility and awareness, passion, courage and self-criticism, etc.) and establishes standards of conduct for each stakeholder category. Specifically, the code of conduct contains a section on conflicts of interests, which provides that situations in which personal interests, external activities, financial interests or relationships in conflict with the group's interest shall be avoided and that taking decisions or carrying out activities in conflict with the group's interests and incompatible with their duties shall be abstained from. Potential conflicts of interest shall also be notified immediately to the relevant manager or to the parent's Ethics Committee (see "Other committees") to determine whether such conflict exists and for guidance in relation thereto. The code of conduct is widely published on FS Italiane group's intranet and internet sites and compliance with its provisions is a fundamental part of employees' contractual obligations. Contracts agreed by group companies also require third parties to comply with its principles.

Processing of corporate information

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

Activities continued in 2018 in relation to the processing of corporate information, which commenced in 2016 with the adoption by FS Italiane S.p.A.'s board of directors of the "Regulation for the internal management and disclosure of insider information and the processing of confidential information" (the insider dealing regulation) on 27 May 2016, as updated and amended in the meeting of 13 September 2017.

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 processing and management of the group's insider and confidential information. Parties like directors, statutory auditors and employees of FS Italiane S.p.A. and its subsidiaries, advisors and anyone with regular or occasional access to insider/confidential information for professional or work-related reasons must comply with the conduct obligations in the regulation.

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

Finally, the Internal dealing code was implemented with group measure no. 239/AD of 9 October 2017, signed by the CEO and General director.

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

Group measure no. 209/P of 9 June 2016, which replaced the previous measures introduced since 2002, requires FS Italiane group companies to adopt organisational, management and control models to prevent unlawful acts 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.

This measure provides that supervisory bodies are normally set up as boards¹⁴ with a chairman from outside the group with extensive and 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 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.

¹⁴ Group measure no. 209/P of 9 June 2016 provides that "small" group companies whose organisations are less complex and/or of a smaller size may set up a body with only one member from outside the group with extensive and specific expertise in this respect.

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), provided a set of specific prevention tools for the following processes, considered to be, according to regulations and best practices, the most exposed to corruption risks: “Procurement and Contracts”, “Assignment of advisory engagements”, “Business development initiatives on international markets”, “Membership fees, sponsorships, co-marketing, donations and gifts” and “Human resources”.

The ABC system includes, among its main priorities, ongoing training and communication, and specific modules on the framework and the ABC system were rolled out in 2018.

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

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

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

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

A procedure is nearly finalised for the management of reports to govern the receipt, analysis and processing 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. 231/2001¹⁵ and the ABC system, and the ethical principles of FS Italiane group, with respect to the operations and organisation of FS Italiane S.p.A. and/or its subsidiaries.

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

¹⁵Pending the procedure for the management of reports, the reporting obligations 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.

Related parties

FS Italiane S.p.A.'s Manager in charge of the Company's accounting documents preparation has issued a group-level administrative/accounting procedure for related party transactions which must be disclosed in the financial statements. This procedure, along with the other administrative/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 directly or indirectly carried out transactions with the company for which they work and/or its subsidiaries, and whether such transactions were performed on an arm's length basis.

Other committees

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

The Ethics committee, 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 a resolution of the board dated 23 December 2005 and amended by a resolution of the board dated 28 February 2018, disseminated with group organisational communication no. 5/AD of 13 June 2018.

The Ethics committee is responsible for advising on the interpretation and application of the code of conduct. It examines the information that it receives, promoting the most appropriate checks, supports the relevant company structures in establishing communication and/or training initiatives for employees and proposes any necessary amendments/additions to the code of conduct.

The duties of the Ethics committee are set out in FS Italiane group's code of conduct.

The group's Investment committee was set up with group measure no. 89/AD of 8 February 2007, amended by group measures no. 120/AD of 10 November 2008 and no. 186/AD of 24 December 2014, for the strategic supervision of the investment/divestment process, 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 sustainability department on the 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/divestment 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 director, to FS Italiane S.p.A.'s BoD.

The Foreign initiative 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 supervision of development initiatives in the group's interests abroad.

The Credit committee, set up with group measure no. 210/AD of 23 June 2016 and updated in its composition with group notice no. 13/AD of 5 October 2018, is responsible for monitoring the performance of group loans and 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 Fourth railway package implementation committee was set up with group measure no. 244/AD of 24 January 2018, considering the significance of the European delegated law for 2016-2017 on group operations, and is 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 directives 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 director, the Supervisory body and other control bodies.

The Protection against violence committee was set up with Organisational communication no. 538/AD of 10 May 2018 with the task of ensuring legal assistance for employees who decide to take legal action having been victims of violence -

including violence of a verbal and/or indirect nature via any type of communication channels - by parties external to FS Italiane group, both known and unknown, when carrying out their work and/or in any case in relation thereto, i.e., stepping in to protect FS Italiane group assets or its employees, or people in railway or other group premises in general.

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 wellbeing 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 (which steers the group in its relations with all stakeholders), the 231 model and the anti-corruption policy and anti-bribery and corruption management system guidelines.

In particular, by signing the Global Compact, the group has formally undertaken to:

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

As a member of the UIC (*Union Internationale des chemins 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:

- the use of standard contractual human rights clauses in agreements signed with suppliers (including the requirement that suppliers sign the group's code of conduct), and including a scoring criterion¹⁶ that rewards suppliers for their sustainability;
- the pursuit of a better methods for supply chain management thanks to the participation in the Railsponsible work round tables, an initiative that brings together major railway companies;
- rights protection for passengers with disabilities and reduced mobility. The group offers an assistance service at 280 stations for passengers with physical, sensory or motor disabilities that temporarily or permanently affect their mobility, ensuring their right to travel with ease. A key feature of this service is the "Sale Blu" network, available at 14 main Italian stations;
- the involvement of associations for people with reduced mobility, both to make the new group apps accessible and to test the new trains. Training courses have also been organised for onboard crew on aspects related to the welcoming and support of passengers with disabilities or reduced mobility;
- 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 needs¹⁷.

¹⁶RFI S.p.A. has had a scoring criterion in tenders since the second half of 2017, which includes the respect for human rights (prevention of child and forced labour, anti-discrimination and support for the fundamental rights of man); one of the provisions of the Supply chain sustainable management group project underway is to extend this criterion to all group companies.

¹⁷Reference should be made to the Commitment to sustainable development - Commitment to the community paragraph for further information.

The group's financial position and performance

Introduction

For the purposes of describing its financial position and performance, the group prepared reclassified financial statements, as set out on the following pages, in addition to those required by the IFRS adopted by the FS Italiane group. The reclassified financial statements comprise performance indicators, which management deems useful in monitoring the group's performance and in presenting the financial results of the business. Reference should be made to the "Key and glossary" section for a description of the methods used to calculate these indicators.

In addition and to enable a better understanding of the comments on the group's performance and changes compared to the previous year, the main non-recurring transactions that significantly affected its performance are described below. These transactions, which fit into FS Italiane group's traditional business and do not constitute new business segments for the group¹⁸, did not require the preparation of pro forma data in the reclassified financial statements.

Specifically:

- since 18 January 2018 (date of the share transfer and acquisition of control after receipt of approval from the Italian Antitrust Authority (AGCM), Anas S.p.A. and its subsidiaries have been included in the group's consolidation scope; therefore, the effects of this acquisition on profit or loss can be seen in the reporting period, unlike in 2017. Specifically, the transfer involved subscription of the €2.86 billion capital increase by the Ministry of the Economy and Finance (MEF). Anas group's inclusion in the consolidation scope took place after (i) an analysis of the transfer value using the group's accounting policies; and (ii) Anas' transition to the IFRS, applied to the company's 2017 financial statements approved by the board of directors on 25 June 2018 and its shareholder FS Italiane S.p.A. on 10 September 2018;
- on 14 September 2017 (official closing of the transaction), TrainOSE SA (wholly owned by FS Italiane S.p.A.) joined FS Italiane group, affecting the group's profit or loss for just the last quarter of 2017 while the company made a contribution to FS Italiane group's railway transport business for the full year 2018.

The inclusion of Trenitalia c2c Ltd (from February 2017), Busitalia Simet S.p.A. (road transport, from 7 April 2017), Qbuzz BV and Qbuzz Mobility Services BV (from 31 August 2017 for both) in the consolidation scope had a limited effect on the changes.

¹⁸ Anas S.p.A.'s entry into the group expanded the Italian strategic infrastructure that FS Italiane group manages, which now includes the road/motorway network management as well as the railways (both included in the "Infrastructure" operating segment).

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

millions of Euros

	2018	Change compared to 2017	of which: effects of acquisitions and contributions*	of which: effects of ANAS Group
REVENUE	12,078	2,785	2,567	2,319
OPERATING COSTS	(9,602)	(2,622)	(2,282)	(2,036)
GROSS OPERATING PROFIT	2,476	163	285	283
OPERATING PROFIT	714	(4)	54	80
PROFIT FOR THE YEAR	559	7	61	85

* As already described, this normalisation basically shows the contribution to profit or loss of non-recurring transactions (the companies whose profit or loss figures are included in the column are: Trenitalia c2c Ltd, Trenitalia UK Ltd, Busitalia Simet S.p.A., Qbuzz BV, Qbuzz Mobility Services BV, TrainOSE SA, Nugo S.p.A., Anas S.p.A. and its subsidiaries, Cremonesi Workshop S.r.l., Terminal Alptransit S.r.l. and Trenitalia Logistic France).

Reclassified income statement

millions of Euros

	2018	2017	Change	%
REVENUE	12,078	9,293	2,785	30.0
Revenue from sales and services	11,566	8,993	2,573	28.6
Other income	512	300	212	70.7
OPERATING COSTS	(9,602)	(6,980)	(2,622)	(37.6)
GROSS OPERATING PROFIT	2,476	2,313	163	7.0
Amortisation, depreciation, provisions and impairment losses	(1,762)	(1,595)	(167)	(10.5)
OPERATING PROFIT	714	718	(4)	(0.6)
Net financial expense	(97)	(100)	3	3.0
PRE-TAX PROFIT	617	618	(1)	(0.2)
Income taxes	(58)	(64)	6	9.4
PROFIT FROM CONTINUING OPERATIONS	559	554	5	0.9
Loss from assets held for sale, net of taxes		(2)	2	100.0
PROFIT FOR THE YEAR	559	552	7	1.3
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT	540	542	(2)	(0.4)
PROFIT FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	19	10	9	90.0

Turning to the FS Italiane group's overall performance, in comparing the operating performance of 2018 and 2017, in addition to the significant impacts of the non-recurring transactions summarised above which were the result of strategic management decisions included in the business plans approved from time to time, the effects of legislation which came into force at the end of 2017, as discussed in the following, must also be kept in mind.

Specifically, the 2017 figures were heavily impacted by the application of the provisions of 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. This reduction led to a €128 million increase in gross operating profit, net of recharges to third-party railway companies. Therefore, in order to compare the group's operating performance based only on management levers, the 2017 figures need to be "normalised". Net of the above-mentioned regulatory impact, the profit for 2017 would have been €424 million.

Turning to the analysis of the main results and financial data for 2018, partly as a consequence of the above factors, **revenue** grew by €2,785 million and the **profit for the year** was €559 million.

Net of the corporate transactions described in detail (+€2,567 million), the increase in **revenue** is mainly due to the rise in revenue from transport services, which grew by a further €287 million in the year.

The positive contribution of the railway passenger transport service (which increased by a total of €152 million), and the contribution of the growth in revenue from road passenger transport (also with an increase of €152 million), drove a 4% increase in **revenue from transport services**. Conversely, the turnover of the freight business decreased by €18 million due to greater complexity and riskiness in the segment. The contribution of the waterway services was €1 million. Different trends were observed for the various business types in the railway passenger transport service.

The performance of the short-haul service (+€167 million) stands out, improving both domestically, with Trenitalia S.p.A. driving the growth with an increase of €59 million, and internationally, thanks to the contribution of the Netinera Deutschland group (+€13 million) and the companies acquired as part of the above-mentioned non-recurring transactions (+€93 million of which: Trenitalia c2c Ltd for €27 million and TrainOSE SA for €66 million). The growth in revenue generated by local transport in Italy is a result of the commitment, and the related costs, that the FS Italiane group has taken on via its subsidiary Trenitalia S.p.A. in the contracts renewed with the Italian regions. Intense activity has commenced, placing the customer at the centre of the strategic priorities, with the aim of improving the overall service offered in terms of punctuality, comfort, cleanliness and safety.

The turnover of the long-haul passenger transport service was substantially unchanged overall (-€15 million; 0.6%), with an improvement in its universal service (+€14 million), offset by a slight decrease in the market service segment (-€29 million). The growth in the universal service segment is due to the change in fees under the medium and long-haul service contract which, in the pursuit of a balance of costs and revenues, rose €16 million to offset the increase in toll costs under the new tariff system and the agreements with the public customer, which required significant dedication over the term of the contract to ensure better service quality, comfort and punctuality.

As mentioned earlier, revenue from road transport services also rose significantly in the year, by €152 million, mostly due to the entry of the Dutch company Qbuzz BV into the group (+€139 million). Domestically, the steps taken to reduce tariff evasion both on board buses and at bus stops are beginning to give results.

On the other hand, as mentioned, revenue from freight transport and logistics services decreased by approximately €18 million.

Almost the entire increase in **revenue from infrastructure services** is due to the entry of Anas group into the consolidation scope (€2,144 million of the total €2,161 million increase). The remaining portion mostly relates to the increase in toll revenue from infrastructure services due to the cost-of-living adjustment to prices and the increase in production volumes.

The contribution of **other income** to the overall growth of operating revenue was decisive, with the above-mentioned non-recurring transactions accounting for €126 million of the €212 million increase in this caption. The other part mainly includes the effects of non-recurring factors, such as the bankruptcy discharge following the finalisation of the deed of arrangement of Ferrovie del Sud Est e servizi automobilistici S.r.l. (+€63 million) and other items, such as revenue generated by the performance regime and insurance compensation.

Operating costs rose by €2,622 million (+37.6%) to €9,602 million (2017: €6,980 million). They may be analysed as follows:

- the €675 million increase in net personnel expense is due to the expansion of the consolidation scope described above (€561 million). Almost the entire remaining portion of the increase is due to the growth in the workforce and the effects of contractually-defined salary increases;
- the overall increase in other costs (€1,947 million) which, net of the non-recurring transactions (+€1,721 million), were impacted by the costs to purchase electrical energy used for traction, which rose by €187 million compared to

2017. This growth is driven by the fact that last year's figure benefited from prior year income due to the rate adjustment (2015-2016) following the application of the above-mentioned legislative provision of Law no. 167/2017. The remaining increase in costs is due to the non-capitalisable component of the consumption of materials (ordinary maintenance).

With the exception of the contractually-defined salary increases for employees, operating costs decreased steadily in the second half of 2018 as a result of the savings policies implemented by top management.

Gross operating profit increased by €163 million, or 7%, to €2,476 million as a result of the variations in revenue and operating costs described above.

Operating profit amounts to €714 million, and is basically unchanged from the previous year. Specifically, the increase in gross operating profit was offset by the greater amortisation/depreciation, due entirely to the start-up of the group's considerable investments, and impairment losses, of €193 million and €3 million, respectively, offset by lower provisions of €29 million. This latter caption mainly reflects the performance of the extraordinary part of the fund for income and employment assistance.

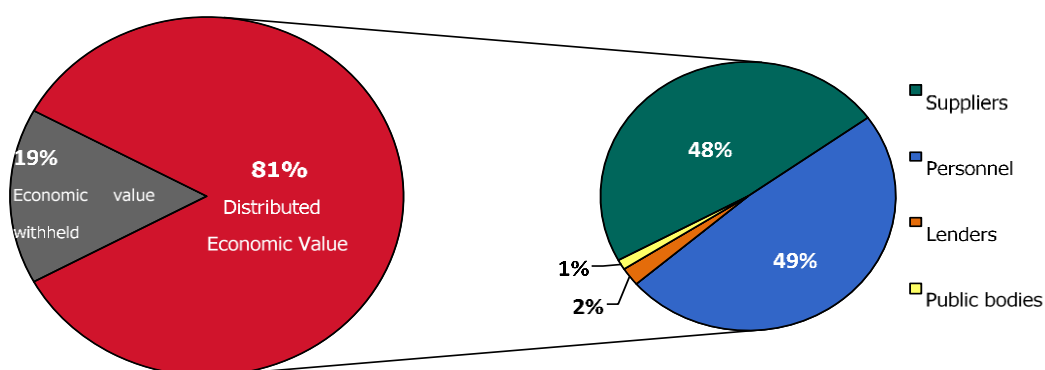
Net financial expense of €97 million is substantially unchanged, due to the proportional growth in both financial income (+€48 million, including €18 million for the group's share of profits of equity-accounted investees) and financial expense (+€45 million).

Income taxes amount to €58 million, a decrease of €6 million mainly reflecting changes in current taxes (+€7 million), changes in deferred taxes (-€19 million) and adjustments related to prior years (+€6 million).

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.



Directly generated and distributed economic value	2018		2017		2016	
Directly generated economic value	12,202	100%	9,369	100%	9,004	100%
Revenue from sales and services	11,566		8,993		7,908	
Other sundry income	636		376		1,096	
Distributed economic value	9,883	81%	7,202	77%	6,837	76%
Operating costs for materials and services	4,685		2,754		2,623	
Personnel expense	4,853		4,178		3,951	
Payments to financial backers	221		176		170	
Payments to public bodies	124		94		93	
Economic value withheld	2,319	19%	2,167	23%	2,167	24%
Amortisation, depreciation, provisions and impairment losses	1,762		1,595		1,401	
Other sundry costs and taxes	(2)		20		(6)	
Profit for the year	559		552		772	



The value not distributed by the group (approximately €2.3 billion in 2018, €2.2 billion in both 2017 and 2016) consisted substantially of self-financed investments and accruals to reserves, to be reinvested and thereby ensure the continuity and sustainability of the business in the medium and long term, thereby indirectly benefiting 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		
	31.12.2018	31.12.2017	Change
ASSETS			
Net operating working capital	(324)	402	(726)
Other assets, net	2,378	1,173	1,204
Working capital	2,054	1,575	479
Net non-current assets	50,986	47,279	3,706
Other provisions	(4,622)	(2,902)	(1,720)
Net assets held for sale		2	(2)
NET INVESTED CAPITAL	48,418	45,954	2,464
COVERAGE			
Net current financial position	(555)	(65)	(490)
Net non-current financial debt	7,210	7,338	(128)
Net financial debt	6,655	7,273	(618)
Equity	41,763	38,681	3,082
COVERAGE	48,418	45,954	2,464

The group's **net invested capital** of €48,418 million rose by €2,464 million in 2018, due to the increases in **net non-current assets** (+€3,706 million) and **working capital** (+€479 million), offset by the higher **other provisions** (-€1,720 million) and the small decrease in **net assets held for sale** (-€2 million).

Net operating working capital amounts to -€324 million, decreased €726 million over the previous year and is the combined effect of changes mainly in connection with:

- the effects of Anas group's entry, which have an overall impact on this caption of -€533 million. Specifically: 1) higher net trade payables of -€909 million; ii) the contribution of inventories and assets as per the contract for +€103 million; iii) greater payments on account to suppliers of +€273 million;
- lower assets arising from the service contracts with the regions (-€127 million) and from the service contract with the MEF (-€280 million). The decrease in the latter is substantially due to the collection of fees under the medium and long-haul service contract, related to amounts invoiced for 2017;
- lower trade receivables from the railway passenger transport service (-€11.3 million) and freight transport service (-€9.2 million);
- greater inventories (+€98 million), mainly due to the production of the national workshops of Bari, Pontassieve and Bologna for the construction of frogs, switches and other equipment related to the railway infrastructure;
- the greater advances to electricity suppliers (+€57 million).

Other assets, net increased by €1,204 million, mainly as a result of the combination of the following factors:

- greater net assets from the MEF, the MIT and other government authorities (+€2,473 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 liabilities due to the change in the consolidation scope following the entry of Anas S.p.A. described earlier (-€633 million), mainly related to contributions due for works to be completed for motorway operators related to financing received from government ministries;
- the decrease in net VAT assets (-€592 million), due to VAT reimbursements for 2016 and 2017.

Net non-current assets increased by €3,706 million, mainly as a result of the above-mentioned consolidation of Anas group, specifically: 1) the recognition of the new value of Anas S.p.A.'s concession (€1,391 million) calculated under the new 2016-2020 Programme Contract which establishes a new concession structure for the company, and the recognition of investments in the concession relationship managed by Sitaf S.p.A. (€1,124 million) related to the concessions for its motorway routes; ii) the increase in assets under construction and payments on account, mainly related to upgrades of the road network (+€354 million); iii) greater investments (of €512 million) in associates and other companies.

Other provisions increased by €1,720 million, attributable nearly entirely to the change in the consolidation scope and, in particular, the set-up of the provision for road works risks (+€1,548 million), as well as the changes in deferred tax liabilities (+€250 million).

Net financial debt of €6,655 million decreased by €618 million on 31 December 2017, mainly due to the net effect of the following:

- the contribution of Anas group (€531 million). Specifically, the change mainly relates to: i) the contribution of cash and cash equivalents (+€371 million); ii) the increase in the value of the concession financial assets, including the amounts related to the former Central Guarantee Fund (+€397 million), mostly related to Anas S.p.A. and its subsidiaries for its work performed on infrastructure under concession (mostly roads), to be reimbursed by the competent ministries and bodies as per the IFRS for assets provided by the grantor and; iii) greater loans and borrowings due to Cassa Depositi e Prestiti (-€178 million);
- the decrease in the cash pooling balance (-€267 million), which comprises the payments made by the MEF in relation to the Programme Contract for railway infrastructure;
- the greater bank loans and borrowings (-€287 million) related to the combined effects of the increase in short-term funding and repayments of loans to finance the purchase of new rolling stock for the medium and long-haul services and regional transport;
- the decrease in bond issues (+€407 million) related mainly to the €612 million repayment of the Eurofirma bond issue, offset by the subscription in March 2018 of the variable rate bonds of €200 million with a 12-year maturity as part of the EMTN Programme listed on the Irish Stock Exchange.

Equity rose from €38,681 million to €41,763 million, up by €3,082 million mainly as a result of the following:

- the increase in the profit for the year to €559 million;

- the increase in the share capital attributable to the owners of the parent (+€2,864 million) after the MEF's contribution of its entire investment in Anas S.p.A.;
- the dividends paid in 2017 amounting to €150 million (€9 million of which was paid to non-controlling interests);
- the decrease in derivative liabilities (+€19 million).

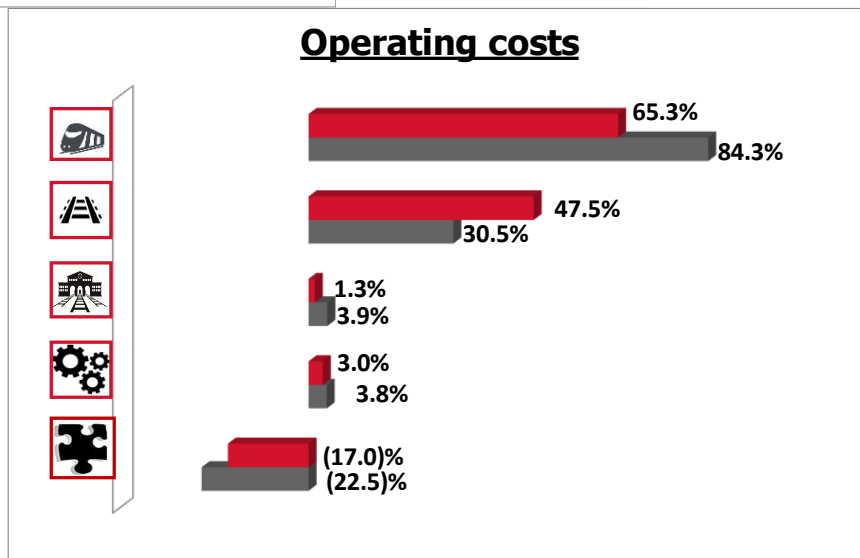
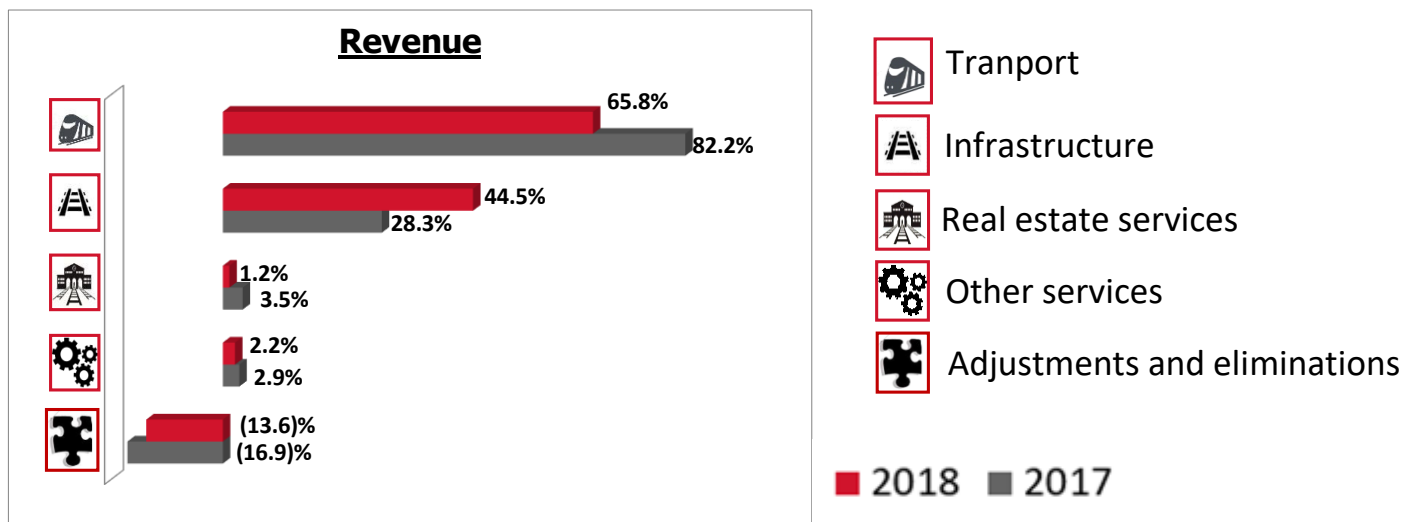
Reconciliation at 31 December 2018 and 31 December 2017

Reconciliation as at 31 December 2018 and 31 December 2017 and for the years then ended between profit for the year and equity in the separate financial statements of Ferrovie dello Stato Italiane S.p.A. and the consolidated financial statements

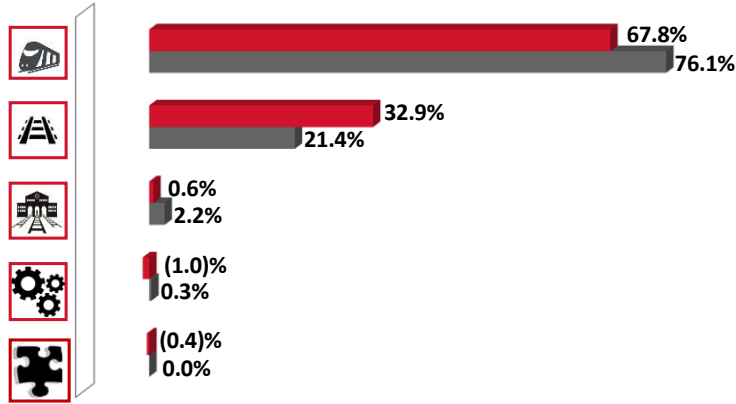
	millions of Euros			
	Year ended 31 December 2018		Year ended 31 December 2017	
	Equity	Profit for the year	Equity	Profit for the year
Ferrovie dello Stato Italiane S.p.A.	39,633	62	36,867	231
Profits (losses) of consolidated investees since acquisition, net of dividends and impairment losses:				
- portion of current and previous profits attributable to the owners of the parent	1,995	344	2,179	556
- elimination of impairment losses on equity investments	467	381	98	22
- reversal of dividends	(4)	(154)	(4)	(161)
Total	2,458	571	2,273	417
Other consolidation adjustments:				
- equity accounting of investments in unconsolidated subsidiaries and associates	76	31	46	10
- reversal of intragroup profits	(533)	(41)	(497)	(41)
- reversal of taxes arising on tax consolidation	33	(92)	125	(86)
- other	24	9	30	11
Total	(400)	(93)	(296)	(106)
- Valuation reserves	(437)		(467)	
- Translation reserve			3	
EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT	41,254	540	38,380	542
- Equity attributable to non-controlling interests (excluding profit for the year)	424		240	
- Profit attributable to non-controlling interests	19	19	10	10
EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	443	19	250	10
TOTAL CONSOLIDATED EQUITY	41,697	559	38,630	552

Segment reporting






FS Italiane group's performance is analysed below with reference to each of the four operating segments that make up its business (Transport, Infrastructure, Real Estate Services and Other Services). The charts below summarise the 2018 and 2017 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.

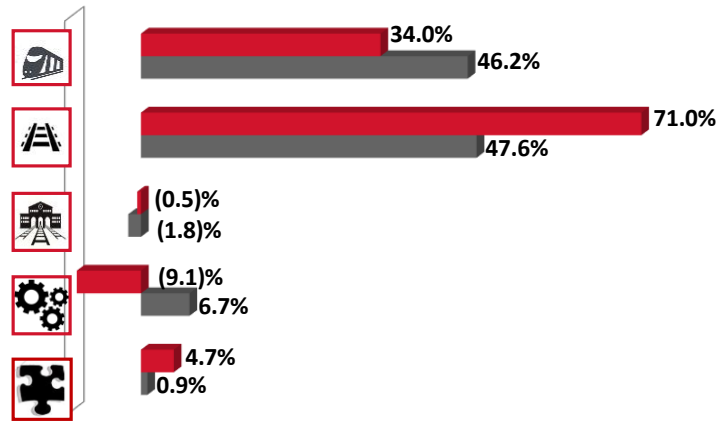


Gross operating profit

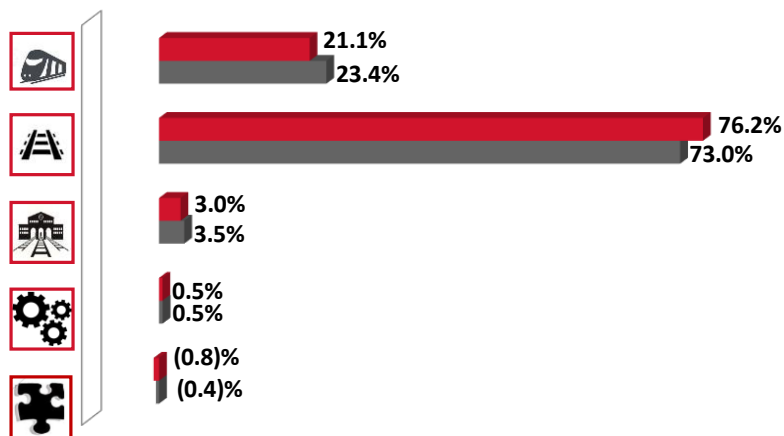


Profit for the year

-  Transport
 -  Infrastructure
 -  Real estate services
 -  Other services
 -  Adjustments and eliminations
- 2018 ■ 2017



Net invested capital



Transport

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

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

The group companies that mainly operate in freight transport are those in the Mercitalia hub, with domestic and international operations, including 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. The above-mentioned FSE also provides these services.

	millions of Euros			
	2018	2017	Change	%
Revenue from sales and services	7,689	7,414	275	3.7
Other income	259	228	31	13.6
Revenue	7,948	7,642	306	4.0
Operating costs	(6,269)	(5,882)	(387)	(6.6)
Gross operating profit	1,679	1,760	(81)	(4.6)
Operating profit	336	412	(76)	(18.4)
Segment profit (attributable to the owners of the parent and non-controlling interests)	190	255	(65)	(25.5)
	31.12.2018	31.12.2017	Change	
Net invested capital	10,213	10,767	(554)	

The Transport segment shows a **profit for the year** of €190 million.

Its **revenue** of €7,948 million increased significantly (+€306 million) compared to 2017, nearly entirely due to the rise in transport services (+€272 million) for both the internal part of the group's business and the contribution by the companies that entered the consolidation scope in 2017 for the entire year.

Specifically, with reference to the €306 million increase in revenue:

- the good performance of domestic short-haul services drove growth in this segment, mainly due to the higher fees provided for in the new service contracts, necessary to ensure financial balance over the term of the service contract, also considering the increase in costs (e.g., tolls) and the commitments FS Italiane group has taken on to improve

service quality, comfort and punctuality. Specifically, the new contracts with the Veneto, Liguria, Sicily, Puglia and Lazio regions have contributed to the growth of the year, whereas 2017 was negatively affected by adjusting items related to the termination of contracts that expired in the previous year;

- higher revenue was generated by the full effect of the above-mentioned acquisitions;
- the prior year income generated by the derecognition of FES's liabilities at the end of the bankruptcy proceedings as per the decree of the ordinary court of Bari of 9 April 2018, which set the date for the approval of the deed of arrangement of 6 June 2018 (+€38 million).

The Transport segment's **gross operating profit** came to €1,679 million, down €81 million on 2017, due almost entirely to the above-mentioned prior year income, referring to 2015-2016, generated by the application of the provisions of Law no. 167/2017, which adjusted the rate regime for electrical energy used for traction.

The **operating profit** amounts to €336 million, down €76 million on 2017. The decrease in the gross operating profit was accompanied by smaller amortisation and depreciation expense recognised by Trenitalia S.p.A. in relation to the investment trend.

Net financial expense of €91 million did not change significantly from 2017.

Income taxes show a net negative balance of €55 million, substantially in line with those of the previous year (+€8 million).

Loans and borrowings - Transport segment

Loan for trains - Mercitalia Rail

On 10 April 2018, Ferrovie dello Stato Italiane S.p.A. granted its subsidiary, Mercitalia Rail S.r.l., an intragroup loan to finance the purchase of 40 new electric trains. The maximum amount of the loan is €114.4 million and it will be disbursed in tranches. The loan was approved as part of the resolution of 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. At the reporting date, €32.6 million of the loan had been used.

Qbuzz loans

FS Italiane S.p.A. granted the Dutch subsidiary Qbuzz BV two intragroup loans totalling €105 million on 23 November 2018, as part of the requirements related to the local public transport concession in the DAV area awarded to Qbuzz BV on 23 February 2018. The €20 million loan covers temporary working capital requirements, while €85 million is allocated to temporarily finance the assets (trains, electric and diesel buses) pending the agreement of the leases.

Unicredit loan - Mercitalia Rail

Unicredit granted Mercitalia Rail S.r.l. a €6.2 million loan on 19 December 2018 to equip 61 trains with the ERTMS system. It follows a non-repayable grant from the European Commission as part of the CEF Transport 2017 Blending Call covering 50% of the expected project costs (€12.3 million).

Interest rate hedges - Trenitalia

Between 31 July and 2 August 2018, 15 interest rate swaps and seven interest rate caps were agreed with 12 leading banks with an investment grade rating, to hedge interest rate risk for Trenitalia S.p.A.. They have a notional amount of approximately €2.2 billion, a term of up to three years and will become effective in the second half of 2018. These transactions will enable the company to set an all-inclusive average cost (including the credit spreads) for the portion of hedged debt up to a ceiling of 0.60% for the 2019-2021 period.

Infrastructure

The group's main Infrastructure segment company is Rete Ferroviaria Italiana S.p.A. (RFI), whose mission is to serve as the national railway network operator. As network operator, RFI maintains, uses and develops the network and related safety systems, in addition to managing research and development in the field of railway transport and ensuring connections to Italy's largest islands by sea. Anas S.p.A., which together with its subsidiaries manages national-interest Italian roads and motorways, joined the Infrastructure segment in January 2018 and has had a significant impact thereon.

To a lesser extent, given its smaller size, Italferr S.p.A., the group's engineering company, also contributes to the results of this segment. The other group companies active in the Infrastructure segment on an exclusive or incidental basis are: FSE S.r.l., Brenner Basis Tunnel SE, Tunnel Ferroviario del Brennero S.p.A. (TFB), Tunnel Euralpin Lyon Turin SaS (TELT), Grandi Stazioni Rail S.p.A., Centostazioni Retail S.p.A. and Metropark S.p.A..

	millions of Euros			
	2018	2017	Change	%
Revenue from sales and services	5,017	2,496	2,521	101.0
Other income	357	131	226	172.5
Revenue	5,374	2,627	2,747	104.6
Operating costs	(4,557)	(2,132)	(2,425)	(113.7)
Gross operating profit	817	495	322	65.1
Operating profit	455	295	160	54.2
Segment profit (attributable to the owners of the parent and non-controlling interests)	399	263	136	51.7
	31.12.2018	31.12.2017	Change	
Net invested capital	36,884	33,537	3,347	

The Infrastructure segment shows a **profit for the year** of €399 million, a significant increase on 2017 (+€136 million).

Revenue amounts to €5,374 million, a significant increase on 2017 (+€2,747 million). The growth is due to revenue of €2,420 million generated almost entirely to the entry into the group of Anas S.p.A. and its subsidiaries. The remaining part of the increase is the effect of:

- the approximately €250 million increase in revenue from RFI, mainly comprised of:
 - higher toll revenue (+€72 million), mainly due to the cost-of-living adjustment to prices and the increase in production volumes;
 - higher revenue from services provided to railway companies (+€127 million), mainly due to the increase in revenue from sales of electrical energy for traction (€126 million), and from traffic-related services (€1 million);

- higher other revenue (+€28 million) related mainly to the increase in contributions under the Programme Contract (€40 million), partly offset by the accrual (€12 million) made under the provisions of Resolution ART no. 11/2019, issued on 4 February 2019;
- the positive effect of the Infrastructure segment's portion of the above-mentioned €25 million prior year income from FSE's bankruptcy discharge.

The segment's **gross operating profit** increased by €322 million to €817 million, basically the result of the entry of Anas group in the consolidation scope.

The segment's **operating profit** is €455 million, which is €160 million higher than for 2017, also in this case affected by the above-mentioned change in the consolidation scope.

Net financial expense of €31 million was substantially unchanged from 2017 (+€4 million).

Income taxes show a negative balance of €25 million, a deterioration from those of the previous year (€28 million).

Loans and borrowings - Infrastructure segment

FSE loan

FS Italiane S.p.A. granted its subsidiary Ferrovie del Sud Est e Servizi Automobilistici S.r.l. (FSE) a loan of a maximum €70 million on 19 December 2018, repayable on the expiry of the deed of arrangement, to cover costs related to the infrastructure segment.

Italferr loan

FS Italiane S.p.A. granted Italferr S.p.A. a €15 million intragroup loan on 27 November 2018 for the purchase of 80% of the architectural design and infrastructure engineering firm, Crew - Cremonesi Workshop S.r.l.. The purpose of this acquisition is to bolster the expertise and specialist skills in the integrated design of models using the building information modelling (BIM) approach.

Real Estate Services

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

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

	millions of Euros			
	2018	2017	Change	%
Revenue from sales and services	140	303	(163)	(53.8)
Other income		24	(24)	(100.0)
Revenue	140	327	(187)	(57.2)
Operating costs	(125)	(275)	150	54.5
Gross operating profit	15	52	(37)	(71.2)
Operating profit (loss)	(6)	22	(28)	(127.3)
Segment loss (attributable to the owners of the parent and non-controlling interests)	(3)	(10)	7	(70.0)
	31.12.2018	31.12.2017	Change	
Net invested capital	1,458	1,622	(164)	

The Real Estate Services segment shows a **loss for the year** of €3 million, a €7 million improvement on 2017.

Other Services

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

millions of Euros

	2018	2017	Change	%
Revenue from sales and services	244	240	4	1.7
Other income	17	32	(15)	(46.9)
Revenue	261	272	(11)	(4.0)
Operating costs	(285)	(266)	(19)	(7.1)
Gross operating profit (loss)	(24)	6	(30)	>200
Operating loss	(62)	(12)	(50)	>200
Segment profit (loss) (attributable to the owners of the parent and non-controlling interests)	(51)	136	(187)	>200

	31.12.2018	31.12.2017	Change
Net invested capital	231	231	

In 2018, Other services recorded a **loss for the year** of €51 million, down by €187 million on the previous year's profit.

Revenue of €261 million decreased by €11 million, related mostly to the parent for the reimbursement of services from its subsidiaries.

The **gross operating loss** amounts to €24 million in 2018, down €30 million on the 2017 gross operating profit due mainly to the more-than-proportional growth in costs.

The segment's **operating loss** amounts to €62 million (-€50 million on 2017). In addition to the deterioration in the gross operating loss, amortisation/depreciation increased, as did impairment losses and accruals (+€5 million and +€15 million, respectively). Specifically, approximately €19 million of the impairment losses are related to FS Italiane S.p.A..

Net financial expense for 2018 was €101 million, a deterioration of €130 million over 2017, as a result of the impairment losses recognised on equity investments due to the losses incurred by the main operating companies of the Mercitalia hub (Mercitalia Rail S.r.l. and TX Logistic AG, both investees of Mercitalia Logistics S.p.A.). The losses of the hub companies in

2018 and the differences with respect to budget figures are to some extent due to completely occasional factors which, as such, will not have an impact on the outlook for the future business performance (specifically, the prolonged and unexpected closure of important routes and strikes which brought railways operations to a halt in some of the major European countries, impacting international transport) and partly to external factors, such as the unfavourable economic context, in addition to the greater impact of typical structural risks on the hub's performance (delays in infrastructure investments to boost freight transport by rail, which are likely to last for a long time), which affects the risk/reward profile of the business.

Income taxes show a positive balance of €112 million, down €7 million on 2018. This caption reflects the positive effects of the domestic tax consolidation scheme managed by the parent as part of its typical activities.

Loans and borrowings – Other Services segment

EIB bond placement - EMTN series 9

On 21 March 2018, FS Italiane S.p.A. placed variable rate bonds of €200 million with a 12-year maturity as part of the EMTN Programme listed on the Irish Stock Exchange in a private placement. The issue (Fitch and S&P's ratings of BBB) completes the covering of the group's funding requirements for 2017 as approved by the parent's board of directors on 21 April 2017. The proceeds will be used to fund RFI S.p.A.'s HS/HC infrastructure in the form of an intragroup loan between FS Italiane S.p.A. and RFI with the same characteristics and same commitment and constraint terms as the bond issue.

Facility agreement

On 13 July 2018, Ferrovie dello Stato Italiane S.p.A. signed a new revolving and committed facility agreement for a revolving facility that the banks are irrevocably committed to giving for €2 billion over three years. The parent thus successfully increased its available liquidity compared to the previous credit facility of a maximum of €1.5 billion, which expired on 22 May 2018. The new facility will be provided by a syndicate of 11 major Italian and international banks, selected from the 19 bidders that participated in the call for tenders made by the parent in April on a syndication basis. The credit facility expires on 13 July 2021 and can be used for the group's many activities. FS Italiane S.p.A. used the facility agreement, substantially with the same commitments and constraint terms, to grant two three-year revolving and committed intragroup loans to the subsidiaries Trenitalia S.p.A. (€800 million) and RFI S.p.A. (€400 million). The banking syndicate comprises BNP Paribas, Cassa Depositi e Prestiti, Credit Agricole Corporate and Investment Bank, ING Bank, Intesa Sanpaolo and UniCredit (as underwriters, mandated lead arrangers and bookrunners), Banco Bilbao Vizcaya Argentaria, Bayerischi Landesbank, Commerzbank Aktiengesellschaft and HSBC France (co-lead managers) and Banco BPM (participant). Intesa Sanpaolo is also the agent bank.

Riyadh metro performance bond

On 27 September 2018, Saudi British Bank issued a performance bond in favour of ArRiyadh Development Authority, after Flow Consortium (formed by FS, Ansaldo STS and Alstom) was awarded the operation and maintenance contract for lines 3, 4, 5 and 6 of the Riyadh metro. The performance bond - which expires in seven years (renewable for five years) and is for a total amount of SAR546.4 million - is counter-guaranteed by HSBC for FS Italiane S.p.A.'s portion. The amount pertaining to FS Italiane S.p.A. approximates €43.4 million.

Fitch rating confirmed

On 5 October 2018, Fitch Ratings issued its annual credit ratings for FS Italiane S.p.A., confirming an issuer default rating of BBB. It also confirmed its BBB rating for the €4.5 billion EMTN Programme and related bonds. The agency downgraded the outlook from stable to negative, reflecting the downgrade of Italy's outlook on 31 August 2018. The methodology used to rate government-related entities means there is a close correlation between the rating of FS Italiane S.p.A. and Italy's.

Update and extension of the 2018 EMTN Programme

On 22 October 2018, FS Italiane S.p.A. completed the update of its Euro Medium Term Note (EMTN) Programme listed on the Irish stock exchange and reserved to institutional investors. As part of this update, FS Italian S.p.A. increased the Programme's ceiling to €7 billion, from the initial €4.5 billion, signing the related documentation with 26 dealer banks. The updated and expanded Programme saw the confirmation of the current S&P BBB and Fitch BBB ratings.

S&P rating confirmed

On 29 October 2018, Standard & Poor's confirmed FS Italiane S.p.A.'s BBB rating and downgraded the outlook from stable to negative, reflecting the downgrade of Italy's outlook on 26 October 2018. The methodology used to rate government-related entities means there is a close correlation between the rating of FS Italiane S.p.A. and Italy's.

Green bond report

On 6 December 2018, FS Italiane S.p.A. presented its first green bond report to its institutional investors. Pursuant to the green bond principles issued by the International Capital Market Association (ICMA), the report sets out the key sustainability results achieved with the allocation of all income generated by FS Italiane S.p.A.'s first green bond. The report contains a third party opinion issued by KPMG S.p.A., which confirms FS Italiane S.p.A.'s compliance with both international and internal guidelines - defined in 2017 in its Green Bond Framework - as well as the calculation method and the allocation of financial resources to sustainable investments.

Corporate Forum for Sustainable Finance

On 15 January 2019, the Corporate Forum for Sustainable Finance was established by 16 European companies (including FS Italiane S.p.A.) to develop a network of knowledge and financial proposals for the development of sustainable finance. The founding companies, which operate in production segments such as electrical energy services, infrastructure, transport services, environmental and real estate services, want to contribute to the development of tools such as bonds, credit lines and other "green" financial instruments that recognise the sustainability of the business model of their issuers.

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

Income statement

	millions of Euros			
	2018	2017	Change	%
Revenue	180	182	(2)	(1)
- Revenue from sales and services	165	169	(4)	(2)
- Other revenue	15	13	2	15
Operating costs	(237)	(201)	(36)	18
GROSS OPERATING LOSS	(57)	(19)	(38)	200
Amortisation and depreciation	(24)	(21)	(3)	14
Net impairment gains	(16)	(4)	(12)	300
OPERATING LOSS	(97)	(44)	(53)	120
Net financial income	31	166	(135)	(81)
PRE-TAX PROFIT (LOSS)	(66)	122	(188)	(154)
Income taxes	128	109	19	17
PROFIT FOR THE YEAR	62	231	(169)	(73)

The **profit** for 2018 amounts to €62 million, down €169 million on the previous year mainly due to the decrease in net financial income (€135 million) and the higher operating loss (€53 million).

The increase in the **gross operating loss** is due to both a reduction in revenue (-€2 million) and the €36 million increase in operating costs, related to the factors set out in the following.

The decrease in **revenue** is mainly related to "property management" (leases, commercial use of stations, Grandi Stazioni facilities and sales of land and buildings held for trading). The increase in **operating costs** is mainly due to the higher costs for "services", particularly as relates to real estate services, utilities and fees (+€1.3 million), administrative and IT services (+€2.9 million), external communications and advertising (+€3.7 million), consultancies (+€4.4 million) and higher personnel expense (+€20.5 million) due to both the increases in the average workforce and in the provisions for change management projects.

The increase in the **operating loss** is due to that described above, higher impairment losses on investment property, impairment losses on loans and receivables (also following the application of the new IFRS 9) and the increase in amortisation and depreciation of the year.

Net financial income decreased mainly due to:

- the €8 million reduction in dividends distributed by the group companies, mostly by Italferr S.p.A. (-€3 million) and Centostazioni S.p.A., merged into Rete Ferroviaria Italiana S.p.A. (-€8 million), offset by the higher dividends distributed by Netinera Deutschland GmbH (+€3 million);
- the significant impairment loss on the investments in Mercitalia Logistics S.p.A. (+€128 million), following the impairment test carried out as a result of the losses incurred by the main operating companies of the Mercitalia hub.

Income taxes improved by €19 million on the previous year mainly as a consequence of the decrease in the income from the tax consolidation scheme (€14 million) recognised against tax losses transferred to the group in previous years and used during the year, as it is improbable that they may be used subsequently, and an increase in deferred taxes (€34 million).

Reclassified statement of financial position

	millions of Euros		
	31.12.2018	31.12.2017	Change
ASSETS			
Net operating working capital	389	444	(55)
Other assets, net	77	151	(74)
Working capital	466	595	(129)
Non-current assets	549	553	(4)
Equity investments	38,072	35,273	2,799
Net non-current assets	38,621	35,826	2,795
Post-employment benefits	(9)	(9)	
Other provisions	(419)	(485)	66
Post-employment benefits and other provisions	(428)	(494)	66
Net assets held for sale	22		22
NET INVESTED CAPITAL	38,681	35,927	2,754
COVERAGE			
Net current financial debt	(728)	(837)	109
Net non-current financial debt	(220)	(101)	(119)
Net financial debt	(948)	(938)	(10)
Equity	39,629	36,865	2,764
COVERAGE	38,681	35,927	2,754

Net invested capital of €38,681 million rose by €2,754 million in the year due to the combined effect of the decrease in **working capital** (-€129 million), and the increases in **other provisions** (+€66 million) and in **net non-current assets** (+€2,795 million).

Net operating working capital of €389 million decreased by €55 million in the year, mainly due to the net reduction in trade receivables and payables (-€36 million) and the decrease in land and buildings held for trading (-€18 million), mainly due to the impairment losses of the year.

Other assets, net decreased by €74 million due to the net decrease in VAT assets and liabilities (-€571 million), the net increase in other current assets and liabilities (+€487 million) and the increase in deferred tax assets recognised for IRES and IRAP purposes (+€10 million).

Net non-current assets amount to €38,621 million, up €2,795 million on 2017, due to the net increase in equity investments for: the purchase of the equity investment in Anas S.p.A. (€2,864 million), the recapitalisation of FSE S.r.l. (€42 million) and the conversion of part of the previously-disbursed loans into share capital (€32 million), the payment of €10 million to Nugo S.p.A. to cover losses and reinstate the share capital and reserves, the set-up of FS Technology S.p.A. (€1 million), the reclassification of the equity investment in Centostazioni Retail S.p.A. to assets held for sale (€22 million) and the impairment loss on the equity investment in Mercitalia Logistics S.p.A. (€128 million).

The decrease in **other provisions** (€66 million) is mainly due to the decrease in deferred tax liabilities (€71 million) and greater accruals to the provision for civil litigation (€6 million).

Net financial debt improved by €10 million, reflecting the rise in net liquidity from €938 million at 31 December 2017 to €948 million at 31 December 2018. This increase is mainly due to the use of cash and cash equivalents for the payment of dividends to the MEF (€150 million) and the capital injections (€53 million), as described in the paragraph on "Net non-current assets", offset by the collection of dividends from subsidiaries during the year (€142 million).

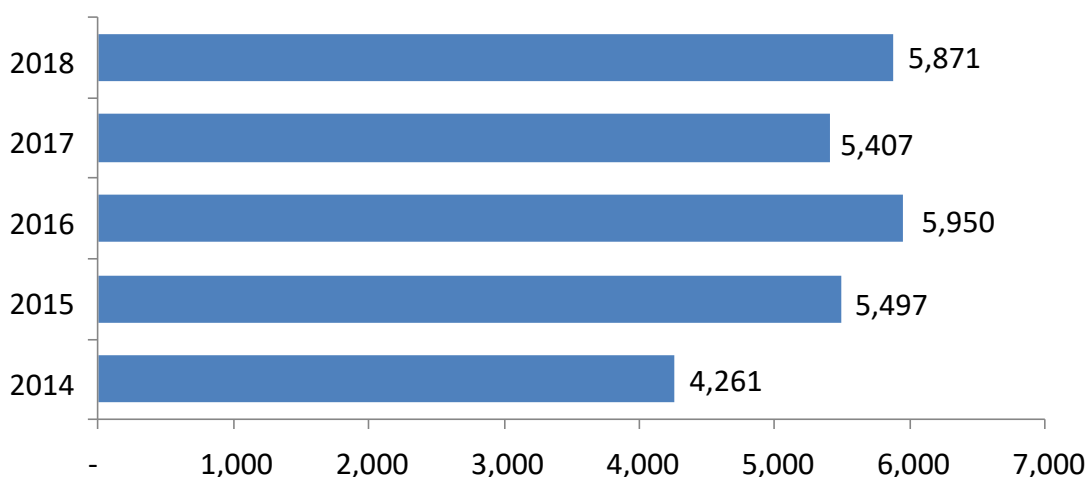
Finally, **Equity** shows a €2,764 million increase, mainly due to the profit for the year (€62 million), the increase in share capital for the purchase of Anas S.p.A. (€2,864 million), the dividends paid to the MEF (€150 million) on 15 May 2018 and the reserve set up following the adoption of IFRS 9, net of the tax effects (€11 million).

Investments

The softening of the Italian economy in 2018, particularly in the second half of the year, resulted in a lower estimated GDP than in 2017¹, and was the result of the contraction in consumption and investment spending in plant and machinery and transport vehicles, while investments in construction experienced a slightly expansionary phase, with another small increase in 2018 (+2.2%, compared to +1.9% in 2017) across both the residential and non-residential segments. This general situation is in contrast to the trend of the main European and EMU countries which experienced overall growth in investments throughout 2018 - although to differing extents - mostly as a result of expenditure on operating assets and in the residential segment, which acted as a driver of the overall recovery.

FS Italiane group was able to go against the trend in Italy, continuing its expenditure in line with its investment plan and maintaining an average capital expenditure/depreciation ratio greater than 1 from 2012 to date, securing the replacement of assets which become obsolete from one year to the next. Investment spending again rose in 2018, confirming - with the consolidation of Anas group - the group as the largest investor in Italy, bolstering the development and renewal of the transport, infrastructure and logistics sector.

FS Italiane group's total expenditure for investments in 2018 came to €5,871 million (€1,144 million of which self-financed and €4,727 million through government grants).



FS Italiane group made "Capital expenditure" approximating €7.5 billion² in 2018, 98% in Italy.

Approximately 84% of investments refers to the Infrastructure operating segment, with RFI S.p.A. investing €4,769 million, including €4,654 million for the traditional/HC network and €115 million for the HS/HC network between Turin, Milan and Naples and Anas group investing €1,391 million. Roughly 15% 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 freight. Specifically, Trenitalia S.p.A. invested €798 million (including ordinary maintenance), the Mercitalia group approximately €119 million, the Busitalia group €152 million and the remaining companies operating abroad €35 million (Netinera Deutschland GmbH, Trenitalia, c2c Ltd, Thello SAS and TrainOSE SA). The Real estate and Other services segment accounts for the remainder of the group's investments and they were mainly made by FS Sistemi Urbani S.r.l. and FS Italiane S.p.A. for the maintenance and upgrade of the respective property assets and ICT projects.

¹ For additional information, reference should be made to the "Macroeconomic context" paragraph below.

² Capital expenditure is defined in under the "Key and glossary" paragraph. It includes Anas S.p.A. and FSE S.r.l. investments recognised pursuant to IFRIC 12 (approximately €1.3 billion) while the remainder is comprised of the investments of special-purposes entities not consolidated on a line-by-line basis (e.g., TELT, BBT etc, for around €0.3 billion).

Investments in infrastructure

In particular, €4,769 million was invested in RFI S.p.A.'s national railway network, broken down as follows:

- 51% for safety, technology and efficiency, including €490 million for cutting-edge technology;
- 49% for works to resolve traffic bottlenecks, traditional/HC network infrastructure development, the completion of the Turin-Milan-Naples HS line and large construction works.

In 2018, definitive designs consisted of:

- Hirpinia-Orsara, which is Lot 2 functional to the laying of double tracks on the Apice – Orsara line;
- laying of double tracks on the Bovino – Orsara section;
- the technological upgrade and improvement of the Jonica and Adriatica lines;
- the laying of quadruple tracks on the Rogoredo-Pieve Emanuele-Pavia section of the Milan - Genoa line;
- infrastructural investments for the laying of double tracks on the Empoli-Granaiole line and the new Ferrandina-Materia La Martella line;
- the planned works at the Orbassano hub, the civil works on the Latisana-Trieste section and repairs under the general zoning plan for Rome Tuscolana.

Furthermore, the main infrastructure roll-outs were:

- the railway connection between the Palermo Centrale station and the Falcone-Borsellino airport;
- the laying of double tracks on the Castelplanio - Montecarotto section of the Orte - Falconara line;
- the connection of the Treviglio-Brescia HS/HC line with the Brescia hub, which is currently underway, with high speed services on dedicated tracks;
- the laying of double tracks north of Ortona, helping to expand the commercial offer for the transport of semi-trailers and high cube containers on the Adriatic line;
- the works under the general zoning plans at the Ortona and Melfi stations on the Potenza - Foggia route, as part of the upgrade of the Basilicata railway network.

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

- 15 central computerised devices, including Castelplanio and Pavia;
- the technological upgrade of the Rho-Novara section.

Contracts for the executive design and the work to lay double tracks on the Bicocca – Catenanuova section of the Palermo – Catania line, an integral part of the new Palermo – Catania line, were signed in February 2018, while the works on the Cancellò – Naples section were delivered to the Salini-Impregilo-Astaldi JV in November 2018.

As regards station network management, an organisational model was rolled out in 2018, where the station is viewed as an intermodal hub within an urban mobility system, and a service hub for passengers and the community. Under this policy, the identification of development strategies for all stations and related services, the governance and monitoring of the commercial conceptual upgrades and the identification of standard layouts for stations and services was centralised with RFI S.p.A..

Again as relates to station development, and in line with the investments of recent years in local public transport, two macro investment projects have been identified for closely integrated stations:

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

- the Smart Energy Management platform for the remote monitoring and management of station utilities;
- the "Turnstiles 2.0" project to validate e-tickets and to automatically control access to platforms, also for security purposes.

These two projects are closely linked and prioritise the scope of the network's 620 busiest stations. They will be carried out over the entire term of the plan.

With reference to the process of integration of the main former railways, in 2018, RFI S.p.A. began a series of activities with some of the main former railways:

- Ferrovia Centrale Umbra (FCU): RFI S.p.A. carried out a complete overhaul of the tracks on the Umbertide-Città di Castello (around 23 km), Umbertide-Ponte Felcino (also around 23 km) and the Ponte Felcino-Perugia Ponte San Giovanni (approximately 5 km) sections in September. These works are necessary for the resumption of railway operations by the current manager, Umbria TPL e Mobilità S.p.A.. A letter of intent was signed between the Umbria Region, Umbria TPL e Mobilità S.p.A. and RFI S.p.A. in November identifying certain key steps necessary to RFI S.p.A.'s taking over of the management of the Umbrian regional railway infrastructure and to seal the transaction's closing;
- Ferrovia Emilia Romagna (FER): an agreement was signed between the Emilia Romagna region, FER and RFI at the end of the year, which moved the date of RFI S.p.A.'s taking over to 31 December 2020 (it was initially set for 1 January 2019 in the agreement of December 2017);
- Gruppo Torinese Trasporti (GTT): an agreement was signed between the Piedmont region, GTT S.p.A. and RFI S.p.A. in November governing the timeframes, procedures and obligations related to the implementation of the technological works to upgrade to safety standards of the Canavese regional lines.

Works were carried out on the road network managed by Anas group worth a total of €1,391 million, of which around 45% was for new works, 46% was to maintain the efficiency of the existing road infrastructure, while the remainder relates to other works.

Extraordinary commissioner

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

- Ordinance no. 34 was issued on 6 April regarding the reformulation of the financial framework for the "laying of double tracks and update to HS for the Cancellò - Benevento line" project as part of the total approved cost (Cancellò - Frasso Telesino for €630 million and Frasso Telesino - Vitulano for €1,095 million);
- Ordinance no. 35 was issued on 5 May, approving the definitive project for functional Lot 1 of the project for the laying of double tracks on the Apice - Orsara line;
- Ordinance no. 36 was issued on 5 May, approving the definitive project for Lot 1 Frasso Telesino-Telese of the project for the laying of double tracks for the Frasso Telesino-Vitulano section and - in line with the requirements - the definitive project for Lot 2 Telese - San Lorenzo Maggiore;
- Ordinance no. 37 was issued on 20 September, announcing the service conference for the evaluation and approval of the definitive project for Lot 3 San Lorenzo Maggiore - Vitulano of the project to lay double tracks on the Frasso Telesino - Vitulano section.

Investments in railway transport

Trenitalia S.p.A. invested €798 million in railway transport, with 18% of these investments directed towards the purchase of rolling stock, 16% to recondition material already used in operation, 20% to technologically update vehicles, for IT systems and to maintain and develop maintenance plants and the remaining 46% for routine maintenance.

The main investments are described below by business segment:

- Long-Haul Passenger Transport (€266 million): the last *Frecciarossa* 1000 high-speed train was delivered during the year, taking the fleet to a total of 50 trains (49 in operation and one used for experimentation). Advances of €32 million were made for the purchase of new material to be used as part of the overall upgrade of the long-haul service. Revamping activities on the ETR500 fleet involved works to improve on-board comfort and the upgrade of the fire system (€26 million), with 11 trains fitted with an automatic fire detection and sprinkler system. Works on plants involved the identification of a new work plan which includes the upgrade and outfitting of the new Turin shunting maintenance system (€4.5 million), the reorganisation and expansion of the Milan Martesana and Naples shunting maintenance systems (€7 million) for the maintenance and deposit of the ETR1000 and ETR500 trains and the increase in the maintenance capacity at Rome San Lorenzo (€1.6 million). Moreover, works continued to improve the energy efficiency of the Rome San Lorenzo, Naples and Milan Martesana green facilities (€3 million). ICT activities mainly relate to sales systems, revenue management systems and the CRM (Customer Relationship Management) platform for approximately €20 million.

Around €134 million was allocated to routine maintenance of rolling stock in the year.

- Universal long-haul passenger transport service (€122 million): the investments mainly consisted of making 26 Z1 towed carriages semi-automated (approximately €21 million), the reconditioning of technological systems and the internal layout of 31 Intercity carriages (approximately €13 million) and the upgrade of 20 E402A locomotives (approximately €21 million).

Routine maintenance work carried out approximated €60 million.

- Regional passenger transport (€330 million): as part of the upgrade of the regional transport fleet, 11 *Jazz* trains were delivered (€60 million) and advances made for the purchase of high-capacity electric trains (€15 million). Four medium-haul carriages (€0.7 million) and 49 commuter trains (€3 million) were put back into operation after receiving face lifts to increase comfort. Moreover, with a view to continually improving customer service, revamping and restyling activities continued for the Minuetto and Vivalto fleets to improve travel comfort and to fully comply with environmental and safety regulations (€36 million). The investments in ICT of €12 million mainly related to the purchase of additional self-service ticketing machines and the development of sales systems for regional transport to meet the requirements of the market and customers.

Around €174 million was allocated to routine maintenance of rolling stock in the year.

- Technical Department: Investments in plant (approximately €23 million) mainly related to the upgrade of OMCs (ordinary maintenance workshops) at Verona and Vicenza and the preparation of new offices in the Romito area of Florence. The main developments in the IT area (€11 million) related to innovative tools (the Dynamic Maintenance Management System - DMMS) to make the planning and scheduling process for the maintenance of rolling stock more efficient based on predictions.

- IT investments in various business segments include:

- a series of initiatives which is underway 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 €17 million);

- investments which continue for the adjustment, change and development of management control systems to measure the effects of new projects and to facilitate management decisions (roughly €4 million);
- investments in sales systems, including for foreign markets (€8 million).

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

NEW MATERIAL	no. of vehicles	RECONDITIONED MATERIAL	no. of vehicles
Locomotives		Locomotives	20
Long-Haul Passenger Transport	-	Long-Haul Passenger Transport	20
Regional	-	Regional	-
Carriages		Carriages	61
Long-Haul Passenger Transport	-	Long-Haul Passenger Transport	-
Regional: double decker	-	ES City	-
		InterCity (Universal service)	31
		Semi-automated Z1 tows	26
		Regional	
		Double decker	-
		Medium haul	4
		Low floor	-
		Freight: Carriages	
Trains	12	Trains	60
Long-Haul Passenger Transport		Long-Haul Passenger Transport	
<i>Frecciarossa</i> ETR 1000	1	<i>Frecciarossa</i> ETR 500	11
Regional		Regional	
Jazz	11	Commuter trains	49
Swing trains	-	Minuetto trains	-
Flirt trains	-		

Investments in road transport

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

- 66 LPT buses in Veneto;
- 23 LPT buses in Campania;
- 25 LPT buses and one coach in Tuscany;
- 69 LPT buses to ATAF Gestioni S.r.l.;
- 1 LPT buses to Busitalia Rail Service S.r.l.;

- 101 buses LPT buses and 6 buses for rental services in Umbria;
- 10 buses to Busitalia Simet S.p.A.;
- 193 LPT buses and ten trains as part of the concession in the DAV (Drechtsteden, Alblasserwaard en Vijfheerenlanden) area to Qbuzz BV.

Investments in freight transport and logistics

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

- Mercitalia Rail S.r.l.: completed the delivery of the 200 SHIMMNS carriages;
- Mercitalia Intermodal S.p.A.: completed the delivery of 49 bi-modular pocket wagons T3000e for the transport of mega semi-trailers, containers and swap bodies;
- Mercitalia Shunting & Terminal S.r.l.: delivered five new D774-1 shunting locomotives.

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 routine and non-routine maintenance of the national railway network and safety, security and railway traffic activities.

Government Programme Contract – Investments (GPC-I)

The approval process for the new GPC-I 2017-2021 continued in 2018 with the Court of Auditors completing their check of the legitimacy of the opinion expressed by the CIPE, with Resolution no. 66 of 7 August 2017 published in the Official Journal on 10 April 2018.

Subsequently, an outline of the Government Programme Contract 2017-2021 – Investments, updated in light of the recommendations of the above-mentioned Resolution no. 66/2017 and the observations of the Court of Auditors at the time of its filing, was forwarded by the Italian Ministry of Infrastructure and Transport (MIT) to the Italian Parliament on 5 September 2018 for the opinion of the relevant Commissions, pursuant to Law no. 238/1993. Considering the opinions of the parliamentary commissions, MIT and RFI S.p.A. signed the Government Programme Contract 2017-2021 - Investments, on 28 January 2019 and 20 December 2018 respectively, adding specific notes to the works subject to the conditions and observations of such commissions. The contract was approved by MIT/MEF (Ministry of the Economy and Finance) in March 2019. The process will be completed with the filing by the Court of Auditors. Until such time, the current Government Programme Contract 2012 - 2016 - Investments will remain in force, pursuant to article 3.1 "Term and updates".

On 22 February 2018, the CIPE approved the second addendum to the operating plan for the 2014-2020 Development and Cohesion Plan (resolution no. 12/2018), allocating additional resources totalling roughly €100 million to railway investments. Decree law no. 119 (the "Tax decree") was issued on 23 October, containing "Emergency tax and financial measures" (converted into Law no. 136 of 17 December 2018), which authorised the expenditure of €600 million for 2018

to finance the Government Programme Contract 2017 - 2021 - Investments. Law no. 145 "Government budget for 2019 and long-term budget for 2019-2021" (i.e., the 2019 Budget Act) was issued on 30 December 2018, which contains additional measures.

Government Programme Contract – Services (GPC-S)

The 2016-2021 GPC-S approval process was completed in 2017, 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.

The financial resources included in the Government Programme Contract - Services (GPC-S) and Investments (GPC-I) approximate €72.6 billion, including the additional €13 billion allocated by the GPC-I 2017-2021 currently being finalised, form the basis for the detailed planning of the works already commenced/financed, which are expected to give the greatest returns in the short-term in terms of performance gains, the compliance and safety level of infrastructure, improvements in service quality and the development of traffic volumes.

Institutional Development Contracts (IDC)

The Coordination Committees pursuant to article 6 of the Institutional Development Contracts for the "Naples-Bari Lecce/Taranto", "Messina-Catania-Palermo" and "Salerno-Reggio Calabria" railway lines met on 12 March, during which the amendment to the financial framework of the IDCs was acknowledged and the Implementation and monitoring committee appointed to reformulate their updating. In light of the various new monitoring for works, the new framework was prepared, and forms "Annex 1" to the Contract, in which the "Naples-Bari" macro infrastructure was divided into: Naples hub, Naples-Bari, Bari hub, Bari-Lecce, Bari-Taranto and Foggia-Potenza.

Group projects/transfers of public funds relating to 2018

millions of Euros

	RFI	Ferrovie dello Stato	Trenitalia	Grandi Stazioni	Mercitalia Logistics	Mercitalia Rail	Mercitalia Intermodal (formerly Cemat)	Busitalia group	Total
Grants related to income									
Government Programme Contract	1,015.6								1,015.6
Other government grants					1.9	4.3	4.2		10.4
EU grants			1.3						1.3
From local public bodies								25.5	25.5
Sundry grants from others					0.2		2.7		2.9
Grants related to assets									
Governments grants	2,148.1	87.8		34.9					2,270.8
From local public bodies			7.9						7.9
From the EU	7.2								7.2
Total	3,170.9	87.8	9.2	34.9	2.1	4.3	6.9	25.5	3,341.6

Research, development and innovation

Development activities

The group's development activities generated investments of €27.2 million, incurred entirely by RFI S.p.A., with 80% in traffic safety technologies, 15% in studies and testing on new components and systems, while the remaining 5% was directed to other projects.

A summary of the main activities carried out in 2018 follows:

- customisation of the National Alert System for the prediction of the risk of landslides due to intense weather events along the railway network (SANF-RFI);
- activities carried out in conjunction with POLIMI (Politecnico Milano) on the static and dynamic performance of the brake shoes used, the development of an anti-derailment system that blocks the wheel only on stationary vehicles, and the evaluation using DB Tunnel calculation code of the changes in pressure generated by the trains passing through the tunnels at different speeds;
- piloting of the new ecoballast® material, a by-product of high quality steel processing, as gravel in railway embankments; preliminary operations began for the development of the test site on a section of the Treviso-Portogruaro line;
- design and construction of prototypes of devices to widen the tracks for very long welded rail near static bridges;
- piloting of a train equipped for the removal and vacuuming of dirt and high-pressure water washing of railway tunnels, without interfering with the electrical traction;
- antifreeze systems of the overhead line with overlapping heating unit, direct power from the overhead line and automatic activation only when needed or in the case of extreme ice events.

In the area of railway infrastructure, an ultralight autonomous vehicle has been developed to check the railway substructure when tracks are closed. It has innovative sensors, an artificial vision system and an autonomy range of up to 20 km, so obstacles and anomalies can be identified on the railway line, with realtime processing of information and triggering of alarms.

Road transport also targets increasingly high quality standards, with a view to innovation and sustainability. FleetBoard is the innovative tool used to improve control and management of the fleet and it has been installed on all new buses to optimise maintenance plans and reduce the need for assistance on the routes.

Research

Various application contracts under master agreements were agreed in 2018 for research in the fields of embedded systems, software engineering for railway applications, mechanical and diagnostics and electrical traction solutions and, in the field of IT and electronics, with the inter-university consortium CINI, involving 24 of the most distinguished Computer Engineering Departments of Italy's premier universities for a five-year period. The research activities covered by the master agreements mean the innovation and safety upgrade requirements can be identified and conveyed to technological partners and suppliers, and the technological upgrade processes within RFI S.p.A. can take shape, with positive flow-ons of acquiring skills within the company and the possibility of future patents for technological equipment and devices.

RFI S.p.A. also takes part in the Tesys Rail research and development project funded by the Ministry of Education, Universities and Research (MIUR) aimed at reducing the environmental impact of the railway system, both in terms of the vehicle and the infrastructure, and proposing improvements to the interconnected operating and management systems, as well as upgrading vehicle parts. RFI S.p.A. also takes part in several international research projects on various issues,

such as the development of digital standards, more efficient infrastructure diagnostics, and the satellite observation of infrastructure.

Innovation

FS Italiane group began rolling out an innovation process across its companies in 2017. In 2018, the innovation processes and activities were consolidated and targeted towards the group's objectives and, particularly, the pivotal role of the customer at the heart of a system striving for excellence in operating and industrial processes, the basis for an ever-improving quality of services, logistics and infrastructure efficiency.

To help innovation become a systemic process, various meetings were organised in 2018, including with foreign group companies, in order to identify possibilities of working together on innovative topics.

An international workshop - *Brainstorming and Data Lake* - was held in February 2018, involving 13 FS Italiane group companies which piloted robotic applications for welcoming, engagement and support activities. The *Innovate* project, a corporate entrepreneurship programme involving all group companies, was launched in April 2018. Participants generated over 1,000 concepts and the best ten of these were then developed by intercompany and interdisciplinary work groups, supported by mentors from within and external to the group. During the final event, three projects - focussed on security using the Internet of Things (IoT) technologies, the enrichment of the travel experience and the enhancement of stations - were awarded prizes.

A systemic, structured and repeatable model does not exist if not in relation with the external environment. To this end, the group's partnerships with leading universities and research bodies in scouting for start-ups, digitalisation and the piloting of innovative technologies such as drones and IoT have proved strategic.

Worthy of note are the "Treno Verde" (Green train) initiative launched in collaboration with Legambiente (an Italian environmental association) to educate people on how to build an environmentally-aware society, and the Greenhub project for the piloting of highly-visible multifunctional areas that produce their own energy in the railway stations, in order to improve the user experience with no impact on the environment. The first pilot took place at the Rapallo station.

Context and focus on FS Italiane group

Macroeconomic context

The trend of the international economy in 2018 was one of slowdown and inconsistent growth in some advanced economies. Fears of a more imminent economic downturn were heightened towards the end of the year by events such as Brexit, the trade war between the US and China and the fall in oil prices. Prometeia's most recent forecasts show world GDP growing at the same rate as in the previous year (+3.7%), while world trade plateaued after an uptick in 2017, as a result of the intensification of protectionist measures. The Brent oil price rose gradually over 2018 to over USD80 a barrel.

International trade data	2018	2017
GDP (% change on previous year)		
World	3.7	3.7
Advanced countries	2.1	2.3
US	2.9	2.2
Japan	0.7	1.9
Eurozone	1.9	2.5
Emerging countries	4.6	4.6
China	6.6	6.8
India	7.8	6.4
Latin America	0.9	1.0
International trade	4.1	4.8
Oil (USD per barrel)		
Brent	72.0	54.9

Source: Prometeia, December 2018

Global growth forecasts suggest a further slowdown (+3.3% in 2019 compared to +3.7% in 2018), to then substantially plateau in the subsequent two years, while the softening of global demand and the impact of tariffs is expected to result in international trade remaining at modest levels.

Of the advanced economies, that of the United States has continued to show strong growth spread evenly across all components of demand. Boosted by tax reform and increased public spending, the US economy posted its best results of the last ten years in terms of GDP growth (+2.9%). Household consumption trends benefited from the rise in employment (+3.9%) and an acceleration in salary growth to maintain an annual average rate of 3%.

The Japanese economy contracted, with a generalised decline in the key economic indicators, which were heavily affected by the disastrous earthquake in Osaka and summer flooding. The decrease in GDP from 1.9% in 2017 to 0.7% in 2018 and the low inflation (+1%), well under the official 2% target, supports the continuation of an expansionary monetary policy.

Overall, the growth rate of the industrialised countries was 2.1% compared to 2.3% in the previous year.

In the emerging economies, growth was impacted by the rise in interest rates, uncertainty about trade policies and the faltering of the strong growth recorded by the Chinese economy in previous years. However, economic growth strengthened in India on the back of domestic demand secured by massive public spending, and remained nonetheless buoyant in China where, although GDP slowed slightly compared to the previous year (6.6% in 2018 compared to 6.8% in 2017), it remained in line with the targets set by government authorities thanks to robust consumption and expansionary policies to stabilise growth. The Russian economy strengthened, reflecting the increases in oil prices and the growth in domestic demand. After the negative impacts of the transporters' strike and political uncertainty, the Brazilian economy showed signs of a recovery towards year end, with growth in GDP (+1.2%) in line with that of the previous year, propped up by consumption, improvements in the labour market and an accommodating monetary policy, despite the persistently low inflation levels.

Eurozone economic data	2018	2017
GDP (% change on previous year)		
Eurozone	1.9	2.5
Germany	1.5	2.5
France	1.5	0.3
Italy	0.9	1.6
Spain	2.5	3.0
Inflation (% change on previous year)		
Eurozone	1.7	1.5
Germany	1.8	1.7
France	2.1	1.2
Italy	1.2	1.2
Spain	1.8	2.0

Source: Prometeia, December 2018

The rate of economic growth in the Eurozone softened more than expected. While on the one hand the 1.9% GDP was supported by domestic demand, it was affected by the sharp slowdown in world trade on the other, which impacted the foreign component of demand.

Despite the decline in economic growth, the labour market situation continued to improve in 2018, with the unemployment rate dropping to 8.0%. The increase in oil prices drove an increase in inflation, which averaged 1.7% based on the harmonised index of consumer prices, while underlying inflation, which does not consider the prices of energy and foodstuffs, remained somewhat subdued.

Due to the drop in car production, German GDP declined compared to 2017, posting 1.5% growth, mainly as a result of consumption and domestic demand. The French economy (+1.5%) was impacted by both weak domestic demand and the negative impact of the recent protests across the country. Spain was again the most buoyant of the Eurozone economies in 2018, continuing its growth trend (+2.5%), although there are signs its growth may be slowing.

The dampening of the growth drivers of 2017 (international economic growth, low oil prices and an expansionary monetary policy) chipped away at the growth of the Italian economy in 2018, which was particularly hard hit by the slowdown in world trade.

Italian economic data	2018			
	Q1	Q2	Q3	Q4
GDP (% change on previous quarter)	0.3	0.2	(0.1)	0.1
Domestic demand	0.9	0.7	(0.2)	0.1
Spending by households and private not-for-profits	0.4		(0.1)	0.1
Public administration spending		0.2		0.1
Gross fixed investments	(0.8)	2.8	(1.1)	0.7
Construction	0.1	0.7	0.5	0.4
Other durable goods	(1.4)	4.5	(2.2)	1.0
Imports of goods and services	(2.6)	2.4	0.8	1.2
Exports of goods and services	(2.3)	0.6	1.1	1.2

Source: Prometeia, December 2018

The increase in gross domestic product led to a 0.3% growth in the first quarter, driven by domestic demand, with a slightly lower +0.2% recorded in the second quarter, reflecting the slowdown in industrial production. The economy continued to soften during the summer months, resulting in an albeit slight 0.1% contraction in GDP in an external context impacted by protectionist pressures, uncertainties as to the effects of the UK leaving the EU and the rise in oil prices. This slowdown was mainly due to the contraction in domestic demand, against a slight uptick in exports. The economic context did not improve in the final months of the year although the gradual normalisation of the automotive sector contributed - according to the most recent estimates - to a modest recovery of economic growth in the fourth quarter (+0.1%). Considering the economic trends, GDP is predicted to grow by 0.9% thanks to the resilient domestic demand and investment spending, despite the negative effect of net foreign demand.

The weakness of the phase of the cycle and the effects of the slowdown in energy commodity prices in the final months of the year contributed to the low inflationary pressure: consumer prices grew by an average of 1.2% p.a. and underlying inflation (net of energy commodities and fresh foodstuffs) was +0.7%. The employment rate was positive, with a 0.4% year-on-year growth, equal to 99 thousand new jobs (ISTAT, the national statistics institute, November 2018) and an unemployment rate which decreased to 10.5%.

The most likely scenario for 2019 is for the economic growth to continue at the same pace as the last few quarters, with an estimated GDP of 0.5%.

Market performance and focus on FS Italiane group

Market performance

The uncertain trend of Italy's economy also impacted the transport system in 2018, in both the freight and passenger segments.

Figures for the various modes of freight traffic transport were impacted by the weakness of the domestic industrial production (+1.2%) and world trade. Indeed, the air segment posted a decrease of 0.5% in the first eleven months of the year, bringing to an end the growth of the last five years. Milan Malpensa airport nonetheless remains the number one hub, accounting for around 50% of domestic freight tonnes handled. The pace of growth in sea transport was also down on that of the previous year, impacted by the softening of the economy. Figures for containers handled at the Genoa port, which was impacted by the collapse of the Morandi bridge, show a decrease of 0.9% in the January to November period, with the La Spezia port recording a 1.2% increase in the first half of the year. Freight traffic by road was the least affected by the economic situation, maintaining a positive trend of +2.5%, corresponding to 14.7 billion heavy vehicle-km in the January to September 2018 period. For the fifth consecutive year, logistics turnover grew, recording a 0.6% increase over the previous year (Source: Milan Politecnico School of Management).

In the area of passenger transport, air transport grew in 2018 while the other modes were more uncertain. Passenger numbers at the 38 Italian airports monitored by Assaeroporti (the Italian airports association) approximated 173 million in the January to November period, corresponding to a year-on-year increase of 5.7%. This growth was largely due to international traffic, both within the European Union (+5.4%) and outside of the EU (+7.1%), compared to a 3.1% growth in the domestic segment. The top airport by passenger volumes was Rome Fiumicino with 40 million passengers, followed by Milan Malpensa with 23 million. In the area of road transport, light vehicle on toll domain motorway traffic recorded a generalised 0.1% decrease in the January to September period compared to the corresponding period of the previous year. Conversely, the trend of sea transport for cruises was positive, with an 8.6% growth in the number of passengers at Italian ports (embarkations, disembarkations and transits). The top port by passenger volumes was Civitavecchia, with roughly 2.4 million passengers, followed by Venice, with 1.4 million.

The car market declined, and continues to be dampened by the effects of the ecotaxes included in the 2019 Stability law. Various factors have resulted in a fluctuating market trend, leading to uncertainties as to which fuel to choose for new cars, for example with the introduction of the new WLTP in the EU for consumption and emissions, and the traffic bans in some cities. In this context, new registrations dropped by 3.1% year on year in 2018.

Focus on the management of domestic railway infrastructure

In its new configuration, FS Italiane group manages approximately 44 thousand km of infrastructure network, including rail and road. The national railway infrastructure managed by FS Italiane group companies in Italy and abroad approximated 17,555 km. Of this, 16,781 km are railway lines managed by RFI S.p.A., with a granular distribution throughout Italy. Based on the classification used to calculate the railway network use fee, the network is comprised as follows:

- fundamental lines with high traffic density, covering 6,469 km;
- complementary lines, which make up a dense network of regional connections and interconnections with the main lines, covering a total distance of 9,360 km;
- hub lines, which are located in major metropolitan areas for a total distance of 952 km.

Of these lines, double tracks account for 7,721 km (46% of the total), while 12,018 km (71.6%) is electrified.

The total track length is 24,502 km, including 1,467 km of HS/HC network lines.

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

LENGTH OF THE RAILWAY NETWORK MANAGED BY RFI (KM)

2018	2017
16,781	16,787

TOTAL LENGTH OF THE TRACKS MANAGED BY RFI (KM)

2018	2017
24,502	24,483

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

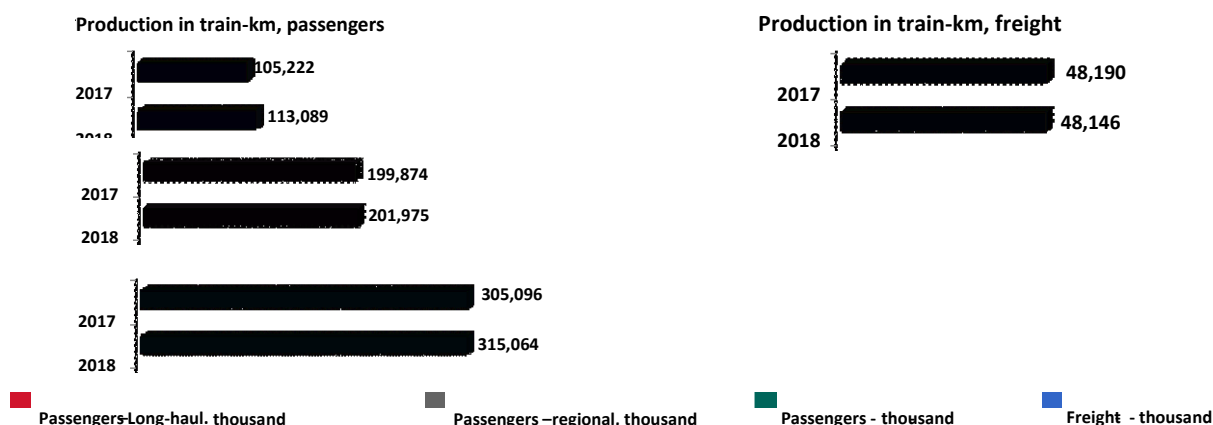
- 14 for freight transport alone;
- 8 for passenger transport alone;
- 10 with a licence for both passenger and freight transport.

Total production in 2018 on the network operated by RFI S.p.A. approximated €364 million train-km, equal to an increase of around 3% over the previous year. The service volumes of newcomers (non-FS Italiane group railway companies) also increased in the year by roughly 9% in the passenger segment - the deregulation of which was finalised near year end with the implementation of Directive (EU) 2016/2370 - and by 6% in the freight segment.

In addition to the network operated by RFI S.p.A., FS Italiane group ensures the efficiency and performance of 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 (113 km), Mungivacca-Putignano (44 km), Martina Franca-Lecce (103 km), Novoli-Garigliano (75 km), Casarano-Gallipoli (23 km), Lecce-Gallipoli (53 km), Zollino-Garigliano (47 km) and Maglie-Otranto (19 km), offering approximately 3 million train-km per year.

Netinera Deutschland GmbH and its subsidiaries, the main foreign group controlled by FS Italiane S.p.A., manages lines of roughly 300 km, with 60 passenger stations. 2018 production totalled roughly 39 million train-km.



As mentioned previously, as well as the railway infrastructure, FS Italiane group also manages approximately 29,000 km of main roads and 1,300 km of motorways, including roughly 1,300 tunnels and 11,000 bridges, through its subsidiary Anas S.p.A.. In 2018, the index of road traffic on the main Anas network decreased by 1.2% on the previous year, as observed by the centralised monitoring system, PANAMA (Anas' monitoring and analysis platform), while the decrease for heavy vehicles was more limited (-0.2% on 2017).

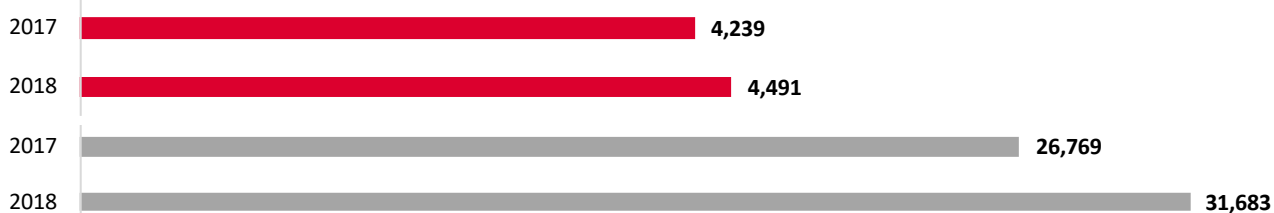
Focus on the group's passenger and freight traffic

FS Italiane group is one of the major Italian and European industrial groups in the transport segment. Thanks to the dedication of all its operating companies, it again consolidated its competitive and leading position, responding to mobility requirements with increasingly efficient and high-quality services, both in the passenger transport (HS and regional) and in the freight and logistics segments.

Although economic growth rates are slowing, the group's overall passenger traffic increased thanks to the contribution of Trenitalia S.p.A. domestically, and of the subsidiaries operating in the United Kingdom, Greece, France and Germany abroad.

Specifically, long-haul transport posted a significant 3.9% growth, due both to the universal services (+5.9%), where foreign growth was particularly strong, and market services (+3.4%). Within market services, the Freccie services of Trenitalia S.p.A. performed strongly in terms of passenger numbers and train-km, partly as a result of the expanded offer in the morning and evening, as well as the increase in the total number of cities served. The Freccie brand segment as a whole posted production volumes of approximately 62 million train-km (+5% approximately on the previous year), corresponding to traffic volumes of approximately 16.8 billion passenger-km (+3.2% on the previous year). The response to long-haul services is increasingly positive, with peaks of 95.1% for the Frecciarossa alone and these scores are the result of Trenitalia S.p.A.'s increasingly customer-centred sales policy, offering promotions, partnerships and new onboard catering services.

Long-haul transport traffic - universal service



Long-haul transport traffic - market services



■ Passenger km -millions ■ Train km -thousands

The figures include the group subsidiaries' traffic abroad.

Regional railway transport also posted an overall increase in traffic volumes of 1.3%, in passenger-km, and a 1.2% increase or approximately 210 million train-km. The upgrade of Trenitalia S.p.A.'s regional fleet continued in 2018, with the delivery of new Pop and Rock trains which will commence service in spring of 2019. These new trains will drive a steady increase in quality standards as measured by the main performance indicators (punctuality, regularity and available seats) and will provide customers with the latest onboard technologies, such as people counters, live video surveillance and wi-fi. Trenitalia S.p.A. transported 1.42 million passengers daily in 2018, a 3.5% increase on the previous year.

Short-haul transport

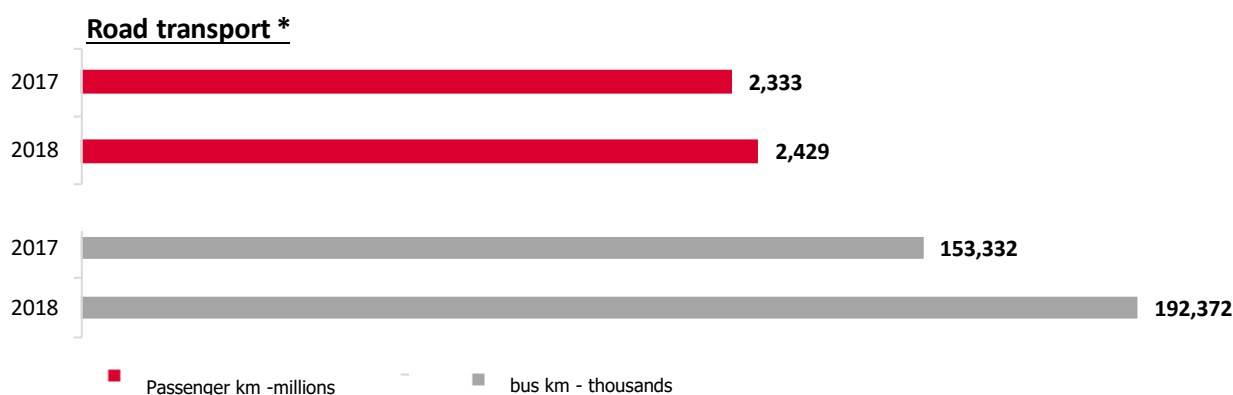


■ Passenger km -millions ■ Train km -thousands

Where necessary, figures have been restated to take into account the consolidation of the comparative information.

In the non-rail local public transport segment, FS Italiana group continues its commitment to integrating its traditional rail businesses with those of road transport in Italy and abroad. Through its subsidiary Busitalia - Sita Nord S.r.l. and the

latter's subsidiaries located in various national catchment basins in Veneto, Tuscany, Umbria and Campania, and abroad with Qbuzz BV, in addition to urban and suburban local transport services, FS Italiane group carries out train replacement services, long-haul transport (market) services and waterway (lake) services.



Where necessary, figures have been restated to take into account the consolidation of the comparative information.
 (*) passenger-km do not include the traffic volumes of the subsidiary Qbuzz BV, which such company does not monitor.

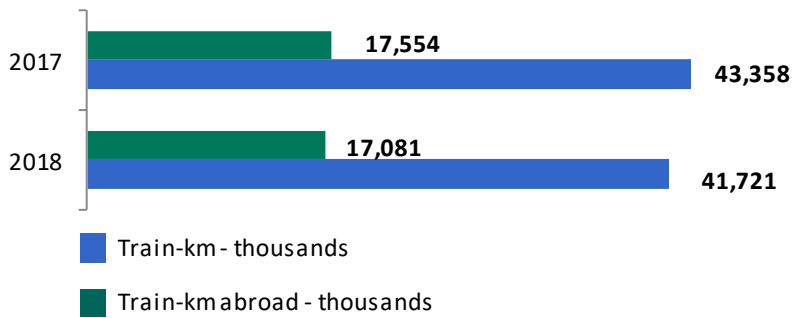
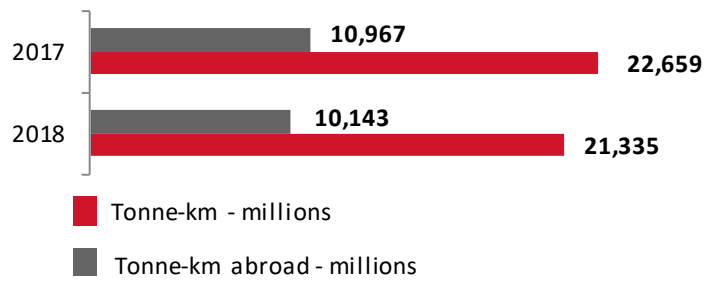
As well as Busitalia group, the local public transport services operated by FS Italiane group include those provided by Ferrovie Sud Est e Servizi Automobilistici S.r.l. in Puglia and Netinera group in Germany to complement their rail services. The volumes of such services totalled 193 million bus-km.

The development and expansion of freight transport by rail is a priority for FS Italiane group. The creation of the Mercitalia freight and logistics hub enabled the optimisation of services by offering customers a single interface and to take a more significant position on the market. Significant investments, such as those in new interoperable electric trains enabled the improvement and upgrade of freight transport services by rail in Italy, on the trans-alpine corridors and in the main European countries, with freight trains that have a greater load capacity than the current trains. The innovative Mercitalia Fast service was also rolled out towards the end of the year, allowing freight to travel on the HS network, offering a 3.5-hour connection between the Mercitalia terminal at Maddaloni-Marcianise (Casterta), a major logistics platforms in Southern Italy, with the Bologna interport, which is one of the most important logistics hubs in Northern Italy.

Traffic figures have decreased significantly both domestically and abroad as a result of the uncertainties and difficulties in the manufacturing sectors and the Italian economy. The losses of the hub companies in 2018 and the differences with respect to budget figures are to some extent due to completely occasional factors which, as such, will not have an impact on the outlook for the future business performance (specifically, the prolonged and unexpected closure of important routes and strikes which brought railways operations to a halt in some of the major European countries, impacting international transport) and partly to external factors, such as the unfavourable economic context, in addition to the greater impact of typical structural risks on the hub's performance (delays in infrastructure investments to boost freight transport by rail, which are likely to last for a long time), which affects the risk/reward profile of the business.

Conversely, the average annual load of slightly above 500 tonnes per train was unchanged.

Freight transport*



Where necessary, figures have been restated to take into account the consolidation of the comparative information.
(*). Includes foreign traffic data.

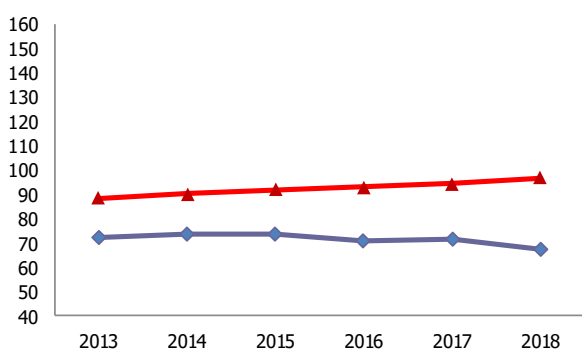
Traffic of main European railway companies

The economic slowdown in Europe has also impacted the demand for rail transport. Based on provisional figures available at the date this report was prepared, growth has slowed in passenger and freight rail transport.

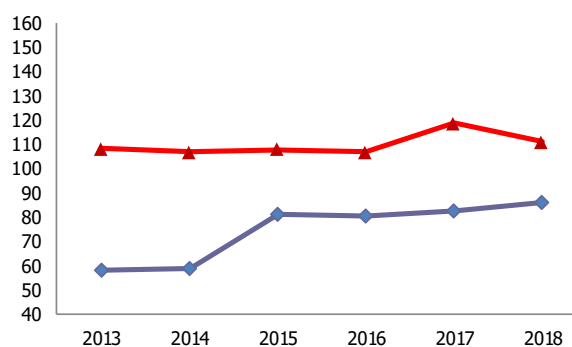
Specifically, demand for mobility in the passenger segment grew by 0.3% in Europe in terms of passenger-km. Of the major railway companies, the German DB AG stood out with 3.3% growth, followed by the Spanish Renfe SA with an approximate 3% increase in traffic volumes, while the French SNCF posted a 5% decrease.

Traffic volumes of the freight segment were in line with those of 2017 despite the notable drop in European industrial production figures (-3.3%). Of the major railway companies, negative traffic trends of -6% and -5% in terms of tonnes-km were posted by the German DB AG and the Spanish Renfe SA, respectively, while traffic volumes of the French SNCF grew (+4%).

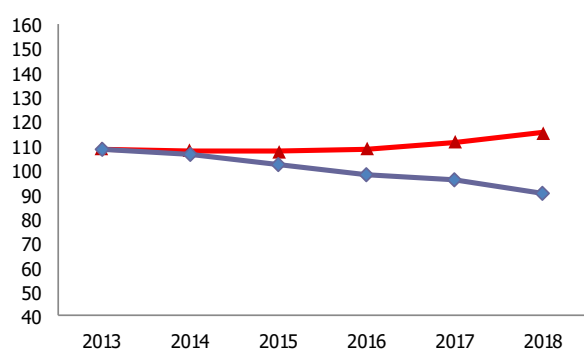
FS ITALIANE GROUP



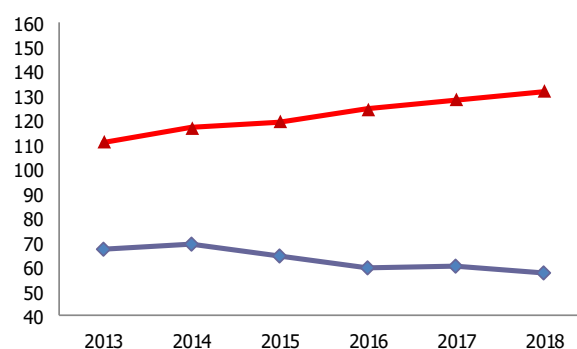
SNCF



DBAG



RENFE



▲ Passenger km
 ◆ Tonne km

Developments in European legislation

Developments in European legislation affecting the group are summarised below.

- **Multiannual Financial Framework post 2020.** On 14 February 2018, the European Commission filed a communication covering “a new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post 2020”. On 2 May 2018, the European Commission adopted the proposal for the Multiannual Financial Framework (MFF) which offers a programming timeline for the 2021-2027 period for the achievement of the EU’s political objectives. The Commission filed detailed proposals on future spending programmes in the sector and, specifically, on 6 June 2018, the regulation implementing the Connecting Europe Facility (CEF) was published which, inter alia, funds the railway and road infrastructure in the trans-European corridors and, specifically, finances the large cross-border infrastructure works. The Commission proposes an EU budget with funds of €1,279 billion for the 2021-2027 period.

The following aspects are noted in respect of the priorities of most interest to the rail and road sector:

- the funds for the Connecting Europe Facility transport, for the development of the Trans-European transport networks, totalled €30.5 billion (CEF transport for €12.8 billion, Cohesion funds for CEF transport for €11.2 billion and support of military mobility for €6.5 billion), an increase on the €24 billion of the previous year thanks to the support of military mobility for approximately €6.5 billion allocated in the new period;
- InvestEU funds (the successor to the current Juncker Plan) of €14.7 billion, expected to give a multiplier effect such to attract private investments amounting to €650 billion, 8% of which could go to transport;
- the €30 billion Erasmus+ programme includes €700 million for the Discover EU pass (formerly Interrail) for 18-year olds;
- the regulation establishing the working of the European regional development funds and Cohesion fund for the entirety of the Multiannual Financial Framework 2021-2027.

The European Parliament and Council are reading and voting on all legislative proposals that are integral to the Multiannual Financial Framework.

- **Deeds of the European Commission adopting the “technical pillar” of the Fourth Railway Package.** In regard of the adoption of the “technical pillar” of the Fourth Railway Package, the following should be noted:
 - on 16 February 2018, Delegated Regulation (EU) no. 761/2018 was published in the EU’s Official Journal, establishing common safety methods for supervision by national safety authorities after railway undertakings have been issued with a safety certificate and infrastructure operators issued with a safety authorisation;
 - on 8 March 2018, Delegated Regulation (EU) no. 762/2018 was published in the EU’s Official Journal, establishing common safety methods on safety management system requirements applicable to railway undertakings and infrastructure operators;
 - on 9 April 2018, Commission Implementing Regulation (EU) no. 763/2018 was published in the EU’s Official Journal, establishing practical arrangements for issuing single safety certificates to railway undertakings or for the renewal or update of such certificates via the one-stop procedure. It also establishes the practical arrangements that safety certification bodies shall apply in assessing the requests for single safety certificates or renewals or updates of such certificates, as well as for coordination with the national safety authorities concerned with the intended area of operation;

- on 2 May 2018, Commission Implementing Regulation (EU) no. 764/2018 was published in the EU's Official Journal, on the fees and charges payable to the European Union Agency for railways;
- the Commission Recommendation of 18 July 2018 on guidance for the harmonised implementation of the European Rail Traffic Management System in the Union.

- **Mobility Package III.** On 16 May 2018, the European Commission adopted the Mobility Package III. This third Mobility Package delivers on the new industrial policy strategy of September 2017 and completes the process initiated with the 2016 Low Emission Mobility Strategy and the previous Europe on the Move packages from May and November 2017. All these initiatives form a single set of consistent policies addressing the many interlinked facets of our mobility system. The package includes:

- a regulation establishing CO₂ emissions standards for new heavy-duty vehicles
- a Decision of the European Parliament and of the Council amending Directive 96/53/EC as regards the time limit for the implementation of the special rules regarding maximum length in case of cabs delivering improved aerodynamic performance, energy efficiency and safety performance;
- the Strategic Action Plan for the development of batteries which sets out a series of concrete measures to develop a "European ecosystem";
- the proposal for a Regulation no. 138/2018 (COD) on streamlining measures for advancing the realisation of the trans-European transport network;
- the amendment of Directive 2008/96/EC on road safety.

The EU's long-term objective is to continue to move as close as possible towards zero road deaths and serious injuries within 2050 ("Vision Zero"). The EU will pursue new medium-term objectives to cut the number of road victims by 50% between 2020 and 2030 and to reduce the number of serious injuries by 50% in the same period.

- **New Deal for Consumers.** The European Commission adopted the New deal for consumers on 11 April 2018, a package amending four directives protecting the economic interests of consumers and ensuring that relations between companies and consumers are fair and transparent. Specifically:
 - Directive 93/13/EEC on unfair terms in consumer contracts;
 - Directive 98/6/EC on consumer protection in the indication of the prices of products offered to consumers;
 - Directive 2005/29/EC concerning unfair business-to-consumer commercial practices in the internal market;
 - Directive 2011/83/EU on consumer rights.

The same package also adopts a further proposal for a Directive to replace Directive 2009/22/EC on injunctions for the protection of consumers' interests so as to improve the effectiveness of the injunction procedure and contribute to the elimination of the consequences of the infringements of Union Law which affect the collective interests of consumers.

- **Regulation on economic equilibrium.** On 21 November 2018, Regulation no. 1795/2018 on economic equilibrium pursuant to article 11 of Directive 2012/34/EU as amended by Directive 2016/2370/EU was published on the EU's Official Journal. The regulation lays down the criteria for the application by the competent authorities of the economic equilibrium test in public service contracts in relation to the entry of new railway operators.

- **Measures to help reduce the noise pollution produced by freight trains in Italy (Case SA 51229).** On 18 December 2018, the European Commission authorised the measure to help reduce the noise pollution produced by freight trains in Italy, provided for in to article 47.10/11 of Legislative decree no. 50/2017. The measure provides for the accrual of €20 million p.a. for a three-year period to be granted to railway operators and freight trains owners that retrofit their freight trains that circulate on the Italian railway network, starting from the effective date of the Ministerial decree implementing the measure.

Developments in Italian legislation

Developments in Italian legislation affecting the group are summarised below.

- **Legislative decree no. 232 of 13 December 2017, integrations and corrections to Legislative decree no. 169 of 4 August 2016, concerning port authorities.** The Decree is a further step in the regulatory initiatives aimed at achieving the strategic objectives of the reform of port activities. The main initiatives include, in particular: the introduction of rules which simplify port activities planning; the reference to the port's workforce plan, with the reform of port work; the reference to the rules on the impossibility of holding positions in public administrations and private bodies under the control of the government; the introduction, under certain conditions, of the possibility to approve local changes to the current port development plans.
- **MIT decree no. 585 of 21 December 2017, implementing simplification procedures when the authority for the international carriage of dangerous goods by railway and other modes of transport, intends to delegate certain of its specific functions to the competent authorities.** The Decree sets out the rules for the competent authorities to approve packaging for the international carriage of dangerous goods by road, sea and rail, pursuant to applicable international agreements. Specifically, it sets out how to approve and check packaging, large packages, intermediate bulk containers, portable tanks and multiple elements gas containers, as per the definitions of the Agreements for the international carriage of dangerous goods by road (ADR), by rail (RID) and inland waterways (ADN) and the International maritime dangerous goods (IMDG) code. Finally, it sets out that the Commissions certifying the experts operating under the above agreements (ADR, RID ADN) and those with the same role under the IMDG code, shall mandatorily use the accreditation system based on the En/Iso/Cei 17020:2012 standard.
- **MIT decree no. 49 of 7 March 2018, implementing the regulation to approve the guidelines for the role of project managers and managers for the performance of service or supply contracts.** The Decree implements article 111 (technical, accounting and administrative checks) of Legislative decree no. 50/2016 (the Contracting code). Based on this article, it identifies the procedures and the type of actions the project managers use for the purposes of technical, accounting and administrative checks over the performance of works, in order to ensure that works are performed correctly and in compliance with the project and the contract. The Decree also sets out how to perform compliance checks during the final execution stage and the related timeframe; when the manager for the performance of contracts may be entrusted with compliance checks; rules for appointment, incompatibilities and the specific tasks of said

manager; the criteria under which, in the event of total or partial halt of the works ordered by the contracting station, the contractor can claim compensation for the damage suffered.

- **Decree of the Prime Minister no. 76 of 10 May 2018, regulation implementing the performance methods, types and thresholds of works under public debate.** The Decree governs public debate, as a tool to involve citizens and local bodies in the decision-making process for the performance of works in implementation of article 22 of the Public contracting code (2016). According to the Decree, the debate shall be held during the initial stage of the design of works, based on the content of the feasibility project or the feasibility document on project alternatives, in order to launch public information, participation and discussion of the opportunities, work project solutions, projects or other measures covered by Annex 1 of the above code. Indeed, the latter code identifies the works for which public debate is mandatory:
 - motorways and roads outside urban areas over 15 km long and worth more than €500 million;
 - railway sections over 30 km long and worth more than €500 million;
 - airport terminal works worth more than €200 million;
 - port works worth more than €200 million;
 - interports for freight transport and intermodality, including a railway yard where trains can be prepared or received worth more than €300 million;
 - plants, industrial settlements and energy infrastructures worth more than €300 million.

The Decree came into force on 24 August 2018.

- **Legislative decree no. 51 of 18 May 2018, implementing Directive 680/2016/EU on the protection of natural persons with regard to the processing of personal data by competent authorities for the purposes of the prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and on the free movement of such data, and repealing Council Framework Decision 2008/977/JHA.** The Decree, implementing article 13 of European delegation law 2016-2017 (Law no. 163 of 25 October 2017), governs Italy's legislation compliance with the European regulation on the protection of natural persons with regard to the processing of personal data, and the free movement of such data, starting from 25 May 2018.
- **Legislative decree no. 65 of 18 May 2018, implementing measures for a high common level of network and information security within the Union.** The decree implements Directive 1148/2016/EU (the NIS - Network and Information Security directive) on security of network and information systems within the Union, in accordance with Delegation law 2016/2017 (Law no. 163/2017). In order to ensure the continuity of basic (energy, transport, health, finance, etc.) and digital services (search engines, cloud services and e-commerce platforms), the Decree provides for the adoption of technical/organisational measures to minimise risk and limit the impact of cyber incidents and the obligation to report incidents with a significant impact on the provision of services.
- **Legislative decree no. 62 of 21 May 2018, implementing Directive 2302/2015/EU of the European Parliament and of the Council of 25 November 2015 on package travel and linked travel arrangements, amending Regulation 2006/2004/EC and Directive 83/2011/EU of the European Parliament and of the Council and repealing Council Directive 314/90/EEC.** The Decree, which has fully replaced Chapter I of Title VI of the code for tourism since 1 July 2018, amends the consumer code, bringing the references to the code for tourism into

line with the implementation of Directive 2302/2015 and identifies the provisions of the consumer code to be applied to package travel.

- **Law no. 64 of 31 May 2018, converting Law decree no. 30 of 10 April 2018 into law, implementing urgent measures to ensure the continuity of the Italian regulatory authority for energy, networks and environment (ARERA).** The Decree extended the term of office of the members of the regulatory authority to the extent of ordinary administration and those urgent acts that could not be postponed, until the appointment of the new members, no later than the ninetieth day after the swearing of the new government formed after the date the Decree came into force and no later than 30 September 2018. The regulatory authority reports to Parliament approximately every 45 days on ordinary administration and those acts that were urgent and could not be postponed, which were adopted during the extension period.
- **Law no. 96 of 9 August 2018, converting into law, with amendments, Law decree no. 87 of 12 July 2018, implementing urgent measures for the dignity of workers and companies.** The measure, as far as the group is concerned:
 - limits the possibility of signing fixed-term employment contracts, reducing their maximum term to 12 months or, under specific circumstances, 24 months;
 - introduces a 50% contribution exemption for open-ended contracts for workers under 35 years of age, hired in 2019 and 2020;
 - limits the possibility of agreeing temporary work contracts to the equivalent of 30% of the employees with open-ended contract on 1 January of the year in which the temporary employee was hired, introducing the crime of fraudulent contracts;
 - subordinates the application of hyper amortisation for tax purposes to the condition that the process for the digital and technological transformation of companies, which underpins the benefit, relates to production structures located in Italy, including permanent establishments of non-residents. Consequently, the "territoriality principle" applies, whereby the assets subject to the benefit are allocated to production structures located in Italy, and the tax benefit obtained is returned in the case of sale against consideration or allocation of the assets abroad.
- **Legislative decree no. 101 of 10 August 2018, measures to bring Italian legislation into line with Regulation 2016/679/EU of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).** Starting from 25 May 2018, the date on which the European legislation became effective, the Data protection code pursuant to Law decree no. 196 of 30 June 2003 was repealed. The new provisions on personal data protection are mainly those set out in the above regulation, which apply immediately. The Regulation introduces, inter alia, the obligation to maintain a record of processing activities which states the purposes of the processing (e.g., transactions with Italian bodies/institutions), the categories of personal data (e.g., names, telephones, emails, etc. of the third party in relation to the organisation), the characteristics of processing (data subjects, type of processing, functions involved in processing etc.), information and specific consent for the processed data, tools used to manage such data and retention period.

- **Law no. 108 of 21 September 2018, converting Law decree no. 91 of 25 July 2018 into law, extending the terms provided by legislative provisions.** To the extent applicable, the law:
 - limits to 2017 the procedure whereby a portion of 20% of the LPT fund (article 16-*bis* of Law decree no. 95/2012) is granted provided that the beneficiary region confirms the disbursement of the funds necessary to carry out the assigned tasks to each province and city in the relevant area by 30 June. Originally, this measure covered the 2017-2020 four-year period;
 - grants the regions the possibility to directly assign railway services without incurring a 15% reduction in the fees from contract services (article 27.2 of Law decree no. 50/2017) in the case of publication of the notice pursuant to article 7.2 of Regulation (EC) no. 1370/2007 on 2 December 2018. This provision was subsequently amended by Law decree no. 119 of 23 October 2018, described below, implementing urgent tax and financial provisions;
 - extends the term – already expired – to adopt the implementing Decrees for the allocation of the fund pursuant to article 1.140 of Law no. 232 of 11 December 2016, to costs, including those related to: transport and traffic, sustainable mobility and road safety and infrastructures. The extension is subject to the condition that the decrees for the allocation of the resources of the Infrastructure fund (article 1.140 of Law no. 232/2016) related to works under the responsibility of the regions or the autonomous provinces, and limited thereto, are adopted after reaching an agreement with the local bodies affected. With respect to the works covered by the above, as identified by the decrees adopted prior to 18 April 2018, an agreement can also be reached after the adoption of said decrees.

- **Law no. 130 of 16 November 2018, converting Law decree no. 109 of 28 September 2018 into law, with amendments, implementing urgent measures for the city of Genoa, the security of Italy's infrastructure and transport network, the earthquakes of 2016 and 2017, employment and other emergencies.** As far as the group is concerned, this Law:
 - authorises the €20 million expenditure for 2018 to support transport companies in covering the costs incurred following the collapse of the Morandi bridge;
 - sets up a simplified logistics area at the Genoa port and back-port, including the port and back-port areas of the Genoa municipality, up to the back-ports of Rivalta Scrivia, Arquata Scrivia, Novi San Bovo, Alessandria, Piacenza, Castellazzo Bormida, Ovada Belforte, Dinazzano, Milan staging post, Melzo and Vado Ligure. Furthermore, it refers to the MIT the possibility of integrating the existing back-posts already listed in the law, with additional sites;
 - assigns a grant to the companies and the other parties which commissioned (from 15 August 2018) or will commission combined or transhipped transport services with full trains leaving from and arriving at the Genoa logistics and port hub. The 2018 grant is twice the incentives to promote intermodality (Ferrobonus), pursuant to points 648 and 649 of Law no. 208 of 28 December 2015 (the 2016 Stability act) for intermodal rail transport services leaving from and arriving at Italy's logistics and port hubs. To this end, authorised expenditure amounts to €5 million in 2018;
 - assigns, for 13 months from the coming into force of the Law converting the Law decree, a grant of up to €4 per train-km to companies which use railway services and combined transport operators, which cannot be cumulated with other grants supporting railway intermodality;
 - assigns a grant up to €200 for each transfer train, exceeding 10 units, to the service operator during the 13-month period from the coming into force of the conversion law, in order to offset the greater shunting expenses caused, based on the same level of port railway infrastructure, by the greater number of complete trains from/to the Genoa Sampierdarena area;

- extends the application of the procedures set out in article 1 of Law decree no. 133 of 2014, to free up works on the Naples-Bari and Palermo-Catania-Messina HS/HC railway lines, to the extraordinary maintenance to be carried out on the Paderno D'Adda bridge, including the allocation of the powers of commissioner to RFI S.p.A.'s CEO;
- sets up the national safety authority for railways and road and motorway infrastructure (ANSFISA), starting from 1 January 2019, which universally replaces the national safety authority for railways (ANSF). The latter's powers are confirmed and merged with those of the safety authority for road and motorway infrastructure which are integrated;
- extends the powers of the transport authority (ART) in the motorway concession sector;
- provides for a rescheduling of the expenditure authorised for the operator Strada dei Parchi S.p.A., in order to immediately carry out the restoration and safety measures for the A24 and A25 motorway sections, following the 2009, 2016 and 2017 earthquakes;
- provides for the power to depart from ruling legislation, including the Contracting code, in two separate circumstances: (i) for the Extraordinary commissioner, for the design, assignment and rebuilding of the infrastructure and the restoration of the related road system (i.e., to rebuild the Morandi bridge); (ii) for the Deputy commissioner, for the authorisation of the contracting stations to make variations to the road infrastructure during the performance stage, in order to accelerate the works necessary to overcome the emergency, departing from article 106 of Legislative decree no. 50/2016 and article 132 of Legislative decree no. 163/2006 and the corresponding previous regulations, where applicable, within the limits of the available resources and in accordance with European legislation.

- **Legislative decree no. 139 of 23 November 2018, implementing Directive 2016/2370/EU of the European Parliament and of the Council of 14 December 2016 amending Directive 2012/34/EU as regards the opening of the market for domestic passenger transport services by rail and the governance of the railway infrastructure.** The Decree implements Directive 2016/2370/EU of the European Parliament and of the Council of 14 December 2016 amending Directive 2012/34/EU, updating the provisions regarding the opening of the market for domestic passenger transport services by rail and the governance of the railway infrastructure. Specifically, the Decree strengthens the independence guarantees of the operation of the railway infrastructure operator's essential functions, specifically when the operator is vertically integrated with a company that provides railway transport services; introduces financial transparency provisions; implements provisions which enable EU railway companies to access Italy's railway infrastructure at fair, transparent and non-discriminatory conditions, limiting the condition of reciprocity to non-EU companies and identifying the confirmed alteration of the economic equilibrium of a service contract as the only reason for the limitation to the operation of the domestic railway service; finally, it introduces common information and through-ticketing schemes for passenger transport services, whose operation is governed by specific decrees.
- **Law no. 136 of 17 December 2018, converting Decree law no. 119 of 23 October 2018 into law, containing emergency tax and financial measures.** This law:
 - authorises 2018 expenditure up to €40 million, in order to finance the Government Programme Contract - 2016-2021 Services between the MIT and Rete Ferroviaria Italiana S.p.A.. This amount offsets the 2018 expenses incurred by RFI

S.p.A. for gate and PMR support projects. Furthermore, it authorises a €600 million expenditure for 2018, to finance the Government Programme Contract - 2017-2021 Investments between the MIT and Rete Ferroviaria Italiana S.p.A.;

- reduces, starting from 2021, the resources to be transferred to the Regions as part of the allocation of the LPT fund (article 16-*bis* of Law decree no. 95/2012), should the local and regional public transport services not be assigned under competitive procedures. In any case, the reduction does not apply to service contracts assigned in accordance with the provisions, including transitional ones, of Regulation 1370/2007/EC of the European Parliament and of the Council, of 23 October 2007, and the existing national regulations;
- increases the funds allocated in respect of the benefits covered by the policies supporting road haulage by €26.4 million in 2018 in order to promote the reorganisation of road haulage;
- recoups, for 2018, the cut in funding under the 2018 Budget Act (from €100 million to €95 million) for the resources allocated to the incentive scheme for freight transport, to offset the costs incurred to use the railway infrastructure, including freight transport and the related services, introduced by article 1.294 of Law no. 190 of 23 December 2014 (the 2015 Stability Act).
- eliminates the minimum size requirement to obtain the extension of the special government sponsored lay-off scheme (CIGS) up to 12 months (for reorganisation) or 6 months (in the case of company crisis), considering the strategic importance that a company may have in some regions and the introduction of an extended CIGS, also following the signing of a solidarity contract;
- introduces provisions for the elimination of tax liabilities, in line with the similar measures adopted in the previous two years, which provide for the possibility of settling, on favourable terms, the claims set out in the taxes assigned to the collection agent between 2000 and 2017;
- introduces a facilitated scheme to settle tax litigation, whereby disputes related to challenged tax liabilities are settled by paying an amount calculated based on the level of appeal of the pending dispute and the outcome of any rulings issued until the settlement date;
- provides for watered down disciplinary measures for the first six months of application of the e-invoicing system.

• **Law no. 145 of 30 December 2018, implementing the national budget for 2019 and the long-term budget for the 2019-2021 three-year period.** The following provisions are particularly relevant to the group:

- the funds allocated to the national budget to finance the Government Programme Contract - RFI S.p.A.'s Investments, decreased by a total of €1,740 million in 2019, in addition to the reduction, again in 2019, introduced (2018 frontloading) by the Law decree (consequently, the funds allocated for 2019 in relation to chapter 7122 are down by a total of €2,340 million). €1,740 million relates to the first €1,140 million remodulation already set out in the "basic provisions" and a second remodulation worth €600 million, which took place upon conversion. The related amount is to be recouped starting from 2020;
- recouping for 2019, the €100 million cut in funding under the 2018 Budget Act related to expenditure for the Government Programme Contract - RFI S.p.A.'s Services which, consequently, amounts to €1,016 million, also considering the €40 million envisaged by Law decree;
- as part of the updating of the Government Programme Contract – RFI S.p.A.'s 2017-2021 Investments, part of the funds to be disbursed or that are made available under the aims of the ruling contract, up to €100 million each for 2019 and 2020, will be used to construct railway connections eligible for European funding, enhancing mobility hubs; at least supraregional, and prioritising those connected with the port or airport system;

- Anas S.p.A.'s and RFI S.p.A.'s Programme Contracts are prepared with the aim of allocating part of the ordinary capital grants to the southern regions every year proportionally to the reference population or in accordance with another criterion related to critical issues identified by a specific Decree of the Prime Minister (DPCM);
- €5 million will be allocated to each of the years in the 2019-2021 period for rail freight, increasing the total amount to €100 million per year. The provision recoups the funding cuts under the 2018 Budget Act;
- the Central investment fund is set up with an amount of €43.6 billion in the 2019-2033 period;
- the Local investment fund is set up with an amount of approximately €1.5-2 billion per year;
- the scope of application of the Consolidation act on publicly-owned companies (Legislative decree no. 175/2016) is amended by extending the exclusions already applicable to listed companies - which remain issuers of listed instruments - to all their subsidiaries, including those in which the public administrations hold an investment;
- with respect to public contracts, the Law introduces a transitional provision governing the awarding of contracts in 2019 in order to simplify the procedures for assigning works, pending the review of the Contracting code. Specifically, in 2019, work contracts equal to or greater than €40 thousand and up to €150 thousand may be awarded directly, after consulting, where present, three economic operators, while work contracts equal to or greater than €150 thousand and up to €350 thousand may be awarded via a negotiated procedure, after consulting, where present, at least ten economic operators pursuant to article 36.2.b of the Contracting code;
- changes to provisions on maternity leave: without prejudice to the overall term of maternity leave (five months), the leave can now begin after the birth date, i.e., it is now possible to work also during the nine month of pregnancy;
- extension of the parental leave for working fathers for 2019, introducing the following criteria: compulsory leave increased to five days within the first five months of life of the baby and confirming an optional one-day leave with the agreement of the mother and replacing her mandatory leave period;
- contributions to hiring: to hire "young talents" in the Abruzzo, Molise, Campania, Basilicata, Sicily, Puglia, Calabria and Sardinia regions (South bonus);
- review of INAIL (national insurance institution for accidents in the workplace) tariffs for insurance for accidents in the workplace and occupational illnesses and related extension of employers' fulfilments, affected by the above change (extension of the premium reverse charge to May 2019);
- starting from 1 January 2019, introduction of a reduced taxation optional regime applicable to profits reinvested in the purchase of operating assets and/or to increase employment (mini-IRES). Under this scheme, the total net income of companies and bodies under article 73 of the TUIR (consolidated income tax act) can be subject to an IRES (corporate income tax) rate reduced by 9% (i.e., 15%) to the extent of the portion equal to the profits generated in the tax year prior to that for which the tax return was filed, provided that they were accrued to reserves other than unavailable reserves and up to the amount equal to the sum of the investments made in new operating assets pursuant to article 102 of the TUIR and the expense related to employees hired with fixed-term or open-ended employment contracts;
- extension of the tax benefits related to hyper- and super-amortisation 4.0. to the 2019 tax year;
- it is established that article 1.87.a of Law no. 205 of 27 December 2017, concerning registration tax, is an authentic interpretation of article 20.1 of Presidential decree no. 131 of 26 April 1986, thereby clarifying the interpretation nature, rather than just the novation nature of the previous legislation.

ART regulations

The content of the main Transport Authority ("ART") regulations of 2018 is summarised below:

- **ART regulation no. 16.** On 8 February 2018, with regulation no. 16, the ART set the minimum service quality standards for national and local passenger railway transport with public service funding. The regulation applies to the railway company operating the contract service, the granting body and the station manager, according to their respective responsibilities. The minimum standards relate to seat offer, service regularity and punctuality, passenger information, transparency, commercial accessibility, cleanliness, comfort of the vehicles, accessibility for people with reduced mobility and safety. These terms apply to directly awarded or in-house contracts after the date of publication of the regulation, tenders published after such date and, with respect to restricted procedures, to contracts whose invitation letters were sent after such date.
- **ART regulation no. 17.** On 22 February 2018, with regulation no. 17, the ART expressed its favourable opinion about Rete Ferroviaria Italiana S.p.A.'s proposal to apply PROMO-PIR 2019 rates to freight train lines on the north/south two-way section, regardless of their origin and destination, affecting the Bologna-Florence HS/HC line during the night hours. This special tariff regime shall guarantee the recovery of direct costs and a rate of return which the market can bear.
- **ART regulation no. 33.** On 22 March 2018, with regulation no. 33, the ART approved, with requirements: the new tariff system for the 2018/2019 schedule, prepared by RFI S.p.A. in accordance with the principles and criteria under regulation no. 152/2017 and the formats of the information published by RFI S.p.A. about its network development and upgrade plans over at least five years.
- **ART regulation no. 56.** On 30 May 2018, with regulation no. 56, the ART adopted a regulation which ensures fair and non-discriminatory bus station access conditions. The provisions cover, inter alia, the criteria to define the capacity conditions, the areas and services of bus stations, tariff systems, physical and commercial accessibility conditions and passenger information. It applies to bus stations connecting medium-long haul transport services or services covering two regions, and one or more means of transport, and the bus stations identified by the regions and autonomous provinces as part of local transport planning.
- **ART regulation no. 73.** On 18 July 2018, with regulation no. 73, the ART approved the toll system for the awarding of the in-house operation of the A22 Brenner-Modena motorway section which, inter alia, provides for a tariff component related to concession charges, also aimed at ensuring the cross financing of the Brenner-Verona railway works.
- **ART regulation no. 76.** On 26 July 2018, with regulation no. 76, the ART completed the procedure commenced against Rete Ferroviaria Italiana S.p.A. following Trenitalia S.p.A.'s and Nuovo Trasporto Viaggiatori S.p.A. reports about Italo services operated using ETR675 rolling stock (maximum speed 250 km/h). Specifically, the ART ordered that RFI S.p.A.

shall comply, in the event of requests for changes in the operating management of the various train paths covered by the contract such to disrupt traffic, with the specific provisions of the network prospectus (PIR), whereby the infrastructure operator shall operate HS rolling stock trains on scheduled lines when they ensure performance levels, in terms of maximum speed, not lower than those set out in the prospectus.

- **ART regulation no. 99.** On 11 October 2018, with regulation no. 99, the ART supplemented the list of railway areas subject to the regulation measures which ensure the cost effectiveness and the operational efficiency of shunting services, approved by regulation no. 18/2017, also including the railway area at the Trieste port.
- **ART regulation no. 106.** On 25 October 2018, with regulation no. 106, the ART clarified how to exercise the rail passenger rights, pursuant to Regulation 1371/2007/EC, identifying specific requirements for railway companies operating domestic, regional and local services, characterised by public service obligations, and for the operators of the related stations, specifically with respect to the information to be provided to passengers and the compensation for delays and for people with reduced mobility. Railway companies and station operators must comply with these provisions, adjusting their general terms of transport and service charter by 9 May 2019.
- **ART regulation no. 110 of 20 November 2018 and no. 11 of 15 February 2019.** On 31 October 2018, with regulation no. 110, the ART submitted for consultation the preliminary report prepared by its offices on the outcome of the checks carried out on the compliance of the tariff plans of Italy's railway infrastructure operator with the cost criteria, pursuant to the rulings of the Piedmont regional administrative court, nos. 1097 and 1098 of 2017, on the tariff system to access the railway infrastructure and the services provided by the operator. The cost analysis was carried out considering the analytical reports provided by RFI S.p.A., supplemented with the information provided by Trenitalia S.p.A. and Ferservizi S.p.A. about some specific cost items. The consultation, which ended on 19 December 2018, covered the parties which had appealed to the Piedmont regional administrative court against the above rulings, and RFI S.p.A..
On 14 February 2019, with regulation no. 11, after the outcome of the preliminary activities carried out in accordance with the rulings of the Piedmont regional administrative court (nos. 1097 and 1098 of 2017), on the tariff system to access the railway infrastructure and the services provided by the operator, the ART ordered that RFI S.p.A. apply the following measures in order to bring the 2016-2021 tariff system into line with the cost criteria approved with regulation no. 96/2015:
 - cutting 2014 operating costs by approximately €34 million, to calculate the related PMdA (minimum service package);
 - reducing the 2014 carrying amount of net non-current assets by approximately €20 million, to calculate the cost of capital to determine the PMdA cost;
 - increasing the 2014 net working capital by approximately €73 million, to calculate the cost of capital to determine the PMdA cost;
 - cutting 2014 operating costs by approximately €2 million, to calculate the fees related to services not included in the PMdA, with specific allocation to individual services;
 - reducing the 2014 carrying amount of net non-current assets, used to calculate the cost of capital to determine the fees related to the services not included in the PMdA, by approximately €46 thousand.

Furthermore, RFI S.p.A. shall provide the ART with the tariff system (2019-2021 period) updated in accordance with the instructions received, by 28 February 2019, and shall pay, with reference to the impact arising from the application of the measures adjusting the instalments and the fees for the period prior to 1 January 2019, the parties to commercial relationships affected by the above rulings of the Piedmont regional administrative court. The deadline for the completion of the proceedings is 28 June 2019.

- **ART regulation no. 118.** On 29 November 2018, with regulation no. 118, the ART approved specific instructions and requirements for the “2020 network prospectus” presented by RFI S.p.A., the “2019 network prospectus” and the preparation of the “2021 network prospectus”.
- **ART regulation no. 120.** On 29 November 2018, with regulation no. 120, the ART defined the methodologies and criteria to improve the efficiency of regional railway public transport services - to be applied to new service contracts or to update the existing ones - and regulatory accounts obligations for existing service contracts. With respect to the efficiency measures, the ART will provide the regions, autonomous provinces and the agencies for mobility in the catchment area or regions with the reference parameters to set the targets and the obligations for railway company operators.
- **ART regulation no. 143.** On 20 December 2018, with regulation no. 143, the ART commenced - following the changes to the national and community regulatory framework, the new tasks assigned by the Italian legislator and the monitoring activities - a public consultation concerning the outline of the regulation deed which revises and updates regulation no. 49/2015 (containing measures for the preparation of calls for bids and agreements for the assignment of local public passenger transport services). The proposed measures - related to local public transport services by road and rail, assigned through tenders or under concession - include, inter alia: consultation with stakeholders to identify essential assets, necessary also in the case of direct assignment; specific measures governing the operating assets purchased using public funds; regulatory accounts and unbundling obligations for the road sector and inclusion of specific efficiency/effectiveness targets in the service contracts (similar to that provided for the railway sector pursuant to regulation no. 120/2018).

Stakeholder engagement

FS Italiane group continuously liaises with its stakeholders, as it firmly believes that understanding their expectations and identifying objectives with them guarantee the effective creation of value.

The following is a map of Ferrovie dello Stato Italiane group's stakeholders.



The stakeholder panel

The fifth annual Stakeholder panel was organised in May 2018 by FS Italiane group in the belief that creating value for the business means creating value for its stakeholders. The meeting is organised by the Sustainability Committee with the aim of fostering a shared, collaborative approach with stakeholders in establishing the long-term objectives for 2030-2050. Multi-stakeholder panels were set up for each individual issue, overseen by representatives from the Sustainability committee and management of the relevant operating company, and with around 70 stakeholders taking part. Discussion focussed on three areas: safety, energy and emissions and sustainable mobility and the process will continue with a view to formalising targets for these 3 issues and to establish additional targets for other key issues.

The group's webpage dedicated to stakeholder engagement is simultaneously updated and, since 2013, has provided information on the status of the proposals gathered during the four earlier editions of the group's Stakeholder panel. A total of 85 proposals were gathered and, of these, 63 were implemented, 11 are being implemented and 11 were judged not feasible.

Commitment to sustainable development

Approach, commitment and practices

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 furthered 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:

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

Economic commitment



Be a leader in the mobility sector by promoting the quality and efficiency of transport and infrastructure services

Social commitment



Be at the forefront of an integrated mobility project that, through a virtuous business model, encourages fair business practices and active engagement

Environmental



Be pioneers in the development and implementation of integrated mobility solutions on a large scale that contribute to regenerating natural capital

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

Our commitments

FS Italiane group's commitment to transforming itself into a mobility company of the future, capable of operating sustainably is demonstrated by its membership of the Global Compact network. The Group's code of conduct establishes the rights and responsibilities of corporate officers, managers, employees, freelancers, business partners, suppliers and all other parties involved in transactions with the group. With the code of conduct, FS Italiane Group transparently takes on its responsibilities and commitments to both internal and external stakeholders.

Lastly, FS Italiane group specifically 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 liaise 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 promote significant employer branding initiatives, aimed at developing above-par training and introducing young people to the employment experience.



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 and protect employee health and safety 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 that our activities respect human rights, operating within the framework of the UN’s Universal Declaration of Human Rights and contributing to the creation of a responsible chain through our suppliers and business partners.



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 environmental management models that outline the long-term guidelines and principles. 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.

Passengers



- We pay close attention to delivered and perceived quality. In order to improve the experience of our customers and in the name of intermodal transport and integration with the land, we are transforming stations into mobility hubs.
- We promote an integrated door-to-door system through the creation of intermodal hubs, vehicle sharing agreements, bus-rail connections, etc..
- We update all stakeholders on our principles and commitments to improve the services we offer through the service charters.
- We measure quality perceived by customers through periodic customer satisfaction reports, using the management of complaints as a valid tool for interaction with customers and to monitor inefficiencies reported by customers and improve performance.

Environmental sustainability

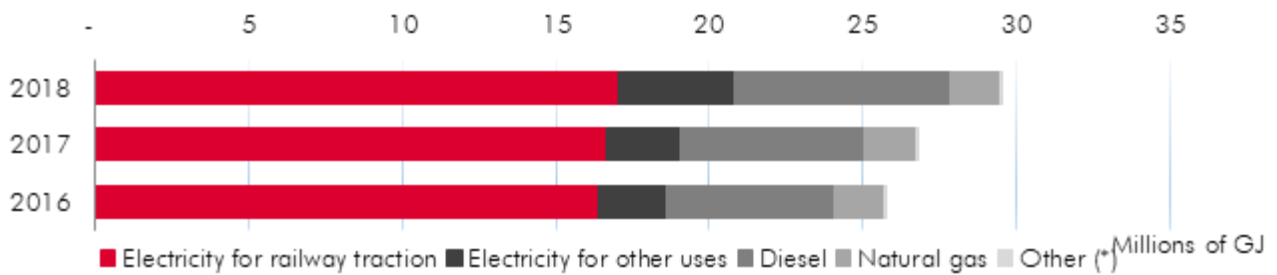
FS Italiane group believes that an organisation's long-term success is built on a strategy that prioritises the respect and protection of natural balances.

Rail transport is one of the most efficient, least polluting and most environmentally-friendly forms of transport, and lies at the heart of the sustainable mobility project for passengers and freight, embracing the collective, shared and soft mobility offered by FS Italiane group. The pursuit of continual improvement in the environmental performance of both transport operations and in the planning, construction and management of infrastructure and buildings is nonetheless vital and must be oriented towards an assessment which takes into account the various layers of external factors such to determine the actual in-context impact of the service and the work.

As part of its continuous improvement, FS Italiane group has a rules-based system to encourage the consistent and effective management of environmental issues. Group companies are required to analyse the entire value chain across all stages of the life cycle, considering the environmental aspects they can control and those over which they have an influence. Given the considerable and differentiated range of activities, the outcomes of the monitoring process of the most significant energy and environmental aspects considers the way the group's business is divided into sectors: transport, infrastructure, real estate services and other services.

Energy and emissions

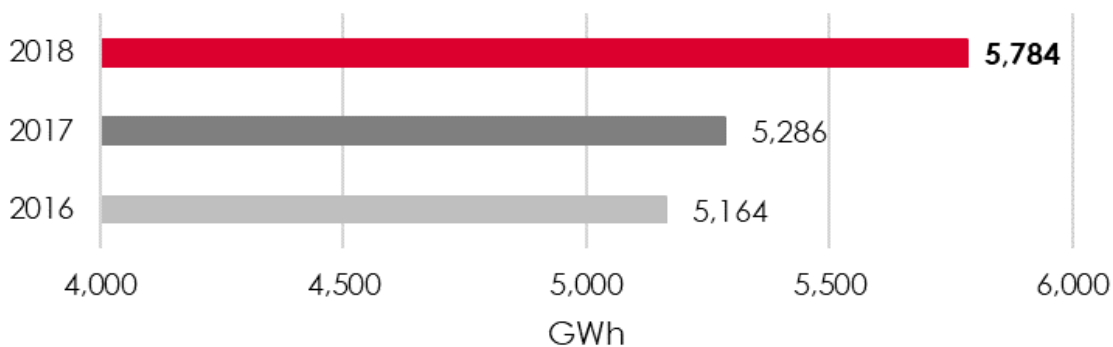
Energy by source

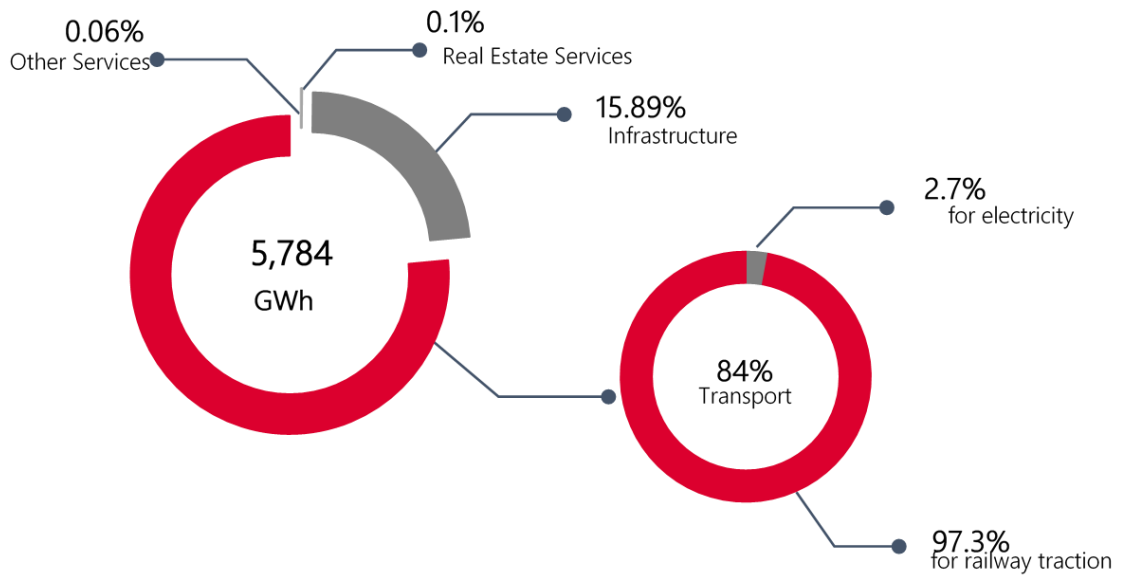


(*) Heat, fuel oil, petrol and LPG

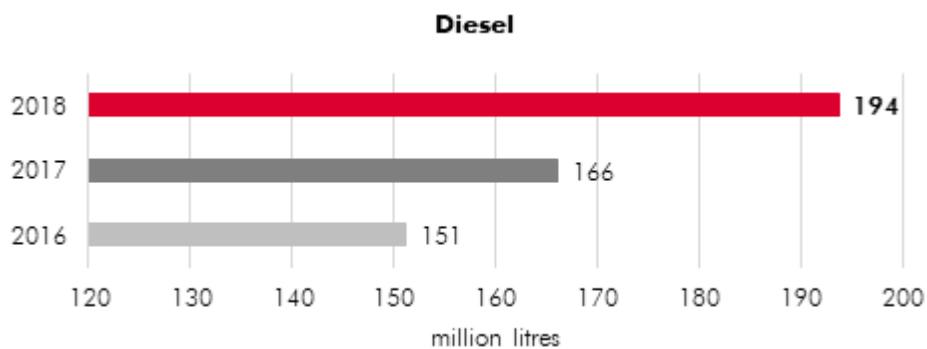
FS Italiane group's energy consumption is closely linked to its transport activities and particularly rail transport, which influences both the trends in relation to the rail transport production and the type of consumption, as the vast majority of the trains (around 90%) travel on the electrified network and only a small portion is diesel-powered. This mainly electricity-powered configuration is important from an environmental standpoint, as it offers an immediate benefit in terms of access to renewable sources, which currently account for approximately 35% of the electricity needs in Italy.

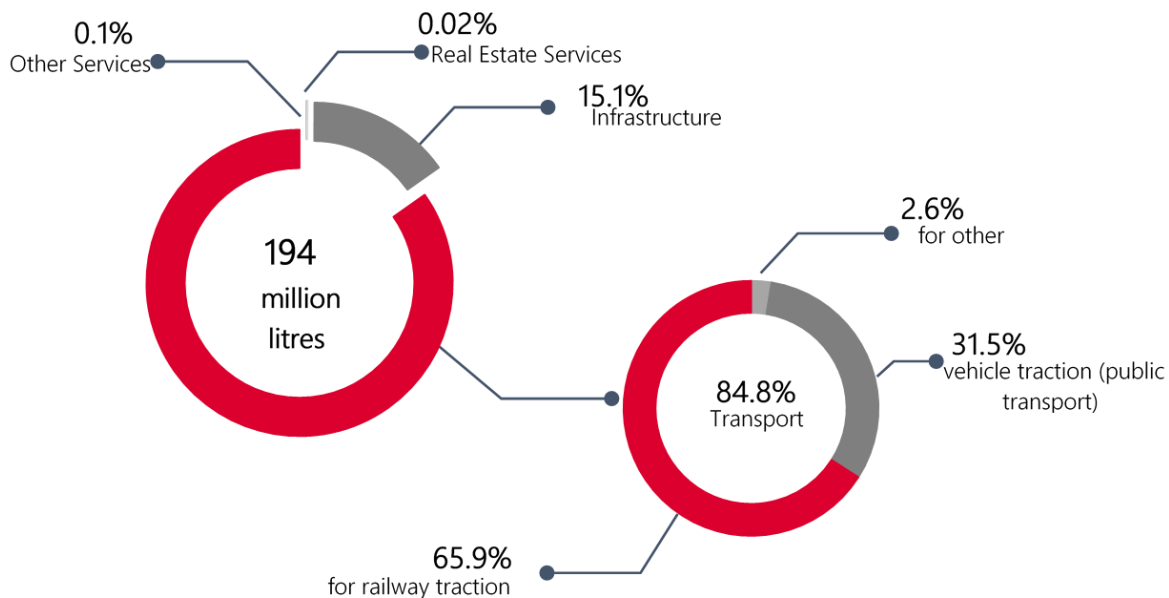
Electricity





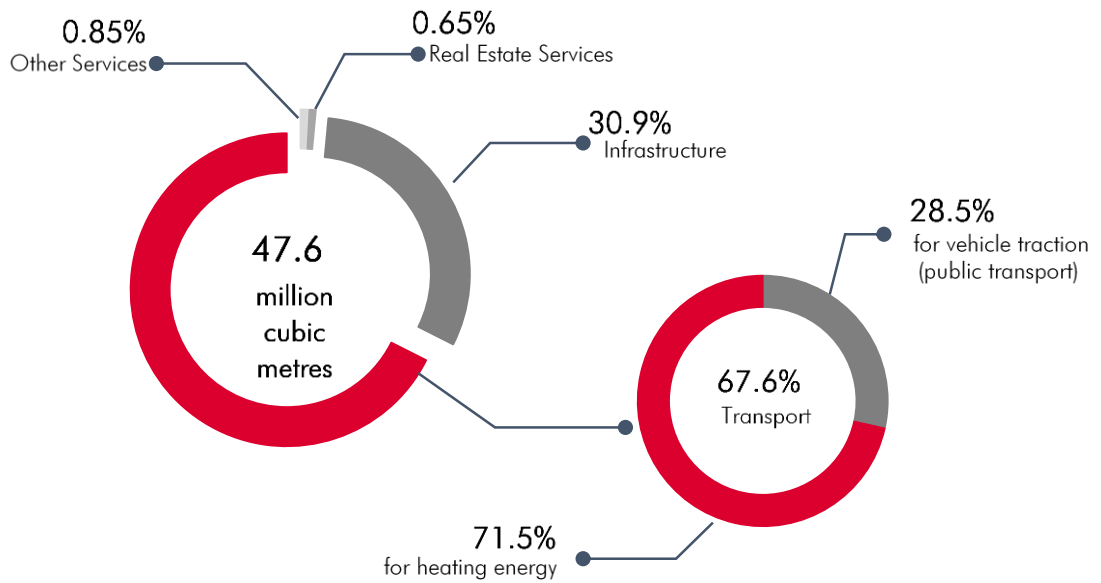
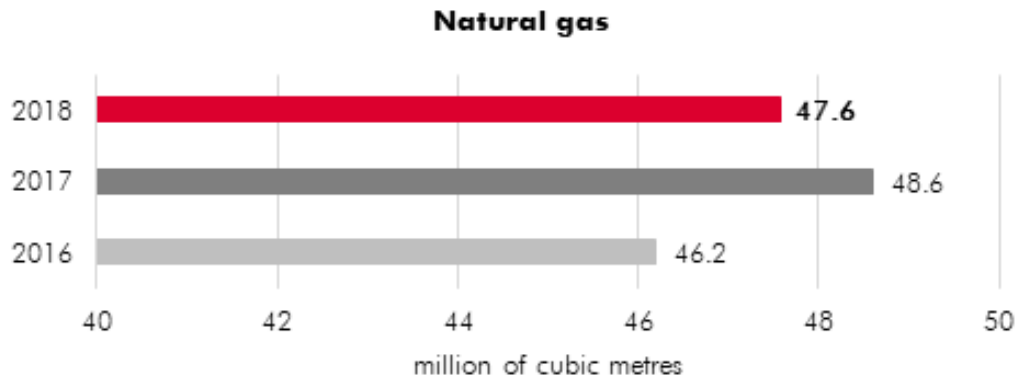
Railway traction accounts for approximately 82% of the group's 5.8 TWh electricity consumption, while the remainder largely relates to the Infrastructure segment operations, which consume approximately 0.9 TWh. Specifically, the Infrastructure segment accounts for most of the approximately 9% increase over 2017, reflecting the inclusion in the consolidation scope of Anas S.p.A.. Moreover, FS Italiane group's pursuit of the use of renewables has resulted in several investments in plants to produce electricity internally and the photovoltaic electricity production came to 1,255 MWh in 2018, mainly used within the group.



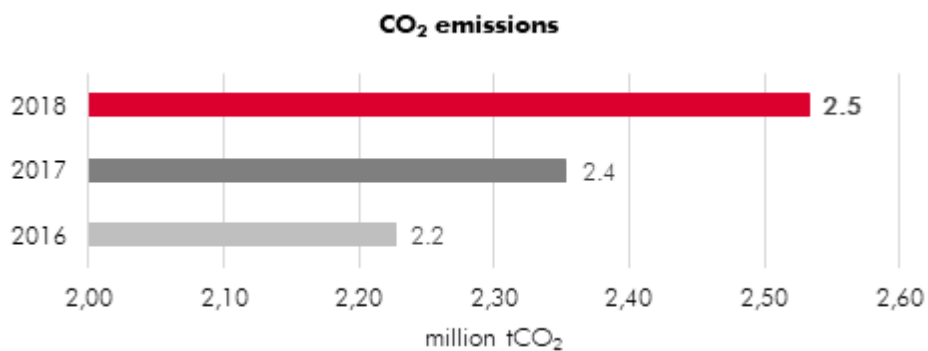


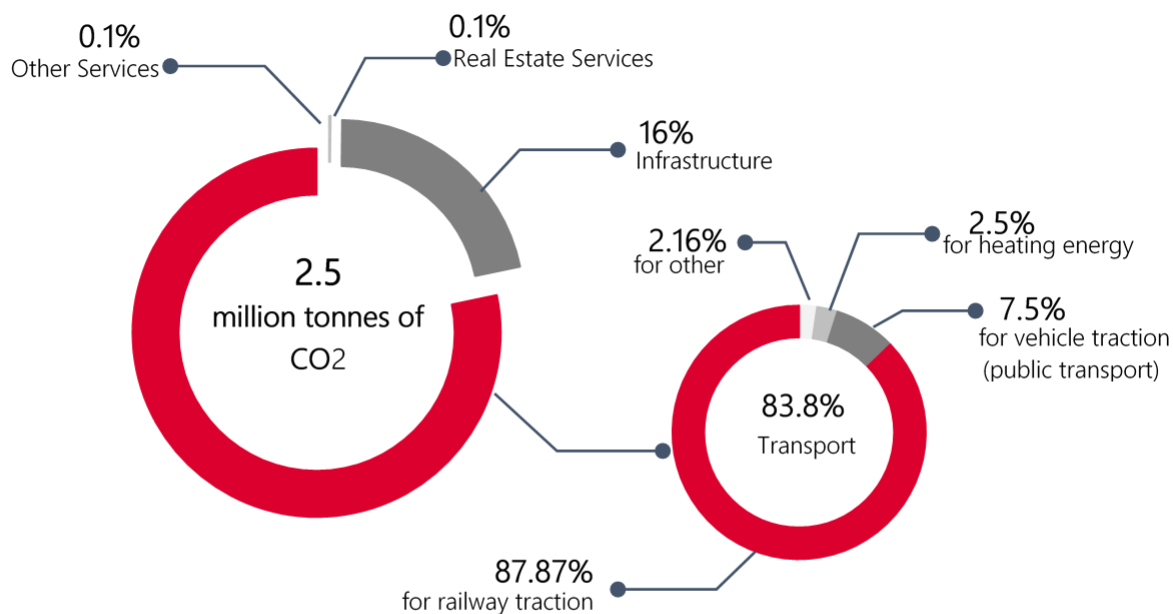
Diesel consumption is also closely linked to railway transport, although it only accounts for a small portion. The 194 million litres of diesel is mostly used by the transport companies (around 85%), 65.9% for railways and 31.5% for road transport. Indeed, in the latter segment, diesel is the main type of fuel. Being the group's second largest power consumer, the infrastructure sector uses most of the residual portion of diesel.

Total volumes increased by approximately 17%, largely as a result of the inclusion of the consumption of the newly-acquired companies, TrainOSE SA and Qbuzz BV, which use diesel in their respective transport operations on rail and road.



Unlike for the previous sources, natural gas is mainly used for heating and only to a small extent to transport, used exclusively by part of the road transport fleet. This is reflected by the fact that natural gas consumption is better distributed across the group's various business segments. Consumption totalled 47.6 million cubic metres in 2018 and was in line with that of the previous year.





Energy consumption impacts on greenhouse gas emissions. The amount of such emissions came to around 2.5 million tonnes in 2018, with a 7.6% increase due mainly to the inclusion of TrainOSE SA, Qbuzz BV and Anas S.p.A. in FS Italiane group's energy consumption figures. Public transport accounts for 75% of the group's overall CO₂ production, mainly relating to railway transport. Most of the remaining carbon dioxide emissions relate to operations of the workshops, stations, offices and other operating facilities of the infrastructure companies.

DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS	Unit of measure	2018	2017	2016	change 2018-2017
Total direct greenhouse gas emissions (Scope 1)	tCO ₂ thousand	615	542	498	<i>13%</i>
Total indirect greenhouse gas emissions (Scope 2)	tCO ₂ thousand	1,918	1,811	1,729	<i>6%</i>
TOTAL	tCO₂ thousand	2,533	2,353	2,227	8%

Waste management

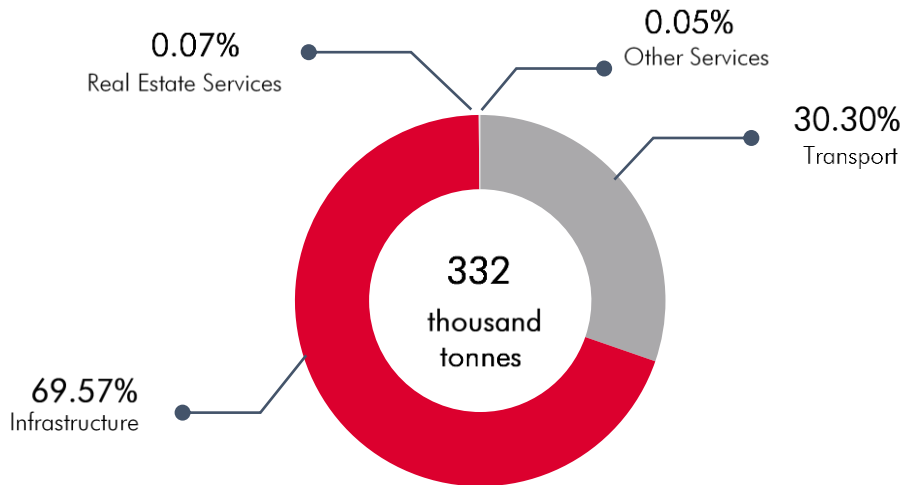
FS Italiane group’s commitment to managing, monitoring and reducing waste²¹ is demonstrated by the management models it has implemented for the prevention, re-use and recycling of waste generated by industrial operations as part of a “circular economy”, as well as the pursuit of improved waste collection systems related to passenger services, particularly onboard and at stations.

Waste generated by the operations of companies in the Infrastructure and Transport segments account for more than 99% of the total waste produced by the group. The demolition of railway carriages and the increase in maintenance activities of railway infrastructure led to an increase of approximately 12% in waste production in 2018. The percentage of special waste sent for recycling - mainly steel, iron, cement and wooden sleepers - remained at around 95%.



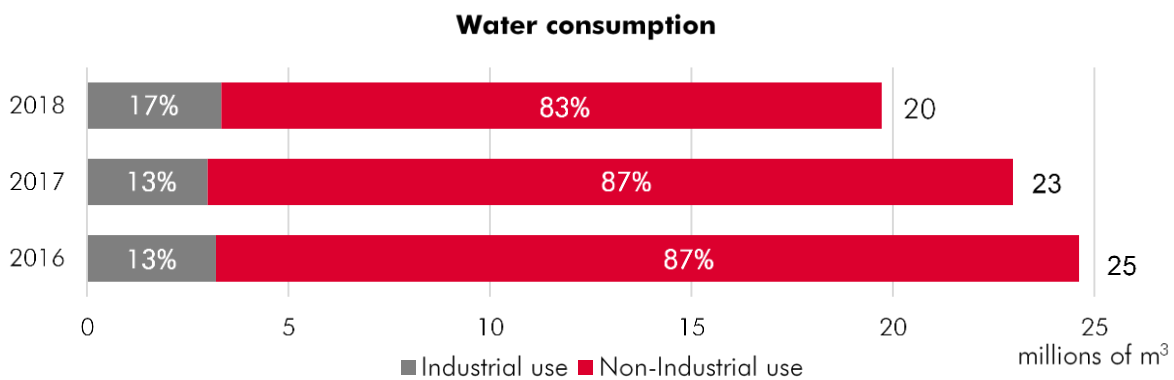
**Includes waste classified as urban waste in public areas at stations.*

²¹ Waste is classified by origin: special waste and waste classified as urban waste. Special waste is due to the production activities of industries and companies and that, considering the concentration of pollutants, is classified as hazardous or non-hazardous. Waste classified as urban waste is special waste with the characteristics or composition of commodities, which allow for it to be recycled or disposed of in plants originally designed for the treatment of urban or domestic waste from residential buildings and managed by public administration.

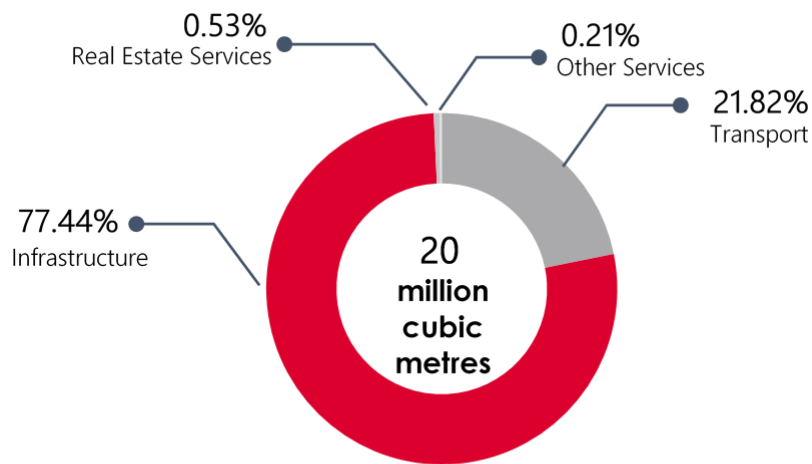


Water management

The nature of FS Italiane group's core businesses entail a limited consumption of water resources, mainly for civil use, i.e., offices, bathrooms, showers at the workshops and drinking fountains at stations, while industrial water use relates to train and bus washing. The group runs regular campaigns to raise awareness among passengers of responsible water usage and in the industrial uses there is a focus on reducing consumption and ensuring the efficient collection and treatment of wastewater²². In 2018, water consumption was cut by approximately 15% on 2017, confirming the positive trend of the previous year and the effectiveness of the water management project slated to continue in forthcoming years with the streamlining of the water utilities and the roll-out of projects to reduce waste.



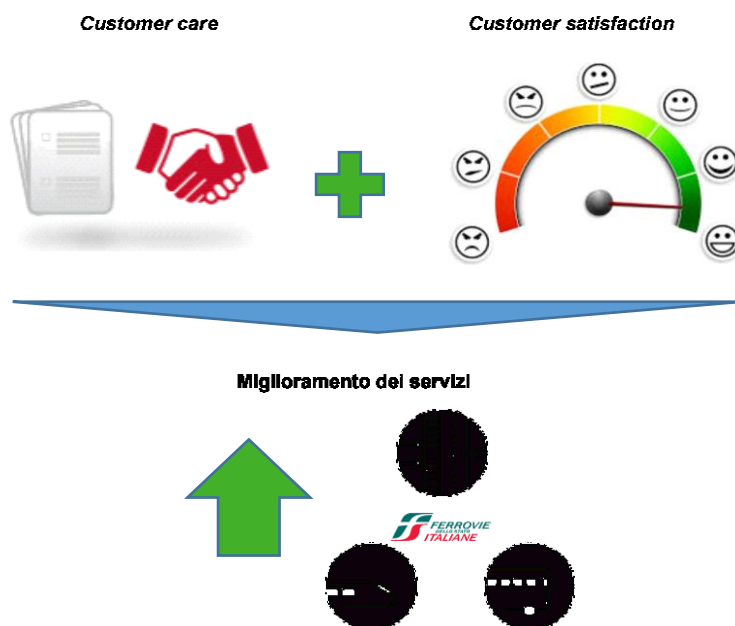
²² Water withdrawn for industrial use undergoes a different treatment from that for civil use, considering the specific characteristics of the pollutants.



The travel experience

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

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









Infrastructure

The Infrastructure segment includes:

- railway network/stations
- road and motorway network

In respect of the railway network and the stations, the group monitors the objectives set out in the service charter (required by legislation covering public services in the transport sector - Decree of the Prime Minister of 27 January 1994 and Decree of the Prime Minister of 30 December 1998). All objectives were achieved in 2018, both as relates to the perceived quality measured via customer satisfaction surveys, and the quality offered, assessed via internal and third-party monitoring.

RAILWAY NETWORK/STATIONS

Indicator	2018 target	2018 actual
<p><i>Energy efficiency of stations</i></p> 	Replacing (in 40 stations) lighting systems with the exclusive use of LEDs	
<p><i>Safety at the station</i></p> 	Lower than the average number of thefts in stations in the three years considered ¹	
<p><i>Accessibility at stations</i></p> 	Carrying out at least 100 projects to improve accessibility (platforms and lifts)	

 Target achieved

- 1) Excluding in-store theft. During the 2008-2010 three-year period, considered the consolidation period for the effects produced by the agreement active from 2007 between the parent, FS Italiane, and the Ministry of the Interior for the development of joint actions to improve customer safety and group assets.

As regards the perceived quality objectives, in terms of the percentage of passengers satisfied (those that gave a score from 6 to 9) with the services offered in the stations, the findings were basically unchanged from those of 2017 for almost all macro-factors across the entire network, all remaining above 90%.

STATIONS



Quality
Overall station quality
 2018 actual: 96.6%
 2017 actual: 95.6%









Information at the station
Perception of information under critical operating conditions
 2018 actual: 94.0%
 2017 actual: 93.3%



Assistance
Level of satisfaction with the assistance service provided by the Sale Blu network
 2018 actual: 99.5%
 2017 actual: 98.6%

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

ROADS AND MOTORWAYS		
Indicator ¹	2018 target	2018 actual
Travel safety 	Time between when a notification received by the Operations room is confirmed and publication about traffic-related events on user information systems (the VAI app, variable message signs and the Anas website)	
Service regularity 	Road closure times for unexceptional snowfalls and/or not due to planned closures of the sample sections Reference standard: ≤ 12 hours	
Focus on the environment 	Energy generation from renewable sources (photovoltaic) Reference standard: ≤ 750 gigajoules	

 Target achieved

1) main indicators of the Anas service charter

A customer satisfaction survey for the “Pronto Anas” service was also carried out during the year, showing a satisfaction level of 7.4 out of 10.

Railway passenger transport

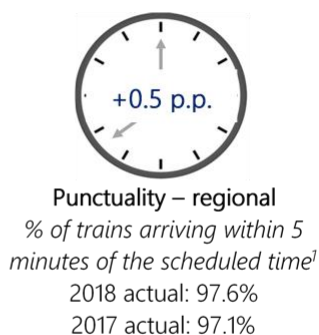
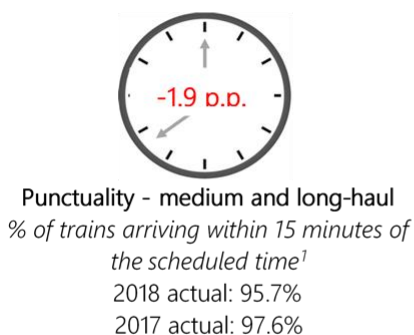
Railway passenger transport can be split into two main areas:

- medium and long-haul transport
- regional

Italy

As regards punctuality, regional trains continued the improvement trend of recent years. Conversely, in the medium and long-haul segment, there was a slight drop in train punctuality.

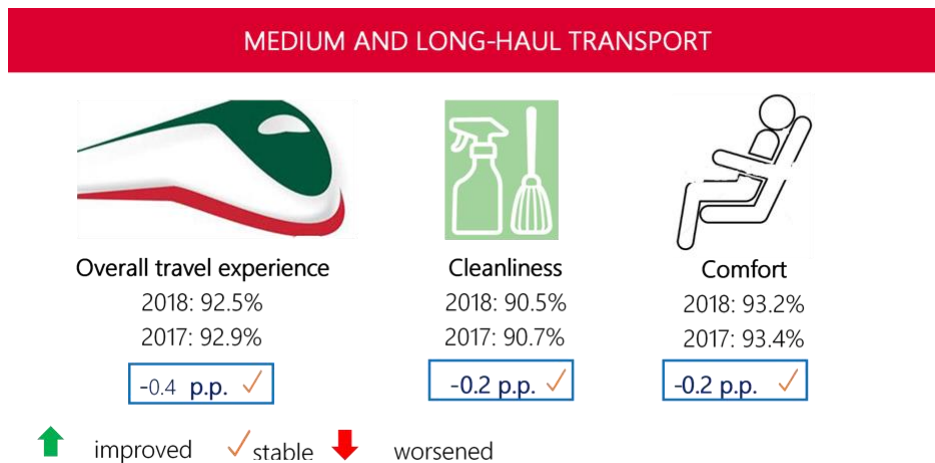
ITALY



¹ Directors' report
 Trains arriving late due to external reasons or reasons attributable to the network operator or other railway companies are considered on time

Perceived quality is measured through regular surveys with passengers over 14 years of age about their travel experience on trains managed by the group (medium to long-haul²³ and local/regional²⁴). Surveys are conducted using face-to-face and telephone interviews²⁵.

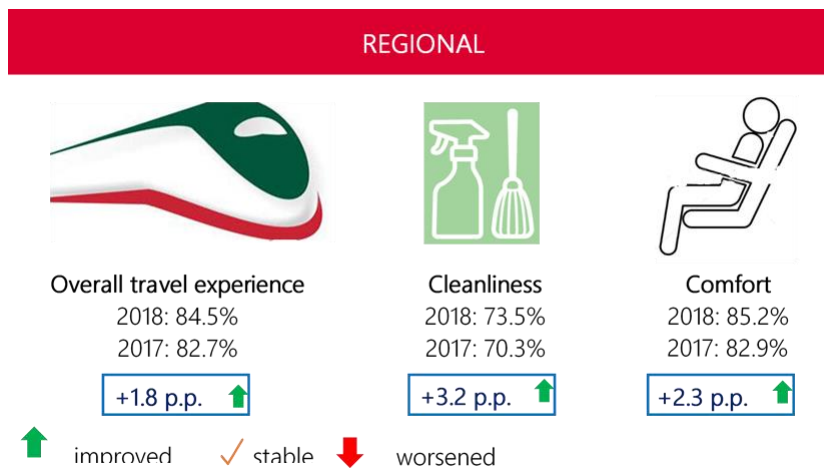
Customer satisfaction in the medium and long-haul segment was substantially stable in 2018. Satisfaction with "overall travel experience"²⁶ was substantially unchanged from the previous year, with 92.5% of passengers satisfied in 2018 compared to 92.9% in 2017. Specifically, "on-board comfort" (-0.2%) and "cleanliness" (-0.2%) were substantially stable.



The results of the regional transport segment for 2018 showed an increase in customer satisfaction in all main areas of the journey.

Satisfaction with the "overall travel experience" was at 84.5%, an increase of approximately 2% over 2017.

Looking at the individual aspects, an improvement is observed across all factors, particularly satisfaction with "cleanliness", which rose 3.2% over the previous year, and a 2.3% increase in "comfort".



²³ Surveys are conducted once every two months for a total of six surveys per year and entail 5,000 interviews with a sample of passengers selected using a probability-based procedure in connection with three different aspects: traffic, station and brand.

²⁴ Surveys are conducted every two months for a total of six surveys per year and entail 7,666 interviews. Such a high number of interviews makes it possible to survey passengers travelling on the 35 main regional railway lines throughout all of Italy.

²⁵ Face-to-face interviews were carried out at the station before the train's departure. Telephone interviews using CATIs (computer assisted telephone interview) are conducted through call-backs to interviewees two/three days after the journey. The score for each variable considered in the survey is on a scale of one to nine, where nine corresponds with the highest satisfaction and one with the lowest. Passengers who report a satisfaction rate equal to or greater than 6 are considered satisfied.

²⁶ Satisfaction with the overall travel considers all stages: pre-travel, arrival at the station, time at station, time on board, leaving the station and post-travel.

In order to strengthen the group’s focus on passenger needs, particularly those of commuters, a dedicated customer care service was rolled out on trains and at the stations, as well as information desks located throughout the main stations and the other existing assistance services (app-based personalised information, live chat, a freecall number, etc.).

UK

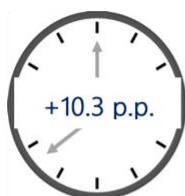
Trenitalia c2c Ltd, which offers passenger transport services between London and Essex, is the most punctual railway company in the United Kingdom, with 97.6% (93.8% in 2017) arriving on time in the period examined, compared to a national average of 87.3%.

Passenger satisfaction is measured six-monthly via the National Rail Passenger Survey. The results are higher than the average for sector companies (London and the south-east) on almost all criteria. Overall satisfaction with the journey was 88%, compared to a sector average of 79% (+9%).

Trenitalia c2c Ltd was awarded the best railway company of Great Britain in 2018 at the National Transport Awards (also thanks to the supply of 60 new carriages, the roll-out of an improved reimbursement system in the event of train delays and cancellations, and free wi-fi connection for all passengers).



UK



Punctuality – PPM¹
9 Dec – 5 Jan period
 Actual: 97.6%
 Network Rail benchmark: 87.3%

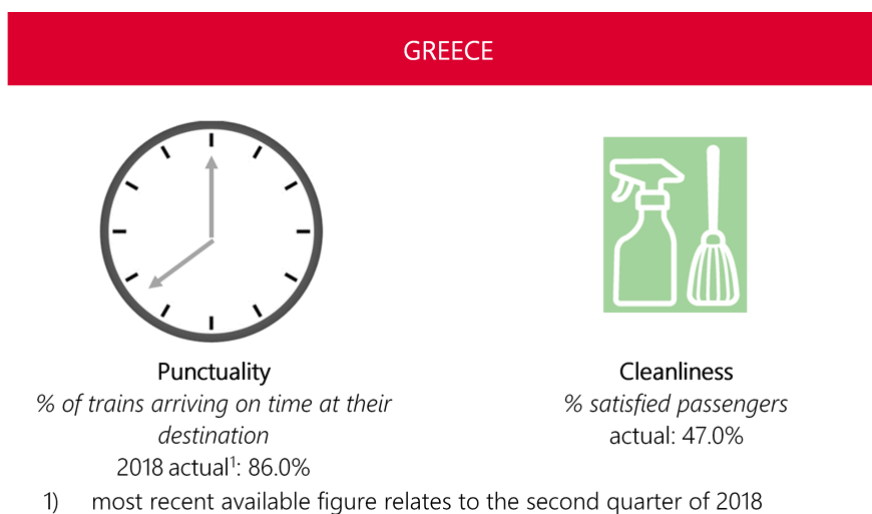


Satisfaction with the journey
% satisfied passengers
 Actual: 88%
 Sector benchmark: 79.0%

- 1) PPM (*Public Performance Measure*), is the standard by which train punctuality is monitored. It is defined by the British infrastructure operator, Network Rail. It shows the percentage of trains that travel their scheduled route and time and arrive at their destination station within five minutes of the scheduled time (for London and the south-east and regional services) and ten minutes (for long-haul services).

Greece

TrainOSE SA²⁷ directly monitors train punctuality²⁸ monthly and passenger satisfaction through surveys and the mystery client technique.



Germany

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

Road passenger transport

In the road passenger transport, in order to present the group's overall performance, the results were consolidated based on simplifications necessary to combine various methods of collection and measurement, for the first time in 2018. The objectives are reported in various service charters on a regional/provincial/municipal basis and specific for the "urban" and "suburban" areas.

Punctuality of the urban and suburban transport service (the ratio of delays recorded to monitored runs) is substantially in line with last year's figures.

²⁷As the acquisition of TrainOSE SA was finalised during the last quarter, the punctuality and passenger satisfaction levels are not comparable with those of the previous year.

²⁸ Surveying is carried out in line with UNI EN 13816/2002 standard "Transportation, Logistics and services - Public passenger transport - Service quality definition, targeting and measurement".

PASSENGER ROAD TRANSPORT



Punctuality (urban)

(% services arriving within 5 minutes of their scheduled time)

2018 actual: 86.4%

2017 actual: 86.1%

+0.3 p.p. ✓



Punctuality (suburban)

(% services arriving within 15 minutes of their scheduled time)

2018 actual: 87.5%

2017 actual: 87.4%

+0.1 p.p. ✓



improved



stable



worsened

Perceived quality is monitored through regular surveys²⁹. The surveys are carried out both with subscribers, mainly via CATI interviews, and with all passengers, using face-to-face interviews and questionnaires to be filled in during travel. Passengers that give a score of 6 or above on a scale of 1 to 10 are considered "satisfied". The reported satisfaction figures are a weighted combination of the results of the telephone and face-to-face interviews.

The "urban³⁰" services figures show an overall general increase in passenger satisfaction.

URBAN



Overall score

2018: 86.3%

2017: 82.8%

+3.5 p.p. ↑



Cleanliness

2018: 75.8%

2017: 72.0%

+3.8 p.p. ↑



Comfort

2018: 74.5%

2017: 73.7%

+0.8 p.p. ↑



improved



stable

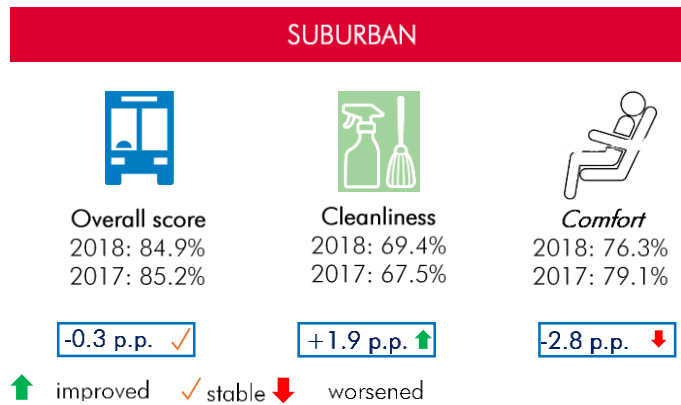


worsened

Passenger satisfaction with "suburban" services is substantially unchanged.

²⁹ CATI surveys were conducted in June/July of 2018 in the area served by Busitalia group, CAPI surveys in the Umbrian tourist cities in June/July, and a combination of CAPI surveys and passenger questionnaires across all areas served by Busitalia group in November/December. The market research company is Mediatica-MG Research and the total number of customers interviewed is 5,325 for suburban services and 9,541 for urban services (combined figures).

³⁰ Urban service figures for Busitalia group include the results of the Salerno surveys for urban/suburban links.



The Netherlands

The "OV Barometer"³¹ is used nationally to measure passenger satisfaction for Qbuzz BV³², for all runs and operators. In QBuzz's area of operation, the satisfaction rating of 7.7 was slightly higher than the national average of 7.6 (on a score from 1 to 10).

Freight

The customer is the main stakeholder for the Mercitalia hub. The company's customer-centric approach to customer needs and expectations resulted in the roll-out of a customer satisfaction survey in 2018 and which will be consolidated in 2019.

The customer-centric approach is demonstrated by:

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

Specifically, Mercitalia Rail S.r.l.³³ launched a pilot project in spring of 2018 to assess service quality. Service satisfaction levels were adequate but there is certainly room for improvement (64% in 2018³⁴ compared to 61% in 2016, +3%).

Also in 2018, to increase the level of reliability and to increase customer loyalty, Mercitalia Rail S.r.l. commenced a significant reorganisation of its single customer services front line, which handles all customer queries both in relation to operating issues (track & trace and short-term rescheduling) and documentary aspects (waybills, complaints and re-orders).

³¹ "OV-Klantbarometer" is a national survey carried out by a third party on the opinions of public transport users (urban and regional), where passengers can score different aspects of the service. The survey is carried out annually in the October-December period on buses, trams, metros, regional trains and ships. The areas of the survey correspond largely to the areas covered by public transport operators.

³²As the acquisition of Qbuzz BV was finalised during the last quarter of 2017, the figures are not comparable with those of the previous year.

³³ The first Mercitalia hub railway company arising from the demerger of Trenitalia's "Freight" business unit.

³⁴ The customer satisfaction analysis was not carried out in 2017 due to the organisational restructuring of the freight hub.

The new organisation, which is increasingly oriented towards the management of international traffic, is also active 24 hours for improved service.

Sustainable supply chain

Negotiations by FS Italiane group companies for the institutional purposes of the group and the companies themselves are undertaken in compliance with the principles of the EU treaty on competition and is governed by the "Group company negotiations regulation³⁵".

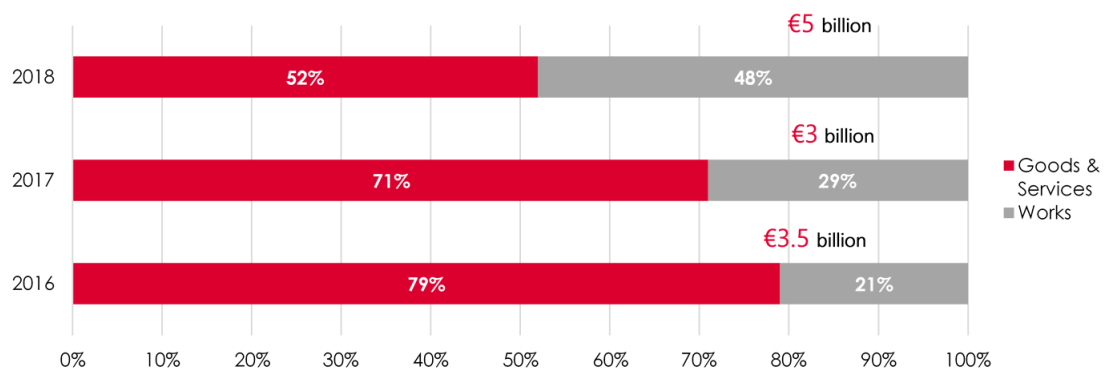
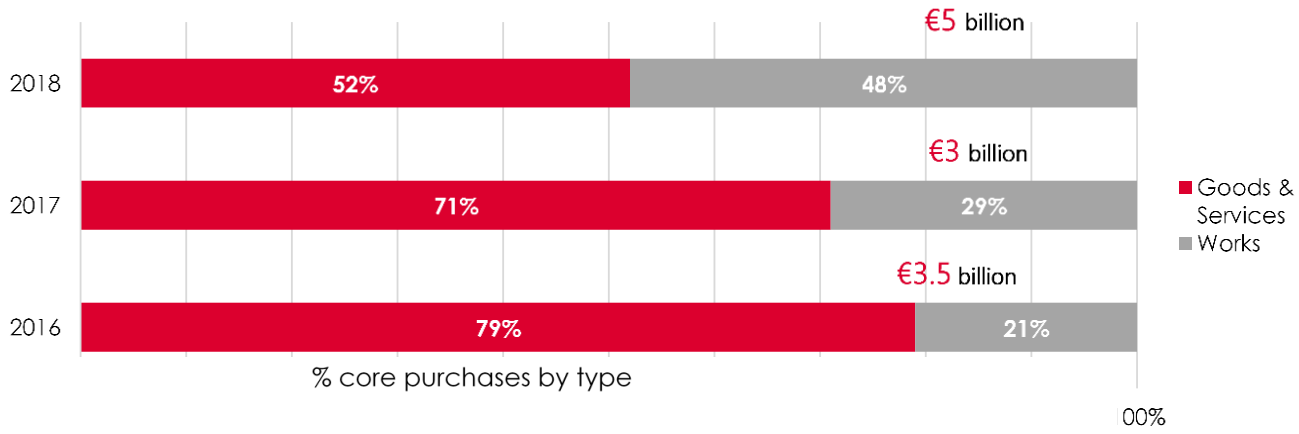
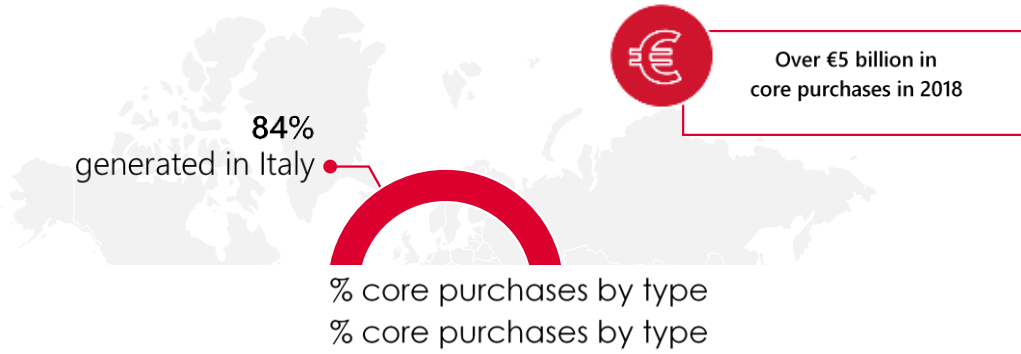
Relations with suppliers (including freelancers, consultants, brokers, subcontractors, subsuppliers and all parties involved in the supply chain in general) and business partners take place in compliance with the principles of honesty, integrity, impartiality and sustainability.

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

In 2018, the group companies managed procurement for the core business worth approximately €5 billion, over 84% of which from direct suppliers³⁶ with registered offices in Italy, which directly and indirectly generate income and jobs locally. In addition to these purchases, Ferservizi S.p.A. signed new contracts worth over €500 million for the group's non-core procurement.

³⁵ Available for consultation on the group companies' online purchase portals.

³⁶ Non-group companies with which the group companies have direct relationships.






Over 60% of purchases³⁷ were managed by RFI S.p.A. and Anas S.p.A. which, with their entrance into the group, increased the percentage impact of tender-related expenditure as a ratio of the total, contributing over 20% to the approximately €5 billion recognised in 2018.

The group's commitment to improving supply chain management continued in 2018 through the questionnaire to be filled out by its strategic suppliers³⁸, comprised of over 40 questions grouped into 4 sections (human rights, the environment,

³⁷ This amount refers to invoices issued during the year for the purchase of goods, services and works.

community and health and safety in the workplace), the performance of audit activities and the participation in Railsponsible, an initiative that brings together major railway companies to promote sustainable procurement by sharing best practices and virtuous processes.

Moreover, leveraging the experience gained by RFI S.p.A., which included a scoring criterion that rewards suppliers for their sustainability in their tenders in the second half of 2017, the group commenced its Supply Chain Sustainable Management project, using the monitoring platform developed by EcoVadis to improve the performance of the supply chain, while reducing environmental and social risks, via the three-step process set out below.

-  **Assessment**
Introduce a scoring criterion that rewards suppliers for their sustainability in tenders awarded to the offer with the best value for money.
-  **Monitoring**
Monitor the sustainability performance of suppliers by gathering and analysing information on their environmental, social and economic impacts.
-  **Check**
Carry out audits of suppliers.

³⁸ Strategic suppliers were identified using the weight percentage/total purchase for 2018 criterion.

Human capital

The number of group employees rose from 74,436 at 31 December 2017 to 82,944 at 31 December 2018, showing a net increase of 8,508, including 6,810 due to corporate acquisitions (+9,221 resources), 6,761 of which from Anas S.p.A. and its subsidiaries alone. The detailed information provided below complies with the requirements of article 3.2.d)/e) of Legislative decree no. 254 of 30 December 2016.

With respect to the breakdown of employees by gender, in 2018, the percentage of female employees increased, particularly managers and junior managers.

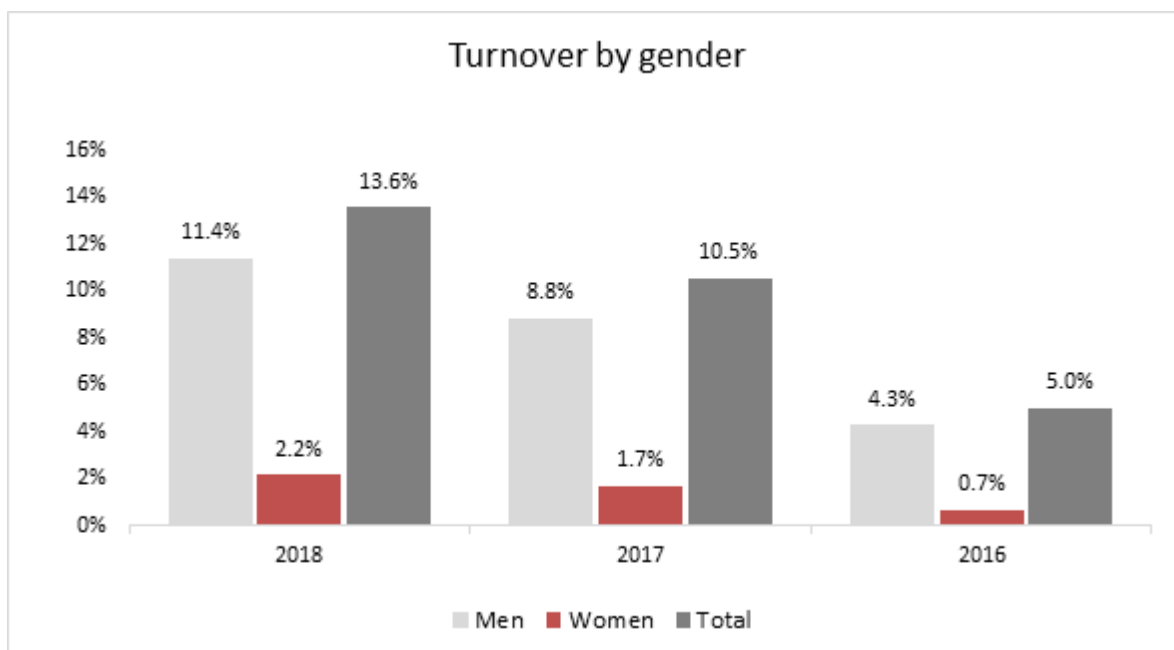
Number of employees of FS Italiane group		
	2018	2017
Managers	972	778
<i>Men</i>	796	644
<i>Women</i>	176	134
Junior managers	12,901	10,996
<i>Men</i>	10,427	9,142
<i>Women</i>	2,474	1,854
White collars	39,688	33,948
<i>men</i>	30,691	26,627
<i>women</i>	8,997	7,321
Blue collars	29,383	28,714
<i>men</i>	27,283	26,714
<i>women</i>	2,100	2,000
Total number of employees at 31 December	82,944	74,436
men	69,197	63,127
women	13,747	11,309
% of men	83.4%	84.8%
% of women	16.6%	15.2%
Average number of the year	81,662	72,441

NO. OF EMPLOYEES AT 31.12.2017	74,436
Incoming (*) (**)	14,420
Outgoing	5,912
NO. OF EMPLOYEES AT 31.12.2018 (*)	82,944
2017 AVERAGE	72,441
2018 AVERAGE (*)	81,662

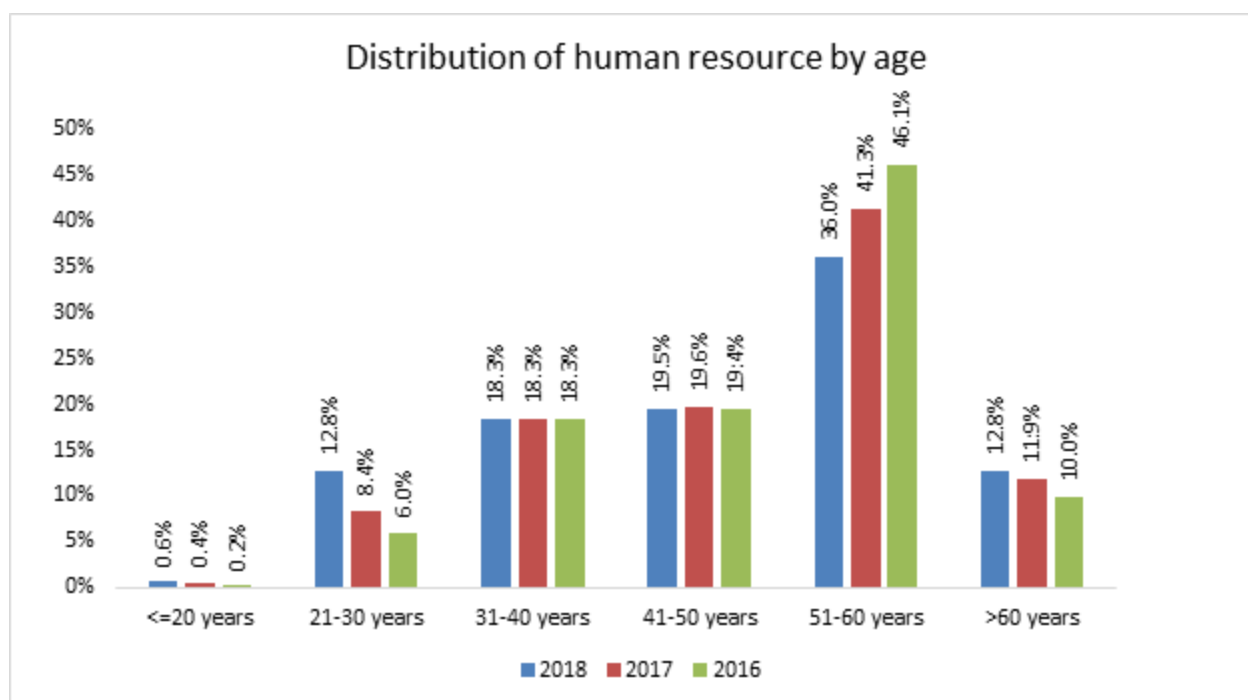
(*) 6,810 new employees arrived through corporate acquisitions.

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

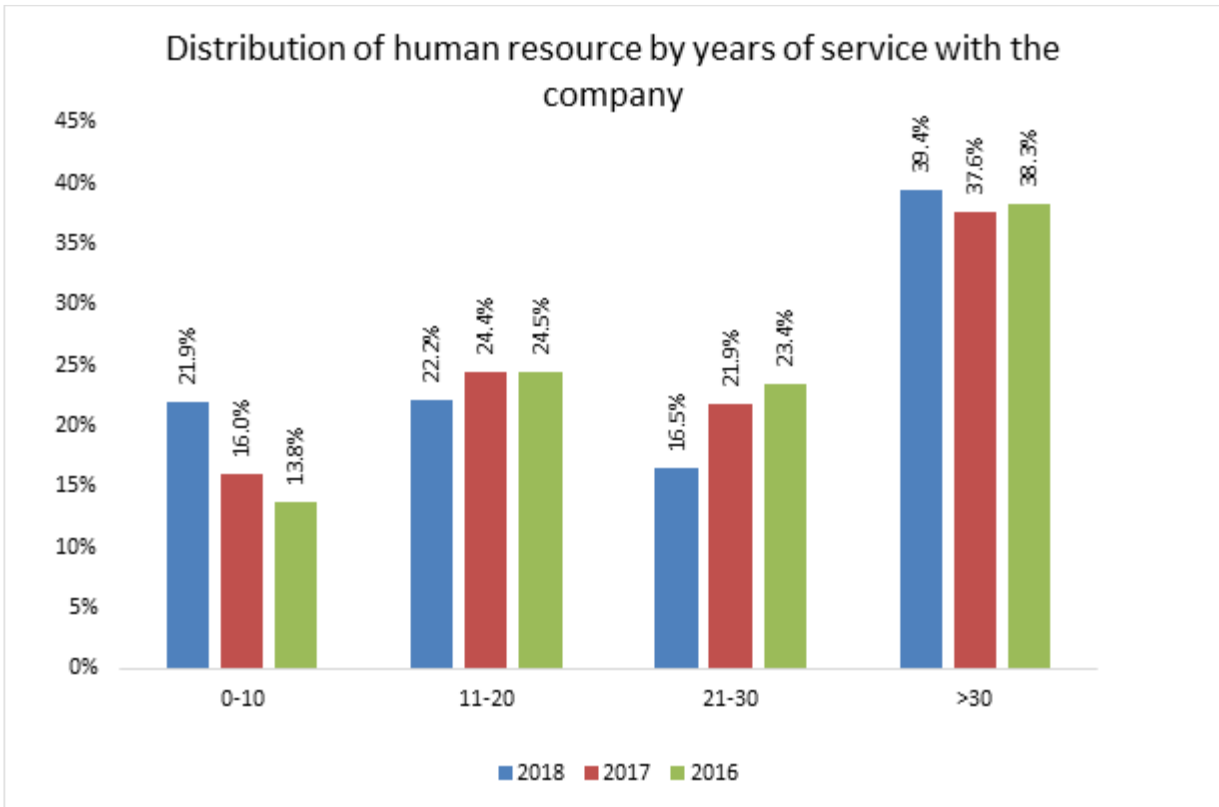
The following graphs show a detailed breakdown of the year's figures³⁹.



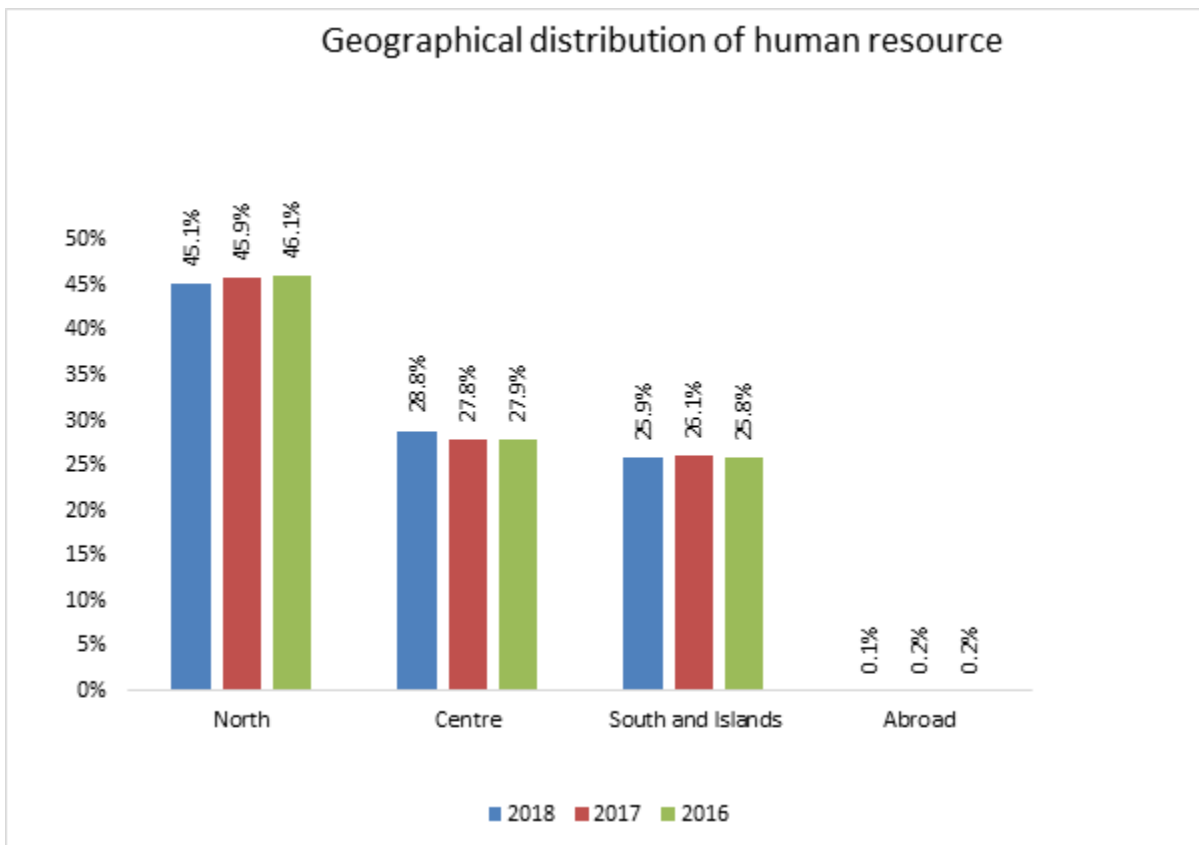
The change in turnover is due to the larger number of incoming and outgoing employees in 2018.



³⁹The scope of analysis includes the following companies: FS Holding, RFI S.p.A., Trenitalia S.p.A., Ferservizi S.p.A., Italferr S.p.A., FS Sistemi Urbani S.r.l., Mercitalia Logistics S.p.A., Mercitalia Rail S.r.l., Mercitalia Transport & Services S.r.l., Mercitalia Intermodal S.p.A., Busitalia Veneto S.p.A., Busitalia Rail Service S.r.l., Busitalia Campania S.p.A., Grandi Stazioni Rail S.p.A., Grandi Stazioni Immobiliare S.p.A., Terminali Italia S.r.l., Italcertifer S.p.A. and Nugo S.p.A..



The average number of years with the company in 2018 is 21.5 years, compared with 22.9 years in 2017, while the average age is 47.2 years old, compared with 48.4 years in 2017.



Including also apprentice contracts, the most common type of contract is open-ended, which is used for 99.9% of FS Italiane group's personnel. Part-time contracts account for 1.7% of the open-ended contracts. As in previous years, all employees are covered by national labour agreements. The national labour agreement applied to most of the group's non-management employees is that for the mobility/railway sector, integrated by FS Italiane group's agreement of 16 December 2016.

Relationships with trade unions and labour law

Guidance in the form of specific explanatory notes was provided to the FS Italiane group companies in 2018 on the legislative amendments to the labour market introduced by the "Dignity decree" (Decree law no. 87/2018 converted with amendments into Law no. 96/2018).

Operational guidance activities on the application of the provisions of the national labour agreement for the mobility sector/railway sector and FS Italiane group's employment contract of 16 December 2016 continued, taking into account the operational practice implemented after its renewal. As part of the Planning and management department's "rules harmonisation" project, legal support was provided on the application of the legal and contractual regulations on transfers, temporary employment arrangements, holidays, overtime and contract termination.

On 6 February 2018, Mercitalia Rail S.r.l., with the support of FS Italiane S.p.A., and the national trade unions signed an agreement recognising extracurricular traineeships as one of the ways to acquire professional skills necessary for employment. As regards the professional roles of train driver and multifunction train technician, the duration and training profiles of the apprenticeship contracts provided for in the national labour agreement for the mobility sector/railway sector of 16 December 2016 have been reviewed to take into account the training carried out during such traineeship.

Implementing the related contractual provision, the Smart Work agreement was signed on 20 April 2018. This introduced smart work in a structured manner in those FS Italiane group companies that apply the national labour agreement for the mobility sector/railway sector of 16 December 2016, to help employees strike a better work/home life balance. The "Guidelines and procedures for the management of smart work in FS Italiane group" were subsequently drawn up in conjunction with the relevant department. Moreover, the group companies that apply the national labour agreement for the mobility/railway sector and FS Italiane group's agreement and the National trade unions agreed the following on 23 April 2018:

- performance bonus agreement for 2018-2019-2020, structured on the basis of the macro-indicators of profitability, quality, productivity and individual participation in the business targets. It will only be possible to assess the achievement of such indicators for 2018 after the financial statements for the year have been finalised and the bonuses will be disbursed in June 2019 if the targets are achieved or exceeded;
- agreement for the payment of a one-off bonus to cover the 1 January - 31 December 2017 period, replacing the performance bonus which was not defined for 2017. The one-off bonus was paid in June 2018.

Also on 23 April 2018, the Regulation for the Participation and consultation body provided for by article 1 of FS Italiane group's employment contract, was signed.

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, the signing of the agreement on 26 October 2017 for the procedure to receive the extraordinary solidarity benefits under the same fund

and the publication of circular no. 107 of 9 November 2018 in which INPS (Italy's social security institution) provided guidance on the operation of such fund, Mercitalia Rail S.r.l. commenced the preparatory stages in 2018 for access to the fund by eligible employees. Conversely, as regards the extraordinary fund benefits, in 2018, Ferservizi S.p.A. and Rete Ferroviaria Italiana S.p.A. commenced the necessary procedures for employees eligible to for such benefits.

The percentage of group employees who are members of **trade unions** was 61.8% during the year, with no significant change on the previous year.

The **absenteeism rate** was 8.7% compared to 8.8% in the previous year.

	2018	2017	2016
Absenteeism rate	8.7%	8.8%	8.9%

Missed hours due to strikes show a substantial decrease on the previous year. Furthermore, company strikes accounted for around 28% of total missed hours.

	2018	2017	2016
Missed hours due to strikes	39,779	57,709	108,776

Personnel management and development policies

In 2018, job postings, developed in line with the customary principles of transparency, equal opportunity and the development of the group's internal resources, resulted in the promotion of professional diversification, by inviting personnel to express their interest in different professional areas, updating their online CV on the database, which contains over 1,300 resources. This resulted in an updated database of professional groups and positions to be filled within the group, which can be consulted for continuous job postings. A total of 84 positions were filled via intragroup job postings.

Recruitment on the market outside the group, likewise carried out in accordance with the principles of fairness, merit-based criteria, transparency, equal opportunities, and mainly thanks to group know-how, has focused on recent graduates in the field of engineering, as well as information & communication technology, business, law and specialised experts able to generate value for the group by supporting the achievement of its targets. This resulted a pool of 297 recent graduates eligible for employment at the group, 80 of which were recruited through ongoing collaboration with the network of universities and diversified employer branding activities. To become known for its innovation to increasingly attract young people in general, 5 #FSRecruitingday events were held, to involve, train and recruit students and recent graduates who stand to contribute to the mobility sector. A fully digitalised process saw 15,000 users take selection tests online (for soft skills, English language skills and video interviews) and on site (virtual reality, making makers game and collaboration game), generating a further pool to draw on for future requirements. Similarly, "professional breeding grounds" that are useful to the business were developed, identifying 377 experts and 25 managers of interest.

Each group company followed its own specific procedure in line with the group's principles and guidelines and used the group's know-how for the selection of operational personnel.

In 2018, the Development department rolled out the new Talent Management model, achieving the two-pronged aim of enhancing the various skills and pathways for the people of FS Italiane group and of streamlining and upgrading the evaluation and development process.

In terms of streamlining, the systematic use of questionnaires and online tests administered to candidates during the prework stage has resulted in the duration of the evaluation stage requiring the presence of the candidate being cut from two days to one.

Group employees were also sub-divided into organisational layers, each of which relates to a skills model based on the complexity level and the job profile (which can be more operational or specialised, depending on the process analysed).

This enables the enhancement of all the abilities, capacities, aptitudes, motivations and aspirations of each layer, ensuring a merit-based system and gender equality in the enhancement of the range of skills, specialisations and professional experience of each employee.

In 2018, development activities for the group's resources covered:

- professional and/or career development evaluation, involving 277 women and 846 men;
- the annual performance assessment conducted by resource managers using the integrated evaluation system, involving a total of 10,091 people (2,598 women and 7,493 men), representing about 16% of the average workforce for the year⁴⁰. The supervisors monitored the annual performance of resources not included in the integrated evaluation system assessment process informally (e.g., by providing feedback on strengths and areas for improvement).

Training

Training is a vital tool in enhancing professionalism and developing the skills necessary to achieve the group's business targets.

In 2018, the group provided over 573,372.92 training days⁴¹, around 31% more than in 2017, to maintain and update technical/specialised skills and develop a stronger culture of safety. Furthermore, 15,325 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 overall cost was over €9.4 million, covered by funding for training of around €6 million.

The objectives of the parent's training activities were to:

- consolidate and develop managerial expertise by supporting the performance of people who reach the highest positions and most important responsibilities and aligning managers with the new performance management process;
- follow through with the innovation and change processes underway, through training targeted to the actual needs of internal customers and based on a more lab-based approach to enhance skills by doing;
- accompany recent graduates through induction courses on the group's expertise, engagement, and knowledge of its key core business processes and lines and work;
- sustain a culture of diversity management, including by focusing sharply on life/work balance issues;
- facilitate the dissemination of regulatory and compliance content via digital learning.

Some of the group's training projects piloted on FS Italiane group employees in 2018 are detailed below.

Following the roll-out of the new performance management process in 2017, the performance evolution training course was implemented in 2018, involving over 1,000 group managers between March and June 2018. Training activities focussed on acquiring the skills and methods to manage continuous feedback and for the development of improvement/development plans for co-workers.

⁴⁰ The percentage is calculated on the average workforce for the scope of reference (FS Italiane S.p.A., RFI S.p.A., Trenitalia S.p.A., Ferservizi S.p.A., Italferr S.p.A., Mercitalia Rail S.r.l., Mercitalia Logistic S.p.A., FS Sistemi Urbani S.r.l. and Busitalia-Sita Nord S.r.l.).

⁴¹ The scope of analysis includes the following companies: FS Italiane S.p.A., RFI S.p.A., Trenitalia S.p.A., Ferservizi S.p.A., Italferr S.p.A., Mercitalia Rail S.r.l., Mercitalia Logistic S.p.A., FS Sistemi Urbani S.r.l. and Busitalia Sita-Nord S.r.l.

A GDPR (General Data Protection Regulation) digital learning course on Regulation (EU) 2016/679 of the European Parliament and of the Council was implemented for the large-scale, swift roll-out to all group companies of the specific mandatory training on data protection, establishing a regulatory framework for the protection of personal data for all EU member states.

The parent worked with one of the operating companies on a change management project for all employees and management, following a period of profound organisational change. Experimenting with team building and action learning methodologies, employees actively participated in the company's new mission in operational and communication practices, building a new sense of identity, a new spirit of belonging and an active role in the creation of integration between people and processes.

Important group projects continued in 2018, generating significant volumes. Particularly, the induction programme for recent graduates and experts which underwent a substantial overhaul in the latter part of the year. The entire programme, which lasts for a total of 18 months, has been redesigned on the basis of various inputs and according to the following criteria:

- a closer link with the new model of the group's expertise: the various stages of the induction programme examine in depth and provide training in all areas of expertise covered by the model, with the aim of increasing knowledge and a sense of ownership right from day one;
- the introduction of self-development tools: over the programme, as well as classroom learning, participants have access to digital tools (apps and e-learning modules) which enable them to gain practice in the expertise covered by the model remotely and independently.

Managerial training continued to attract management's interest (over 150 participants) with update seminars and webinars on the scenario, market and leadership as part of Ambrosetti's The European House programme.

Managerial training also included additional leadership programmes for around 150 junior managers heading micro-structures. 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.

In the area of institutional training, training activities continued for women returning from maternity leave and their direct supervisors to help improve the balance between work and family life. In addition to the completion of these training activities which began in 2017, around 20 women of the FS Italiane group companies were involved in new courses.

In addition, the parent has held meetings and update seminars on health and safety in the workplace, as well as numerous specialised technical courses on Administration and Financial Statements, Audit, Compliance and other.

The training provided directly by the parent focused on the following activities:

- maintaining and developing train operational safety skills;
- training on roles and key skills in the main production processes, and as regards the "roles" that act as a "link" between operating personnel and management, such as instructors and apprenticeship tutors;
- environmental protection training;
- 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.

2018 saw Trenitalia S.p.A. involved in customer care training for employees that work in the Freccia lounges in Rome and Milan, on-board personnel of the Freccia and Intercity trains and the DPR assistance personnel (a new service). There was also a significant focus on the key roles of instructors and apprenticeship tutors with training activities to support and bolster instructors' technical expertise (particularly in the area of Commercial DPR) in line with the various sector requirements. As relates to safety, a crucial training project was developed for maintenance operators and train drivers -

“Stop shunting accidents” - which involved over 800 employees with the aim of increasing the influence and impact of communication for the proper management of operating risk and “Vigilant Awareness 2.0”, which involved some 1,000 train drivers with the aim of developing awareness of the cognitive and emotional mechanisms of risk behaviours, by understanding the advantage of following the rules.

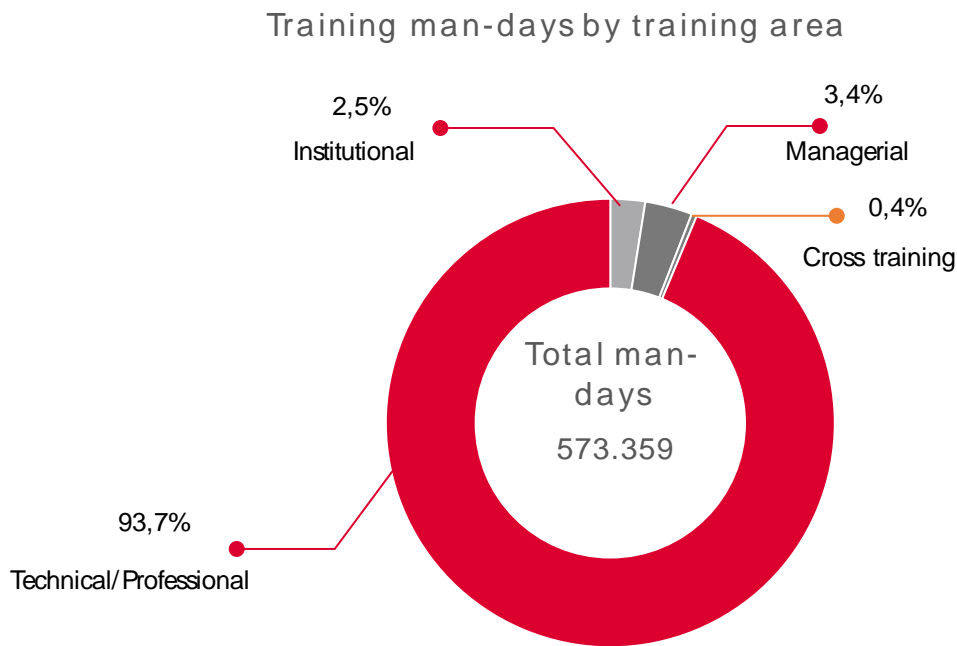
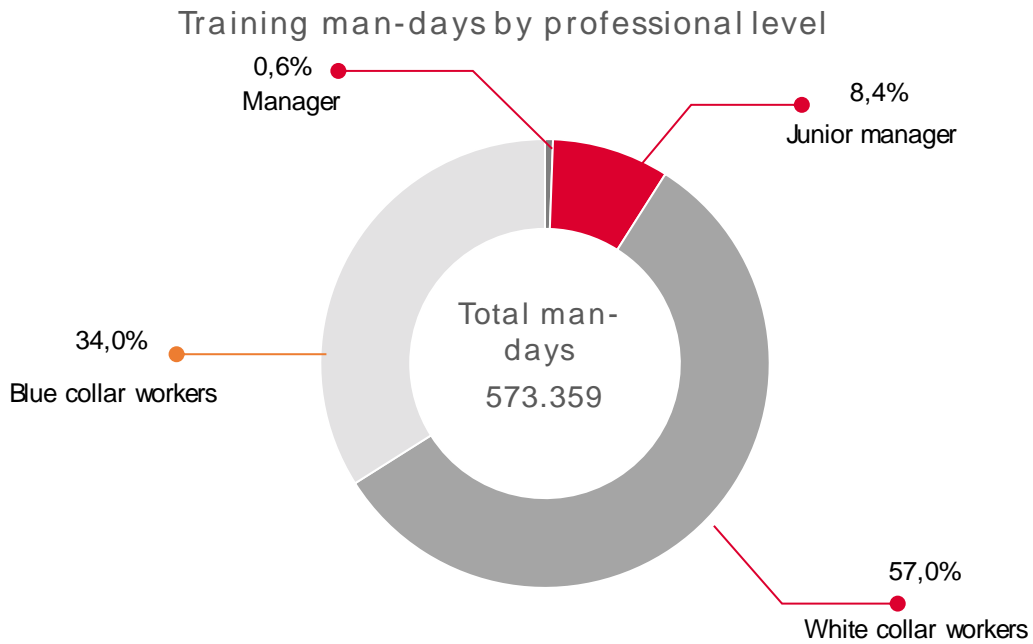
In this regard, RFI S.p.A. continued its safety culture campaigns, continuing both the “Vigilant Awareness” training and devising and holding a day for approximately 500 young specialised maintenance operators completing their apprenticeship, to reinforce their commitment as safety ambassadors and promoters. It also included targeted safety culture content in the professional courses. In its training programmes, RFI S.p.A. also began a pilot project involving personnel of the operating rooms to integrate the technical/specialist expertise and conduct specific to the job.

Ferservizi S.p.A. continued three age integration training projects involving junior management and white collars over 50 years of age on learning agility issues and on personal awareness and development (around 150 employees involved). All Ferservizi S.p.A. personnel underwent training on the new ISO 9001:2015 quality standards, while the employees that carry out the various roles within the environmental management system also received training on the new ISO 14001:2015 environmental standards.

The Mercitalia hub designed and delivered numerous intercompany training courses during 2018 on health and safety in the workplace and the environment, in order to consolidate the integration and transfer of skills in each of its companies.

Italferr S.p.A. continued its digitalisation process with the implementation both of the BIM system, with technical training and dissemination in the company, and the real-time management of tenders.

Busitalia–Sita Nord S.r.l. involved around 400 of its junior managers and white collars in training on Legislative decree no. 231/2001 through an e-learning course on the Organisational, management and control model pursuant to such decree. The aim is to increase awareness of the actions taken by the company for the application of Legislative decree no. 231 and to ensure that the employees of Busitalia–Sita Nord S.r.l. and its subsidiaries are aware of how important it is that their conduct complies with the “231 Model”, and the possible consequences of conduct that deviates from the regulations it sets out.



Health and safety in the workplace

FS Italiane group's updated code of conduct reinforces the importance of health and safety in the workplace, underlining that social responsibility for our group demands not only stringent compliance with health and safety regulatory requirements but also an investment in people, through the constant improvement of prevention procedures and the promotion of workplace wellbeing. Health and safety have always been key to the group's tradition and professional culture, embraced by all personnel and guiding the decisions and ways in which production processes are managed.

To confirm and strengthen the importance of and commitment to prevention, the parent organised the "Health and safety in the workplace and the promotion of workplace wellbeing" workshop in Rome on 17 January 2018. It was attended by

the CEOs of the group companies, the business managers, HR managers, audit and legal managers, the employers and those in charge of the companies' health and safety in the workplace departments. The initiative was transmitted to the group companies' branches and involved more than 500 company managers. The workshop represented the natural progression of the group's unrelenting commitment to prevention which has over the years seen a drastic decrease in accidents, exceeding targets, to become one of the leading industrial groups in the transport sector. Today, digital-driven technological and organisational changes - Industry 4.0 - represent a chance to once again invest heavily in the prevention culture. The CEO has strongly reiterated not only the commitment to the decrease in accidents among personnel, but also the need to deploy all initiatives and good practices for the expansion of a safety culture to the contract work. Antonio Marcegaglia, the CEO of the eponymous group, also attended the workshop, presenting the experience of his group which operates on international markets. Another defining moment of the workshop was the round table where the CEOs of RFI S.p.A., Trenitalia S.p.A., Busitalia-Sita Nord S.r.l. and Mercitalia Logistics S.p.A. presented their commitments and projects for the reduction of accidents.

On 7 May 2018, a safety in the workplace memorandum was signed at ENI's Marghera Port biorefinery between FS Italiane group and ENI S.p.A. - a leader in safety in its various businesses - with the aim of sharing experiences, best practices and knowledge about safety in the workplace, disseminating digitalisation in prevention and encouraging the even more virtuous and safe conduct of employees and contractor personnel. The aim of the memorandum is to increase safety standards in the tenders sector, improving management and the related operating processes. To implement the memorandum, a FS Italiane S.p.A.-ENI S.p.A. memorandum steering group was set up with group notice no. 10/DCRUO of 3 August 2018, comprised of representatives of the group companies tasked with liaising with the corresponding structures of ENI S.p.A. and promoting initiatives for sharing and for projects to disseminate best practices on the management of tender works and digital innovation for prevention. On 25 September 2018, the workshop where the group representatives presented the memorandum and the initial improvement projects was held in the auditorium of Villa Patrizi. The business managers, HR managers, audit and legal managers and those in charge of the group companies' health and safety in the workplace departments participated in the works.

In addition to FS Italiane group, the industrial groups in the Intercompany HSE Panel (Eni, Vodafone, Enel, Terna, Autostrade per l'Italia, IPZS, Saras, TIM and A2A) also participated in the workshop on organisational health, safety and environment models organised by the Sant'Anna school in Pisa, which involved three seminars in the months of February, July and November 2018. The first topic was leadership and extra-role conduct, investigating and discussing the organisational models that ensure rigour and technical and organisational compliance while also being resilient in the face of external/internal organisational changes. The second topic was risk management and the permeability of HSE organisational models, involving interviews with the managers of the various levels of work safety, environment and risk management of the participating companies, in order to assess how the risk management models and instruments applied in the various organisational areas interact with and fit in to the corporate organisation. The results of the workshop were the topic of the December meeting of the Intercompany Panel hosted by Anas S.p.A.: the companies gave a positive assessment of the workshop formula as a place of active exchange between the scientific and technical world and that of large companies and - although for different reasons - they found it fundamental in order to make the prevention management tools more efficient, particularly at this time of massive changes.

The group's rigorous commitment to prevention focussed on the achievement of the accident reduction and prevention improvement targets for safety operating processes, prescribed by group measure no. 214/2016, continued in 2018.

The reporting scope further increased on that of 2017 and now includes Italcertifer S.p.A. and FS Sistemi Urbani S.p.A., as well as Ferrovie dello Stato S.p.A., RFI S.p.A., Trenitalia S.p.A., Ferservizi S.p.A., Italferr S.p.A., Busitalia-Sita Nord S.r.l., Mercitalia Logistics S.p.A. and Mercitalia Rail S.r.l.. Based on INAIL data on accidents indemnified, currently being

determined, the table below shows 2018 data on the companies in the new reporting scope and the updated figures for previous years for the previous reporting scope for consistency purposes. The overall figures confirm the long-term trend of a steady reduction in accidents and in the frequency rate, while there was a small decrease in accidents in transit.

The estimate of the definitive figures for the railway sector only, the accident rate continued its improvement trend, with a reduction of approximately 10.4% in 2018, compared to 2017, overperforming the target reduction of 3%, and a roughly 10.8% decrease in the frequency rate, compared to the target decrease of 3%. For the first time the estimated rate is lower than 20.

The following tables illustrates changes in the years.

Accidents indemnified by INAIL: broken down by gender

Accidents indemnified by INAIL ⁴²	2018 ⁴³	2017	2016
Accidents in the workplace	1,141	1,333	1,352
Accidents - women	142	175	173
Accidents - men	999	1,158	1,179
Fatalities	4	1	2
Accidents - women	-	-	-
Accidents - men	4	1	2
Accidents in transit	264	338	302
Accidents - women	80	88	91
Accidents - men	184	250	211
Frequency - overall ⁴⁴	18.4	21.6	22.5
Frequency - women	14.4	17.2	19.7
Frequency - men	19.0	22.0	22.5
Seriousness index ⁴⁵	776	838	1,001

Anas S.p.A. reported 100 accidents at work, with a frequency rate of 16.5%⁴⁶.

⁴² Partially consolidated INAIL data 2018/17.

⁴³ The 2018 figures include the following companies: FS Italiane S.p.A., RFI S.p.A., Trenitalia S.p.A., Ferservizi S.p.A., Italferr S.p.A., FS Sistemi Urbani S.r.l., Italcertifer S.p.A., Mercitalia Logistics S.p.A., Mercitalia Rail S.r.l. and Busitalia-Sita Nord S.r.l..

⁴⁴ Frequency rate: [no. of accidents at work/amount]x 1,000 employees, calculated in accordance with European ESAW standards.

⁴⁵ Seriousness index: [number of missed days]/amount]x 1,000 employees.

⁴⁶ The data are processed using the same criteria used for the other companies.

Commitment to the community

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

Help Centres

As the economic crisis continues and migration surges, all of Italy is experiencing the deterioration of social conditions, which is particularly evident at railway stations. Promoted and managed in collaboration with local bodies and non-profit associations, the help centres are the group's answer to the growing social distress and the considerable rise in migration to Europe. The help centres are information points 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 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 2,658⁴⁷m² has been granted, with an estimated value of €3,987 thousand (estimating an average of €1,500 per m²). As well as the 18 help centres already active in Italy, help centres are slated to be opened in Rovereto and Viareggio in 2019, while the Pescara and Messina centres will be expanded and help centres are being contemplated for Terni and Cagliari.

In addition, following an agreement between the Tuscany regional authorities and FS Italiane group, studies are in progress for the opening of additional help centres in Livorno, Montecatini and Grosseto.

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

⁴⁷ The decrease from the previous year, when the square metres were 2,919, is due to a different reporting of the square metres of the areas granted, based on the allocation of the services and the functions carried out therein.

Existing
Trieste
Brescia

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. In 2018, the group committed roughly €169 thousand to activities and projects to help socially disadvantaged people.

Welcome centres

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

- the “Don Luigi a Liegro” Caritas shelter in Rome;
- the “Rifugio Caritas” shelter in Milan;
- the “Binario 95” day shelter in Rome;
- the Arca onlus project in Milan;
- the “Pedro Arrupe” shelter in Rome for those seeking asylum and political refugees, managed by the “Centro Astalli” association. The centre has operated in the former Rome shunting site Ferrotel since 2002. In 2018, it hosted 17 families, for a total of 51 people. Six families left the centre and moved into their own homes or continued semi-independently.

The total surface area granted under free loan agreements for social activities carried out in the help centres measures 11,000 m², with a total estimated value of €16,524 thousand (average value of €1,500 per m²). The total surface area granted under free loan agreements for social activities in 2018 measures 13,674⁴⁸ m², with a total estimated value of €20,511 (average value of €1,500 per m²).

Reuse of idle real estate assets and railway lines

Ferrovie dello Stato Italiane group owns not only assets that are functional for its core business, but also extensive real estate holdings, some of which are no longer used, consisting of railway stations, booths and tracks. To date, in collaboration with local bodies and non-profit associations, 491 stations have been reassigned for activities to improve the local area or provide public services⁴⁹. Total spaces of roughly 118,000⁵⁰ m² have been provided, with a total value of €176,600 thousand. Idle railway lines that can potentially be used for social purposes and soft mobility span approximately 1,400 km, including lines that have been definitively declared out of use by ministerial decree and those consisting of idle sections due to route changes. At present, roughly 400 km of idle lines have been converted into tourist lines, cycling paths and greenways.

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

⁴⁸The total surface area has been calculated considering the network of help centres (2,658 m²) and welcome centres (11,016 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. The decrease compared to 2017 is due to the return of some areas to the Milan municipal authorities by the Progetto Arca association.

⁴⁹ The number refers to stations with at least one free loan agreement in place.

⁵⁰ The number refers to buildings granted on a free loan basis. The group also granted yards outside the stations and/or land totalling roughly 4,671,400 m².

Main events of the year

The main events of the year are reported below:

- **Trenitalia S.p.A., new service contract with the Veneto region**

On 11 January 2018, Trenitalia S.p.A. 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 S.p.A., 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 S.p.A. shares to FS Italiane S.p.A.**

The transfer of Anas S.p.A. shares to FS Italiane S.p.A. took place on 18 January 2018. The MEF transferred the entire investment in Anas S.p.A. to FS Italiane S.p.A. following the approval of the Antitrust Authority. The MEF's subscription of the capital increase of €2.86 billion is the final step of the procedure. As a result, Anas contributes to the group's consolidated figures from 2018.

- **Italferr S.p.A. 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. 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.

- **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 S.p.A. network which envisages the following main steps:

- partial demerger of the business unit related to the exploitation of the commercial areas of the three small to medium-size stations, Rome Ostiense, Milan Porta Garibaldi and Padua, from Centostazioni S.p.A. to a newco (Centostazioni Retail S.p.A.), which will develop them on the market;
- Centostazioni S.p.A.'s merger into RFI, following the demerger referred to in the previous point;
- RFI S.p.A.'s contribution to Centostazioni Retail S.p.A. of the business unit related to the exploitation of the commercial areas of the two small to medium-size stations, Turin Porta Susa and Naples Afragola, if the tender for Centostazioni Retail S.p.A. on the market is successful.

In implementation of this programme, 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, insofar as it concerns them, on 6 February 2018. Finally, on 28 February 2018, the parent'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.

On 13 November 2018, the board of directors of RFI S.p.A. approved the contribution to the newco Centostazioni Retail S.p.A. of the RFI retail business unit, related to the exploitation of the commercial and advertising areas of the Turin Porta Susa and Naples Afragola stations.

In implementation of the shareholders' resolutions, the partial demerger deed for Centostazioni S.p.A. was signed on 27 June 2018. On the same date, the CS-CS Retail contract was signed between Centostazioni S.p.A. and Centostazioni Retail S.p.A., a subcontract of the original Centostazioni agreement of 2001, so that the beneficiary of the Centostazioni retail business unit can take over the operation of the above three stations. Centostazioni Retail and RFI S.p.A. took over this contract, following the merger of Centostazioni S.p.A. into RFI S.p.A. (with a view to the station network reorganisation).

Accordingly, at 31 December 2018, the fully subscribed and paid-in share capital of Centostazioni Retail S.p.A. is divided among the shareholders as follows:

- 78.35% of the share capital held by Ferrovie dello Stato Italiane S.p.A.;
- 21.65% of the share capital held by RFI S.p.A..

Pursuing the objective of enhancing non-core assets, the entire share capital of Centostazioni Retail S.p.A. was simultaneously offered for sale via a tender launched in March 2018, culminating in the receipt of two binding offers in late October 2018 and the identification of the best offer as Altarea SCA.

On 27 November 2018, FS Italiane S.p.A.'s board of directors approved the sale to Altarea SCA at the offer price and the transfer thereto of its investment (78.35%) in Centostazioni Retail S.p.A.. Likewise, on 5 December 2018, RFI S.p.A.'s BoD approved the sale to Altarea SCA at the offer price and the transfer thereto of its investment (21.65%) in Centostazioni Retail S.p.A..

The transaction's closing is slated to take place in March 2019.

- **FS Italiane S.p.A. is the Best Employer of Choice again in 2018**

On 8 February 2018, FS Italiane group was again 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 S.p.A. 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.

- **Master agreement between the Lazio region and RFI S.p.A.**

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.

- **Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.'s deed of arrangement**

On 14 March 2018, the proposed deed of arrangement for Ferrovie del Sud Est e Servizi Automobilistici S.r.l. received the majority of favourable votes. The deed of arrangement provides for the payment of the full amount due to

privileged and pre-deductible creditors (who will be repaid within one year) and payment of 51% of the unsecured creditors. With a decree dated 9 April 2018, the Bari Court acknowledged the measure on the same date as the Bankruptcy judge approved it. On 25 June 2018, the Bari Court approved the deed of arrangement filed by Ferrovie del Sud Est e Servizi Automobilistici S.r.l. as it was approved. The company was notified of the approval of the deed of arrangement on 10 July 2018.

- **Inauguration of the Trieste Airport intermodal hub**

On 19 March 2018, the new Trieste Airport intermodal platform was unveiled, in the presence of the Chairman of Aeroporto Friuli Venezia Giulia S.p.A., the CEO and general director of RFI S.p.A., the director of ENAC, the Chief of staff of commissioners of Alitalia S.p.A., the mayor of Ronchi dei Legionari and the governor of the Friuli Venezia Giulia region. The new transport hub in Friuli Venezia Giulia sees the full integration of the airport, which has been fully upgraded, with a new railway station, a bus station and the new multi-storey and ground-floor parking station. The total cost of the works was €17.2 million, publicly and privately funded in line with the regulations governing EU funds (public financing of €14.2 million and private co-financing of €3 million). Rete Ferroviaria Italiana S.p.A. built the new railway station, called Trieste Airport, which serves the Friuli Venezia Giulia airport and is on the Venice-Trieste line between the Monfalcone and Cervignago A.G. stations. The cost of the works carried out by RFI S.p.A. was €1.6 million.

- **Sustainability: agreement signed between FS Italiane S.p.A. and Banca Etica for the development of projects to reuse railway stations and lines**

A memorandum of understanding was signed by the CEO and general director of FS Italiane S.p.A. and the general manager of Banca Etica on 26 March 2018, for the funding and implementation of projects for the redevelopment and reuse for social, environmental and cultural purposes of around 450 idle stations and the decommissioned railway lines of Rete Ferroviaria Italiana S.p.A.'s railway network. In the partnership agreement, FS Italiane S.p.A. and Banca Etica undertake to promote and support integrated projects.

- **Agreement between Brescia Mobilità and Ferrovie dello Stato Italiane S.p.A. for the design and construction of two new tram lines in Brescia**

A partnership agreement was signed by Brescia Mobilità and Ferrovie dello Stato Italiane S.p.A. on 29 March 2018 for the preparation of project financing for the construction and management of two new tram lines in Brescia. Brescia Mobilità group, which currently manages the entire integrated urban mobility system, undertakes to perform a key role in the design, construction and management stages of the new means of transport and Ferrovie dello Stato Italiane S.p.A. is a strategic partner for the entire project, both in terms of the technical expertise and experience it brings and in terms of its commitment to infrastructure works of metropolitan areas and urban centres in relation to which FS Italiane group's business plan earmarks €2.3 billion for project finance to co-finance works.

- **The new "Unica Toscana" personal electronic pass for travel on urban services in the Florence metropolitan area and the regional and supra-regional services of Trenitalia S.p.A.**

On 30 March 2018, the Regional Councilman for Transport, the mayor of Florence, the CEO of Busitalia-Sita Nord S.r.l. and the director of Trenitalia's regional passenger division unveiled the "Unica Toscana" personal electronic pass for travel on urban services in the Florence metropolitan area and the regional and supra-regional services of Trenitalia S.p.A.. The card is a result of the joint efforts of Busitalia-Sita Nord S.r.l., Trenitalia S.p.A. and ATAF Gestioni S.r.l. to promote collective, integrated and sustainable mobility - one of the pillars of FS Italiane group's 2017-2026 business

plan, - facilitating combined use and modal interchange between the urban transport and railway services, offering passengers a unique travel experience.

- **Mercitalia Fast is established, the Mercitalia hub's new all-freight service**

Mercitalia Fast, the Mercitalia hub's new all-freight service, was launched on 6 April 2018, and will operate on the Caserta-Bologna route with a travel time of 3 hours and 20 minutes at an average speed of 180 km/h, using the Italian HS/HC network. Freight will be transported on ETR 500 trains (12 wagons for a transportation capacity equal to 18 lorries or two Boeing 747 Cargo planes) specifically equipped for the transport of roll containers, which are easy and fast to load, unload and stow. The new Mercitalia Fast service is designed for the transport of time-sensitive products, i.e., in agreed short timeframes for customers such as express forwarders, logistics operators, producers, distributors and valuator.

- **RFI S.p.A. and the Central Tyrrhenian sea port authority sign a memorandum of understanding for the infrastructural upgrade of the Naples port**

On 6 April 2018, the CEO of RFI S.p.A. and the president of the Central Tyrrhenian sea port authority signed a memorandum of understanding for the infrastructural upgrade of the Naples port, with the aim of increasing freight traffic to and from the port of Naples, one of the ports of the trans-European TEN-T core corridors network. The memorandum establishes a joint work group which over the next seven months will identify the infrastructure development works necessary to connect the Neapolitan port with the national railway network.

- **Italferr S.p.A. presents the new application of the Envision protocol**

On 10 April 2018, Italferr S.p.A. and RFI S.p.A. unveiled the new application of the Envision protocol, the US rating system to calculate the sustainability of works during the design stage. In Italy, Italferr S.p.A. has implemented Envision in conjunction with RFI S.p.A. and ICMQ (Istituto di Certificazione e Marchio Qualità) in the construction sector, developing the guidelines for the application in the design and construction of railway lines and new infrastructures both in Italy and abroad to increase design sustainability and ensure an integrated approach across the design, construction and roll-out stages.

- **The "Unica Emilia Romagna" personal, multi-service smart card featuring contactless technology is launched for Trenitalia and Mi Nuovo pass holders**

On 16 April 2018, the Councilman for Infrastructure and Transport for the Emilia Romagna region, the CEO and general director of Trenitalia S.p.A., Trenitalia S.p.A.'s regional transport director and the chair and CEO of TPER unveiled the "Unica Emilia Romagna" personal, multi-service smart card featuring contactless technology for Trenitalia and Mi Nuovo pass holders. The aim of the "Unica Emilia Romagna" card is to offer local public transport passengers personalised support for their travel needs, irrespective of the mode of transport and operators used.

- **Agreement signed for the development of railway projects for the upgrade of the Trento railway hub**

The Memorandum of understanding was signed on 17 April 2018 by the Commissioner for the Brenner Tunnel, the governor of the Trento province, the mayor of Trento and the CEO of RFI S.p.A., for the construction of the Trento railway bypass and to commence feasibility studies for important town planning and architectural projects for the city. The final aim is to upgrade the railway system in the Trento hub and plan railway and road transport services in line with the urban mobility plan.

- **New service contract signed between Trenitalia S.p.A. and the Sicily region**

On 17 May 2018, the governor of the Sicily region and the CEO and general director of Trenitalia S.p.A. signed the new service contract with the Sicily region in force until 2026. The contract provides for long-term planning, with an increased production of 1.2 million train-km and new investments exceeding €426 million earmarked, inter alia, for the updating of the fleet with the purchase of new trains and revamping activities to improve travel comfort.

- **Ataf Gestioni S.r.l. unveils 37 new buses for mobility in Florence**

On 7 June 2018, 37 new buses for mobility in the Florence metropolitan city were unveiled by the CEO of Busitalia-Sita Nord S.r.l. and the chair and the CEO of ATAF Gestioni S.r.l.. The new buses, of various types to best respond to service and traffic needs, were purchased under the interim contract agreed with the Tuscany regional authorities, for an investment of around €8.5 million.

- **Launch of the new Nugo app**

On 8 June 2018, the CEO of FS Italiane S.p.A. and the chair of Nugo S.p.A. unveiled the new Nugo app, which passengers can use for all their ticket and booking needs, pinpointing the best route in the shortest time possible, combining trains, buses, car and bike sharing, taxis and much more with a single payment. The service already has over 385 integrated partners and covers 20 Italian regions.

- **New service contract signed between Trenitalia S.p.A. and the Puglia region**

On 12 June 2018, the governor of the Puglia region and the CEO and general director of Trenitalia S.p.A. signed the new service contract with the Sicily region in force until 2032. The contract provides for long-term planning, with an increased production of 300 thousand train-km and investments of €350 million earmarked, inter alia, for the updating of the fleet with the purchase of new trains and revamping activities to improve travel comfort.

- **New service contract signed between Trenitalia S.p.A. and the Lazio region**

On 22 June 2018, the governor of the Lazio region and the CEO and general director of Trenitalia S.p.A. signed the new 15-year service contract with the Lazio region (2018-2032), pursuant to Regulation (EC) no. 1370/2007, which provided for investments of €1.4 billion, as follows: €907 million for new trains, co-financed by the Lazio region for €149.1 million (65 new Rock trains, 3 bimodal diesel trains and 4 fast regional trains), €110 million for the revamping of trains already in operation, €106 million for plant, €249 million for routine maintenance and €10 million in IT and technology. The new contract also provides for a 2.9% increase in services (in terms of train-km), the expansion of the Lazio sales network and not increasing the annual and monthly regional travel pass costs or of single tickets.

- **Campidoglio-RFI-FS Sistemi Urbani: memorandum of understanding on the metro-railway system to promote the "iron cure" and urban regeneration**

On 24 July 2018, Roma Capitale, Rete Ferroviaria Italiana S.p.A. and FS Sistemi Urbani S.r.l. signed a memorandum of understanding for the development of the metro-railway system and the urban regeneration of the railway areas decommissioned by Roma Capitale, through works and scheduled investments. Specifically, the planned works include the construction of the Pigneto interchange, the new town planning project for the Tiburtina station, the completion of the northern railway ring and the redevelopment of the areas around the Tuscolana, Trastevere, Porto Fluviale and Quattro Venti stations, right up to the Ostiense station.

- **Trenitalia Umbria: new service contract signed with the region for commuters**

The Trenitalia S.p.A./Umbria region service contract in force until 2032 was signed in Perugia on 27 July 2018. The 15-year term of the contract will enable Trenitalia S.p.A. to implement Umbria's largest ever investment programme in trains for over €236 million, mostly earmarked for the updating for much of the fleet, as well as revamping activities, routine maintenance on trains, IT, technology and works on plant. The new contract and new trains, which will begin circulating in Umbria as from 2021, will offer significant and immediate improvements in the service quality levels, with positive effects on commuters' quality of life.

- **Appointment of the new board of directors of FS Italiane Group**

In agreement with the MEF and the MIT, the shareholder's meeting of FS Italiane S.p.A. was held on 30 July 2018, following the removal of the board of directors of FS Italiane S.p.A.. The shareholder appointed the new board of directors for the 2018-2020 period, comprised of Gianluigi Vittorio Castelli, Gianfranco Battisti, Flavio Nogara, Andrea Mentasti, Cristina Pronello, Francesca Moraci and Wanda Ternau. The shareholder then appointed Gianluigi Vittorio Castelli as chairman of the company and invited the new board of directors to appoint Gianfranco Battisti as CEO.

- **Gianluigi Castelli elected chairman of the UIC (Union Internationale des Chemins de fer)**

On 3 September 2018, FS Italiane group's new chairman, Gianluigi Castelli, was elected chairman of the UIC, the association that represents the railway sector around the world. The UIC groups together over 200 companies from 100 countries, on all five continents. The UIC's mission is to promote railway transport worldwide in response to the challenges of sustainable mobility and development.

- **Morandi Bridge, Genoa: start of site activities for the repair of the railway lines**

On 14 September 2018, the Genoa Civil Protection Service gave the approval to access the railway area affected by the collapse of the Morandi bridge and to commence works to repair the railway infrastructure. RFI S.p.A. immediately acted to comply with the provisions received with the preparatory works required to start the works. The works will allow the resumption of two of the three lines interrupted since last 14 August, particularly the "Linea Sommergebile" line used for freight traffic between the ports of Genoa Marittima and Genoa Sampierdarena and the "Linea Bastioni" line used for passenger and freight traffic between Genoa Sampierdarena and Ovada, Milan and Turin. The "Linea Sussidiaria" line used for passenger transport between Genoa Sampierdarena/Genoa Rivarolo and Busalla can only be repaired after the procedure to secure/demolish the ruptured part of the Morandi bridge that overhangs the line.

- **Fitch confirms FS Italiane S.p.A.'s 'BBB' rating and downgrades the outlook to negative**

On 5 October 2018, Fitch Ratings issued its annual credit ratings for Ferrovie dello Stato Italiane S.p.A., confirming an issuer default rating of BBB. It also confirmed its BBB rating for the €4.5 billion EMTN Programme and related bonds. The agency downgraded the outlook from stable to negative, reflecting the downgrade of Italy's outlook on 31 August 2018. The methodology used to rate government-related entities means there is a close correlation between the rating of FS Italiane S.p.A. and Italy's. Fitch also confirmed FS Italiane S.p.A.'s BBB standalone rating.

- **Expression of interest and offer for Alitalia**

On 12 October 2018, Ferrovie dello Stato Italiane S.p.A. submitted an expression of interest for Alitalia. Subsequently, on 31 October 2018, an offer was submitted for the purchase of the Alitalia-Società Aerea Italiana and Alitalia Cityliner business units.

- **FS Italiane group, CDP group, Fincantieri, Snam, Terna and Institutions to support Genoa**

On 19 November 2018, Cassa Depositi e Prestiti group, together with Fincantieri, FS Italiane group, Snam and Terna, rolled out a series of initiatives to support the city of Genoa and its metropolitan area which was hit hard by the collapse of the Morandi bridge. FS Italiane group made available its know-how and technical and design expertise to help in the rebuilding of the infrastructure.

- **FS Sistemi Urbani S.r.l. wins the “100 Italian excellences” prize**

On 4 December 2018, FS Sistemi Urbani S.r.l. won the real estate category of the “100 Italian excellences” prize. FS Italiane group’s real estate company, recognised as an excellence made in Italy, distinguished itself for its activities to upgrade real estate assets that are no longer used in railway operations, together with the development of integrated urban services for the community with the prospect of business, streamlining, functional improvement and community services. The prestigious award was won by FS Sistemi Urbani S.r.l., which has been operating for ten years, in recognition of the successes achieved, including under the guidance, until July 2018, of Gianfranco Battisti, now FS Italiane S.p.A.’s CEO and General director.

- **Polcevera Bridge: Italferr S.p.A. assigned the executive design activities**

On 18 December 2018, Italferr S.p.A. was assigned the executive design activities for the reconstruction of the “Polcevera” Bridge in Genoa. The FS Italiane group company will base its design on an architectural idea developed by the Renzo Piano Building Workshop. The engineering company will commence works immediately at the executive design of the new bridge, such to comply with the timeline and complete the structural works by the end of 2019, as established by the companies awarded the tender, Salini Impregilo and Fincantieri, which appointed Italferr S.p.A. as the designer. The works were assigned with a decree issued by the extraordinary commission for the reconstruction of the “Polcevera” bridge in Genoa, following a market survey and tenders procedure.

- **ANAS: shareholder appoints a new board of directors**

On 19 December 2018, the board of directors of FS Italiane S.p.A. approved the list of the new directors of Anas S.p.A., which were subsequently appointed by the shareholders in their meeting of 21 December 2018. The new board will remain in office for the 2018-2020 three-year period. After the shareholder’s meeting, the new board of directors appointed Massimo Simonini as CEO and general director and Claudio Andrea Gemme as chairman.

Internationalisation initiatives

- **Brenner base tunnel: summit in Rome between FS Italiane S.p.A. 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.

- **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.

- **FS Italiane S.p.A. and Indian Railways: the cooperation to develop the New Delhi – Jaipur railway connection begins**

On 6 February 2018, the delegations of FS Italiane S.p.A. and Indian Railways reached an agreement providing for a collaboration roadmap in order to deliver 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 the 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.

- **The Netherlands, Busitalia: Qbuzz BV is awarded the provision of LPT services in the DAV area**

On 23 February 2018, Qbuzz BV 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. The service will be paid beginning in December 2018.

- **FS Italiane S.p.A.: the agreement with the Turkish railways to provide railway employees with specialist training is signed**

On 5 March 2018, 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 group'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.

- **Anas S.p.A.: activities proceed for the development of the Silk Road network**

On 14 March 2018, an agreement was signed in Yerevan, Armenia, between the CEO of Anas International Enterprise S.p.A. (AIE), Anas S.p.A.'s subsidiary that operates on foreign markets, the Armenian Prime Minister, the Transport minister and the acting CEO of the North-South Road Corridor Investment Program, recognising AIE as a private partner for the construction and management of a section (from Sisian to Agarak) of the North-South motorway corridor that crosses Armenia from Georgia to the border with Iran.

- **Mercitalia Rail S.r.l. and UTLC sign a memorandum of understanding for integrated freight container transport between China and Europe**

On 29 March 2018, a memorandum of understanding was signed by Mercitalia Rail S.r.l.'s Intermodal transport manager and the chair of United Transport and Logistics Company (UTLC), specialised in the transport of freight containers on the Europe-Chinese axis. The objective of the memorandum is to develop the integrated transport of freight containers between China and Europe via Kazakhstan, Russia, Belarus and Italy.

- **Italferr S.p.A. is appointed main designer for the infrastructure and technological upgrade project of the “Sarmiento” railway line to Buenos Aires, Argentina**

The agreement between Italferr S.p.A. and the G&S consortium was signed on 4 April 2018, providing for the executive design by the FS Italiane group’s engineering company, as main designer, for the upgrade works for the “Sarmiento” railway line in Buenos Aires, Argentina (approximately 37 km).

- **RFI receives safety authorisation for the Bardonecchia – Modane cross-border traditional line**

On 23 May 2018, Rete Ferroviaria Italiana S.p.A. received the safety authorisation from the Établissement Public de Sécurité Ferroviaire (EPSF), the French railway safety agency, for the Bardonecchia–Modane cross-border traditional line, valid for five years. RFI S.p.A. is one of Europe’s first infrastructure managers to have received safety authorisations from agencies in two different EU member states (Italy and France). RFI S.p.A.’s high design, maintenance, management and traffic control standards have thus also been recognised by a non-Italian authority.

- **Trenitalia becomes the lead company in the Eurail group GIE consortium**

On 20 June 2018, Trenitalia S.p.A. became the lead company in the Eurail group GI, the consortium wholly owned by over 35 European railway and shipping companies, including SNCF, DB, RENFE, SBB and OBB. The consortium manages the Eurail and Interrail passes for non-European and European citizens, respectively, allowing travel in Europe on one ticket and offering discounts on participating hotels and places of interest.

- **FS Italiane: two agreements signed in Azerbaijan**

On 18 July 2018, in Baku, FS Italiane S.p.A. reached an agreement with the Azeri railways to develop freight railway traffic on the Baku - Tbilisi - Kars line, a hub for freight traffic from Italy to Central Asia, Iran and China through the Turkish port of Mersin. Mercitalia Intermodal S.p.A., the combined intermodal transport operator of Mercitalia hub (FS Italiane group), will manage the railway service from Italy to the Turkish port of Mersin, while the Azeri railways will provide logistics services and railway transport of containers from Turkey to Central Asia and China.

- **Mercitalia hub and PKP group: agreement for the development of railway freight traffic between Italy and Poland**

A strategic alliance agreement was signed on 5 September 2018 in Krynica, Poland, between Mercitalia Rail S.r.l., a Mercitalia hub company, and the Polish company PKP Cargo (PKP group). The objective is the development of railway freight transport between Italy and Poland with new, increasingly reliable and efficient services, on the TEN-T Baltic-Adriatic railway corridor.

- **The Netherlands, Busitalia: Qbuzz BV is awarded the provision of LPT services in the Groningen-Drenthe area**

On 5 September 2018, Qbuzz BV was awarded the provision of local public transport (LPT) services in the Groningen-Drenthe province, located in the North-East, and one of the largest in the Netherlands. Its surface area exceeds 5,500 km² (12% of the Netherlands) and its catchment area is one million residents (around 6% of the Dutch population). Winning the concession, which is worth €100 million per year and has a 10 year term starting from December 2018 (with a possible extension for another five years), confirms the appreciation of the services provided by Qbuzz BV in the areas it already manages. The services will be further improved with a programme to upgrade the fleet to 400 buses, 160 of which electric and 20 run on hydrogen, for around 30 million kilometres p.a.. Qbuzz BV’s offer stood out

for the use of low environmental-impact buses and the technological innovation content of passenger information and the ticket issue systems.

- **FS Italiane S.p.A.: awarded the Operation & Maintenance (O&M) services for the Riyadh metro**

Ferrovie dello Stato Italiane S.p.A., a member of the FLOW consortium with Ansaldo STS and Alstom, was awarded the Operation & Maintenance (O&M) services for lines 3, 4, 5 and 6 of the Riyadh metro (Saudi Arabia). The letter awarding the services, received on 18 September 2018 from ArRiyadh Development Authority (ADA), the government body for urban development and mobility in Riyadh, awarded the FLOW consortium the management of the O&M services for the metro for a period of 12 years. The contract is worth a total of approximately USD2.9 billion (SAR10.9 million in the Saudi currency).

- **Trenitalia c2c awarded UK Rail operator of the year**

On 15 October 2018, Trenitalia c2c Ltd, the FS Italiane group company in the United Kingdom, won UK Rail operator of the year at the National Transport Awards.

Internal controls and risk management system

FS Italiane group's operations include a wide range of particularly complex, detailed and varied processes (infrastructure design, construction and maintenance, railway and road network management, passenger and freight transport services and real estate management), which could give rise to significant risks and uncertainties. While management and the structures specialised in risk monitoring continue to play a crucial role in risk management (as they are responsible for "level 1 control"), over time, 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, Anti-Bribery & Corruption and the Data Protection Officer at FS Italiane S.p.A.) to support management in the definition and implementation of adequate management and monitoring systems for the main risks and controls.

In this context, the group's Chief Risk Officer (CRO) coordinates and manages the overall business risk management process. For the proper attestation of the financial statements, 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. Compliance's duties include checking that company and group guidelines, provisions and procedures are compliant with the relevant legislation and national and international best practices, submitting proposals for adjustments so they are legally compliant. The Anti-Bribery & Corruption Unit coordinates the methodology of the corruption prevention process, including through the monitoring and updating of the Anti Bribery & Corruption management system.

Lastly, as the "level 3 controls", Internal Audit independently monitors and provides assurance on the architecture and efficient functioning of level 1 and 2 controls.

Business 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, which have resulted in an increase in the offer and presence on the reference market. The overall assessment includes risks arising from mobility market and price trends. If lower prices are offered in order to gain additional market share, the profitability of the segment could be affected.

Domestic spending, employment levels and the overall development of the main economic factors influence the performance of the medium and long-haul mobility market. In this context, modal competition and its proper regulation are critical factors for success.

High speed transport and the related services have enabled the railway sector to begin competing with other modes of transport (air and road), especially by shortening travel times, increasing comfort and arriving in the urban centre of major cities. The critical factor for success in this market segment will continue to be maintaining and improving service quality and rapidly adapting to changes in market demand. The overall change in the business model with respect to the products offered must also take into account developments in competitor models. The continual upgrading of the fleet 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, and with a greater focus on the customer, will give it additional competitive edge. In this regard, as part of its unrelenting pursuit of innovation, FS Italiane group launched a new online sales platform ("Nugo") during the year, that enables customers to plan and purchase door-to-door mobility services for long trips or short ones.

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. Trenitalia S.p.A. is also making large investments to upgrade its rolling stock and is taking all steps necessary to ensure the related delivery plans are complied with so that the contractual commitments with the regions are fulfilled on a timely basis.

As mentioned, the group is operating in a challenging context undergoing continuous change and with a steadily evolving regulatory framework. In recent years, a series of different rules and/or regulations has affected the group's business operations, while additional aspects are currently being defined. In this regard, the ART has issued resolutions in the area of railway LPT, including no. 120 of 2018 which covered "methodologies and criteria to ensure the efficiency of regional railway services operations". This resolution provides for operational efficiency and effectiveness targets in regional service contracts which represent a delaying factor in future subscriptions and entail the progressive regular review of the contracts already signed, starting from 2020. However, the economic equilibrium in the contracts still mitigates these possible variations. In this context, as relates to Anas S.p.A., there is a risk that changes to the Programme Contract entailing a deterioration in the conditions or conditions that are too challenging for the company may impact performance and the forecast results.

To mitigate this type of risks, the group actively monitors regulatory developments, meets with the relevant authorities to share its technical expertise in the consultations held over time and, as noted previously, takes legal action, if believed necessary, to protect the interests of the group and the community.

Operational risks

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

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

Infrastructural investments are complex projects requiring substantial financial resources and an intricate organisational and project management structure that the group, through its subsidiaries, has in place. Many different events could impact the performance of work, affecting forecast deadlines/costs, as well as the quality, efficiency and availability of the railway 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. Moreover, a wide-ranging project has commenced in order to innovate the investment management procedures, optimising the IT tools used for operational management and, more generally, to support the whole-life asset management model.

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.

With reference to stations and related services, steps continued to be taken for the reuse and redevelopment of the buildings/areas - including for social purposes - to improve accessibility, availability, appearance and security for passengers/customers. Projects are also underway to facilitate links and exchanges with other modes of transport and to deploy digital technologies to make travel information and other station utilities more innovative and efficient. These actions fall within the broader project to provide customers with additional, complementary services over the term of the plan, consistent with the new concept of the station as not only a transport hub but also as a local attraction and services hub.

The group's safety standards are consistent with those of the main European railway companies and are the result of extensive prior talks with the trade unions that, after having evaluated safety issues as well, all signed an integrative labour agreement in 2009 and the national labour agreement 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.

Country risk

The group's international development activities continued in 2018 and the dynamic nature of the international context, as well as the significant political and economic uncertainty in certain geographical areas, has required the updating and intensification of the monitoring of the country risk. The risk scores and rankings were updated quarterly, based on the criteria defined in 2017 as part of the international development project, for the 172 countries observed. Specifically, in-depth analyses were carried out for the countries identified by the group for a potential entry and those countries in which commercial or negotiating activities already take place.

Project risks

Investments in the railway system are key to the group's development and for the achievement of the business plan. The risks that could impact project timing, costs and quality targets have wide-ranging direct and indirect consequences and affect various group companies. Project risk management systems were piloted and rolled out in 2018, in line with most stringent international standards and in compliance with the certification standards the various group companies adhere to, and 2019 will see a move from experimentation to an increasingly widespread usage, with the aim of streamlining the group's railway investment process.

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 to analyse the effect of legislative and regulatory change. Generally, in relation to risks that could arise from changes to the legislative framework, the management of relationships and information flows with the governing and regulatory bodies (independent sector authorities), even in the

event of disputes, always represents an occasion for discussion and dialogue, particularly on the substance, and is characterised by transparency, collaboration and proactiveness. Given the complexity of its businesses and the many activities it carries out, the group is nonetheless exposed to risks of non-compliance generally arising from the potential failure to comply with the legislative and regulatory framework, with consequent penalties of a judicial or administrative nature, financial losses and damage to reputation.

To further strengthen its control system, the parent created a specific organisational structure responsible for checking that company and group guidelines, provisions and procedures are compliant with the relevant legislation and national and international best practices.

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.

Considering the high levels of penalties and, more generally, the financial and reputation risks of non-compliance with Regulation (EU) no. 679/2016 (General Data Protection Regulation – GDPR), the group issued a set of organisational communications, establishing a framework for personal data protection based on three levels of control. Those group companies that are required to have appointed a Data protection officer, who monitors compliance with the regulation within the individual companies. Lastly, a computerised register of data processing was set up, various assessments have been made of the impact on data protection, and the rights of the data subjects regarding their data ensured, both by improving and updating the disclosure on processing and responding to specific requests.

Legal and contractual risks mainly relate to litigation pending between group companies and various parties, such as suppliers, customers and employees. Specific company structures currently monitor and mitigate such risks and any necessary accruals are recognised after the risks are assessed in accordance with IFRS to determine the probability that they will occur. Residual risks, after the appropriate mitigation actions and accruals, fall within the tolerance limits considering business operations.

Procurement risks

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.

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. In this context, during the last quarter of 2018, the group commenced a project to increasingly standardise the Business Impact Analysis process and a constant expansion of the surveyed scope.

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 2018, the process to insource the most critical security services continued, with the hiring of specialised personnel, the design of specific environments and the acquisition of the technological components needed.

The equipping of FS Italiane group's Security Operation Centre (SOC) was completed in 2018. It stores the cyber security technologies and information coming from FS Italiane group's IT systems, SCADA (Supervisory Control And Data Acquisition) and IoT (Internet of Things), enabling the collection, analysis and correlation of security events.

These initiatives are part of a process which aims 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. This conviction translates into maximising the environmental advantages of collective passenger transport - by rail, road and waterways - and freight railway transport, as well as minimising the adverse impacts on the environment. 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 updates its activities, and this could generate expected or unexpected costs. To protect against environmental risks, the group has a specific structure that uses, if necessary, third party experts and complex procedures to monitor and mitigate factors related to this risk. Furthermore, Ferrovie dello Stato Italiane S.p.A. and the main group companies are involved in the implementation and certification of their environmental management systems in accordance with the ISO 14001:2015 standard, which promotes the integration of the environmental management system into the company and the inclusion of the environment among the strategic factors of an organisation. The group also controls the environmental risk of its contractor companies assigned infrastructural works projects, which includes a contractual obligation for the construction companies to adopt an environmental management system (UNI EN ISO 14001) for site activities for the entire duration of the contract and provide the company and relevant bodies with objective evidence of their controls over project activities.

In addition to the existing ones, the probable future adoption of legislative instruments and new laws at a local, regional, government or inter-governmental (global) level, with the objective of containing greenhouse gas (GHG) emissions, could impact the group's business model, for instance by pushing towards the use of energy produced by renewable sources.

Lastly, the risks related to climate change could have significant negative effects on the group's business. The risk is linked to the occurrence of extreme weather events such as hurricanes, floods, drought, rising sea levels, the growing frequency and intensity of which, according to the scientific community, are related to global warming. These events could cause interruptions to group operations and significant damage to infrastructure. The group mitigates this risk through infrastructure design, construction and maintenance in order to make them more resilient to the effects of climate change.

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. In particular, with respect to human rights, by signing the Global Compact, the group has formally undertaken to:

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

The code of conduct is a "charter of fundamental rights and responsibilities" whereby FS Italiane group establishes and clarifies its ethical and social responsibilities and commitments to all internal and external stakeholders. The principles are constantly, carefully monitored and promoted in ongoing awareness campaigns within the group. Demonstrating the effectiveness of its controls, there were no incidents of discrimination during the year (related to ethnicity, nationality, political opinions, religion, gender, age, ability, sexual orientation and personal or social conditions) involving internal and/or external stakeholders. As the group is aware of the importance of suppliers in mitigating social risks and those related to the protection of human rights, it has also designed an evaluation process for the supply chain to strengthen its ability to identify and manage its impacts. Specifically, the standard contractual clauses include requirements that the contractor must comply with: i) labour and social security laws with the application of national labour agreements; ii) health and safety in the workplace requirements; iii) the standards in the group code of conduct. However, the internationalisation process may exacerbate these types of risk. As described in the paragraph on country risk assessments, respect for human rights is a key focus point in the overall assessment of investments. Furthermore, for large projects, in order to optimise the impacts on the local area and the community, the group makes it a priority to use tools that engage the local community (e.g., social and environmental impacts assessment, the service conference, the Conference of Regions and Autonomous Provinces, the Unified Government and Regions Conference), which help it respond to the legitimate requests of stakeholders.

To ensure respect for human rights along the supply chain, the group has also commenced a project to include a scoring criterion that rewards suppliers for their sustainability in their tenders, using the monitoring platform developed by EcoVadis. EcoVadis' assessment is based on 21 criteria, divided into four areas: Environment, Labour Practices and Human Right, Fair Business Practices and Sustainable Procurement. Specifically, evaluation of the respect for human rights considers the following criteria: child and forced labour, discrimination and harassment and the fundamental rights of man. Activities will commence in 2019 to progressively extend the project to all main group companies.

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 of significant importance in this context. 2018 was not a year of widespread labour unrest and the hours missed due to strikes also decreased substantially on the previous year, following the agreements signed and the roll-out of the Participation and consultation body, that resolved some sensitive issues for FS Italiane group. With regard to legal and contractual legislation, the group companies were

issued with an update in the form of explanatory notes on the legislative amendments to the labour market introduced by the "Dignity decree" (Decree law no. 87/2018 converted with amendments into Law no. 96/2018). Operational guidance activities on the application of the provisions of the national labour agreement for the mobility sector/railway sector and FS Italiane group's employment contract of 16 December 2016 continued, taking into account the operational practice implemented after its renewal.

Additional drivers include having key resources, gaining difficult-to-find specialised skills, motivation and professional development. FS Italiane group's new Talent Development project focuses on recognising and enhancing the motivation and aspirations of the people involved in the development process, as well as the various expertise and know-how embedded in the professional experience of our personnel. Moreover, the psychometric tools used are gender and culture-free, such to ensure equal treatment and opportunities in terms of these aspects. The group is committed to providing training, ongoing refresher courses and recruiting professionals both internally and from the external market. The internal job posting arrangement is based on the principles of transparency, equal opportunity and the promotion of professional diversification, with a view to the enhancement of the individual and of the group's know-how. Recruitment on the market outside the group is used when the expertise and skills required by the group are not available internally, to identify candidates able to generate value for the group by supporting the achievement of its targets, in accordance with the principles of fairness, merit-based criteria, transparency and equal opportunities, and with a focus on diversity and inclusion. The digitalisation of the selection processes, including through the #FSRecruitingday format, also enables the group to become known for its innovation so as to increasingly attract the target people, as well as to reduce management costs and times and to enable the creation of other pools of candidates to draw on for future needs. It is also developing a structured incentive and company welfare plan. FS 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. In this context, a strategic D&I (Diversity & Inclusion) plan is being devised for all personnel to drive change in the group and to enhance the knowledge, attitudes and expertise that every employee brings to the group.

Corruption risks

FS Italiane group acts with integrity, ethics and zero tolerance for corruption when conducting business. Several years ago, the group also began a process to prevent corruption and illegality, which has included FS Italiane S.p.A.'s⁵¹ adoption of the 231 model (in December 2003) and the issue of specific guidelines for the prevention of corruption between private parties in FS Italiane group. It also led to the signing of the United Nations Global Compact in 2017.

Confirming its commitment to anti-corruption, in 2017, FS Italiane S.p.A. voluntarily adopted a unified anti-corruption self-regulation framework which includes, alongside the 231 model, the anti-bribery and corruption (ABC) management system and, constituting an integral part of the framework, the anti-corruption policy guidelines, containing the directive criteria for the creation of an effective anti-corruption system within FS Italiane S.p.A.. The ABC system reinforces the anti-corruption controls already in place at each company, encouraging policies to prevent corruption in all its forms (directly and indirectly giving and receiving bribes in relationships with members of the public administration and with other private parties) and expands the scope of conduct considered punishable under the criminal code to include cases

⁵¹All subsidiaries of the group are required to adopt their own 231 model and to appoint a supervisory body.

of misconduct and malfeasance (e.g., corruption in the broadest sense). In the first year of application (2018), FS Italiane S.p.A.'s ABC system focuses on analysing processes in the "Procurement and Contracts", "Human Resources", "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. As part of the continuous improvement, the ABC system will also be extended to additional risk areas, which will help increase its functioning and predictive capabilities. For each risk area, the ABC system provides for transversal controls and establishes a set of tools (specific prevention tools) structured as standards of conduct and indicators of possible anomalies, 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.

Dedicated training sessions were provided on FS Italiane group's Framework and the ABC system in 2018 and they were also attended by top management. The aim was to communicate and provide information on the ABC system's scope, aims and main tools, so that the attendees take ownership and become more aware of risk management and the prevention measures available. Specific initiatives were also held on individual processes and additional ones in the area of steering and coordination, in order to prepare the group companies for their future adoption of the ABC system.

FS Italiane S.p.A.'s direct and indirect subsidiaries⁵² implement the framework by tailoring it to their specific organisation and business, in accordance with applicable regulatory obligations. The ABC system requires complete compliance by all concerned parties (directors, top management, control/supervisory bodies, employees, contractors of any kind - including occasional and/or temporary -, independent auditors, suppliers and, in general, 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. In compliance with the provisions of Law no. 190/2012 and the relevant ANAC guidelines, Anas S.p.A. has appointed an anti-corruption and transparency manager and has adopted the three-year plan for the prevention of corruption and transparency ("Additional measures to those adopted pursuant to Legislative Decree no. 231/01" starting from 2018⁵³).

Moreover, the group's process to update its code of conduct begun in 2016 was completed during the year, with the new code approved by the board of directors on 28 February 2018. The new code has a more relatable and engaging style and the aim is that it will increasingly act as an easily accessible "compass" to guide conduct and working activities, beyond and apart from the mandatory compliance with legal regulations. The code embodies the people-centred group's values and the standards of conduct that are of vital importance for the group's proper functioning, reliability and reputation, and there is a greater focus on those aspects that have acquired increasing prominence in the socio-ethical landscape, such as combating corruption in all its forms, a focus on sustainability in all senses (economic, social and environmental), and the respect for, enhancement and inclusion of diversity. The code also includes a dedicated section on whistleblowing which is covered by new legislation (Law no. 179/2017).

⁵²The following companies adopted the Anti-corruption policy guidelines and the ABC system during the year: RFI S.p.A., Trenitalia S.p.A., Busitalia Sita Nord S.r.l., Ferservizi S.p.A., Italferr S.p.A., FSSU S.r.l., Fercredit S.p.A., FSE S.r.l., GS Rail S.p.A.. Other direct and indirect subsidiaries of FS Italiane S.p.A. have acknowledged the Anti-corruption policy guidelines and are preparing their ABC systems.

⁵³The additional measures drawn up in 2017 consider the company's structure and status before its entry into FS Italiane group.

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 6 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 2018, there were 113 significant accidents on the railway lines operated by RFI S.p.A., FS Italiane group's network operator, representing a slight increase on the 99 significant accidents of 2017. Analysing the data shows that most (82%) of these accidents involved people and were caused by moving rolling stock.

The events that occurred in 2018, compared to 2017 data are summarised below according to the criteria established by the relevant EU legislation:

- 2 train collisions with railway vehicles (1 in 2017) and four train collisions with obstacles on the tracks (0 in 2017);
- 4 derailments, the same number as in the previous year;
- a total of 3 people hit at level crossings, including pedestrians on closed crossing, compared to 11 in 2017;
- 93 serious accidents to people caused by moving rolling stock, compared to 75 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);
- 5 accidents which, as they do not fall into any of the other categories, are classified as "other", compared to six in 2017;
- 2 accidents due to fires involving rolling stock with serious consequences, like in 2017.

Against a 2.8% increase in production in terms of train-km, the frequency rate was 0.31 accidents for every million train-km.

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 financial position, performance or cash flows. Furthermore, where appropriate, the companies have joined the criminal proceedings as a civil party.

In 2018, following criminal proceedings initiated by the public prosecutors against former or current group company representatives, there were no definitive rulings against senior management (company officers or general directors) for any of the following:

- particularly serious 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 against RFI S.p.A. pursuant to Legislative decree no. 231/01 concerning the fatal workplace accident on 5 March 2010 at Cerignola, in which an employee of Fersalento S.r.l. died;
- criminal proceedings no. 6305/2009 in the general register of crimes at the Public Prosecutor's Office at the Lucca Court, following the railway accident in Viareggio on 29 June 2009, is pending before the Florence Court of Appeal, following the appeal against the first-level ruling filed by the defence of the natural persons and companies found guilty in such ruling, and by the private and public prosecution;
- in criminal proceedings no. 7906/2009 in the general register of crimes 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 under the statute of limitations. When the reasons were filed, no appeal was made within the terms established by the law. The decision became final on 7 May 2018;

- 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 at the Rimini Court are pending in relation to the accident that occurred on 5 March 2015 in which an employee of A.T.S. Costruzioni was injured while working at OMC Locomotive in Rimini. Trenitalia S.p.A. has been charged with the administrative 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. A direct legal action was commenced before the Rimini Court, sitting as a sole judge. The hearing is pending.
- criminal proceedings no. 20765/2014 in the general register of crimes with the Public Prosecutor's Office at the Florence Court in reference to the accident that occurred on 12 January 2014 during rolling stock shunting operations reached the stages of hearing. One employee in service lost his life in the accident. The Public Prosecutor in the proceedings, in addition to the natural persons, 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.
- 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. The prosecution appealed against the decision before the Court of Cassation. In the hearing of 8 February 2019, the Court of Cassation annulled the acquittal, referring the case to the Bari Court of Appeals.
- criminal proceedings no. 1758/2014 with the Public Prosecutor's Office at the Milan Court were concluded, acquitting both a manager and Trenitalia S.p.A. for lack of evidence, in the hearing of 22 June 2018. The proceedings related to alleged violations of the legislative limits established for the discharge of industrial waste water in public sewers and involved one manager of Trenitalia S.p.A. and the company itself for liability under Legislative decree no. 231/01;
- with respect to criminal proceedings no. 6769/2015 with the Public Prosecutor's Office at the Perugia Court, on 11 June 2018, the Preliminary hearing judge indicted the parties under investigation and the company, reclassifying the crime covered by article 640 *bis* of the Criminal Code (aggravated fraud for the purpose of obtaining public funds) to the less serious one covered by article 640.2.1 (aggravated fraud to the detriment of the State). The hearing is scheduled for 22 January 2020. The proceedings involve Busitalia Sita-Nord S.r.l. and relate to the alleged administrative crime under articles 5, 24 and 25 of Legislative decree no. 231/2001 covering the crime under article 640.2.1 of the Criminal Code;

- criminal proceedings no. 18773/2009 is currently pending before the Bari Court. They involve Ferrovie del Sud Est e Servizi Automobilistici S.r.l. for administrative liability pursuant to Legislative decree no. 231/2001, in relation to fraud (originally considered a transnational crime which was subsequently excluded by the Judge), also involving the former sole director. The facts relate to the purchase of railway carriages in Poland at higher than market price. Following the request to prosecute the company and all accused natural persons, arguments are now being heard;
- criminal proceedings no. 3651/2018 in the general register of crimes 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 Milan 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 and some officers and Trenord S.r.l.'s CEO and Operations Manager. In addition, RFI S.p.A. and Trenord S.r.l. have also administrative liability pursuant to Legislative decree no. 231/01. The preliminary investigation is currently in progress;
- criminal proceedings no. 16682/2014 in the general register of crimes before the Palermo Public Prosecutor's Office relate to the alleged illegal discharges of waste material by the supplier at the Camastra (AG) landfill following the works carried out by RFI S.p.A. on the platform under the Petrace bridge in Gioia Tauro (RC). In June 2018, the notice of completion of preliminary investigations was served to the CEO and RFI S.p.A., subject to administrative liability pursuant to Legislative decree no. 231/01. The invoked crime is organised activities for the illegal trafficking of waste (article 452 *quaterdecies* of the Criminal Code).

Other significant criminal court proceedings

- criminal proceedings no. 3034/2012, initially with the general register of crimes with the Public Prosecutor's Office at the Rossano Court and subsequently transferred to the Castrovillari Public Prosecutor's Office, relate to a fatal accident in which a train hit a car with six people inside it at the private level crossing on the Rossano C. - Mirto Crosia section. RFI S.p.A.'s managers and employees (some of whom retired) and other parties not related to FS Italiane group are accused, jointly, with manslaughter and negligence causing a train crash. The preliminary hearings are underway;
- 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 an accident involving train no. 9351 and a lorry on 24 September 2012 at the level 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. The non-group defendant found guilty has appealed against the ruling of the Brindisi Court. On 5 April 2018, the Court of Appeals confirmed the decision of the first-level proceedings which became final;
- criminal proceedings no. 2615/2018 in the general register of crimes with the Public Prosecutor's Office at the Ivrea Court relate to a railway accident that occurred on 23 May 2018 on the Chivasso/Ivrea line when regional train no. 10027 hit a lorry that had driven through the level crossing barriers, and got stuck on the tracks. The train driver and the driver of the escort service died and many other people were injured. The preliminary investigation is currently underway;

- criminal proceedings no. 4153/2016 in the general register of crimes at the Bari Court were commenced by the Public Prosecutor's Office against FSE S.r.l.'s former sole director and other persons. The allegations relate to several instances of document, corporate company and fraudulent bankruptcy which put the company in distress and resulted in the need for FSE S.r.l. to access the procedure for a composition with creditors. FSE S.r.l. and FS S.p.A. are also claimants and joined the proceedings. The hearing is currently underway;
- criminal proceedings no. 8790/2016 in the general register of crimes with the Public Prosecutor's Office at the Lecce Court is at the preliminary hearing stage before the Lecce Court for vehicular manslaughter (article 589 *bis* of the Criminal Code) and road personal injuries (article 590 *bis* of the Criminal Code) against an employee of FSE S.r.l. in relation to the accident that occurred on 1 August 2016 while the employee was driving the company's public bus. The company and the insurance company were sued in a civil action in this respect;
- criminal proceedings no. 6310/2017 in the general register of crimes with the Public Prosecutor's Office at the Lecce Court related to the accident that occurred on 13 June 2017 between two FSE S.r.l.'s trains, at the Galugnano exit, Frazione di San Donato di Lecce, along the section between Lecce and Otranto. The notice of conclusion of preliminary investigations was served to two FSE S.r.l. managers on 11 December 2018. According to the notice, two managers and two company employees are accused of negligence causing a train crash, causing damage to people (approximately 20 injured people, including passengers and FSE S.r.l. personnel) and property (collided trains).

Proceedings before the Italian and EU authorities

- **K2 Discount pursuant to Ministerial decree no. 44T/2000.** In addition to that indicated in the 2017 annual report, to which reference should be made for additional details, the civil action commenced by Trenitalia S.p.A. before the Rome Civil Court to obtain that RFI S.p.A. pay the amounts related to the K2 Discount, against the elimination of MIT decree no. 92T of 11 July 2007 (Council of state's ruling no. 1110/2013 on whose compliance the Council of state issued ruling no. 1345/2014), is underway. As part of these proceedings, the Judge allowed RFT S.p.A. to implead the MIT and the MEF to guarantee and indemnify the amounts related to the K2 Discount which may be paid to Trenitalia S.p.A.;
- **Appeals relating to the tender for the assignment of services for 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 local public transport 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 in a single lot of local public transport services for nine years, which may 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 (Mobit, AT and the Tuscany region itself) appealed against ruling no. 1548/2016 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 relevant to the case. Immediately after notification of the two appeals against the ruling of the Tuscany regional administrative court, in December 2016, the Tuscany region had reopened the tender, asking the two participants to submit a new economic/financial plan accompanying their previously submitted bids. 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 before the Council of State. Following the submission of the new economic/financial plans by the competitors, on 13 March 2017, the Tuscany region ordered a new provisional assignment to AT;

- **Appeal against the transfer of the investment in FSE S.r.l. to FS S.p.A..** With ruling no. 6417/2017, the Lazio regional administrative court rejected the appeal filed by Arriva Italia S.r.l., Ferrotramviaria S.p.A. and COTRAP (the “claimants”) to repeal MIT decree no. 248/2016 which identified FS S.p.A. as the party to receive the investment in FSE S.r.l. which, at the time, was held by said Ministry, thereby confirming its lawfulness. As part of the appeal to overturn the first-level ruling, the claimants indicated the failure to comply with the requirements applicable to government assistance as the first ground of appeal, in relation to: i) the granting of €70 million to FSE S.r.l. pursuant to article 1.867 of Law no. 2018/2015, as amended by article 47 of Law decree no. 50/2017 and ii) FSE S.r.l.’s transfer to FS S.p.A. with no competitive procedure and no consideration. The Council of State decided to refer the issue to the European Court of Justice, pursuant to article 267.1.a) of the Treaty on the Functioning of the European Union (decision to refer no. 3123/2018). At present, the proceedings are pending, awaiting the hearing to be scheduled by the Court of Justice; Pending the definition of the judgment, the parent company Ferrovie dello Stato Italiane SpA, in order to allow FSE to regularly fulfill the composition plan approved on 10 July 2018, proceeded to guarantee financial resources, in the form of a loan that could be disbursed up to 70 million euros

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

1. intragroup asset allocation transactions (case SA 32179); and
2. compensation for a public service obligation in the rail freight sector (case SA 32953).

The first aid measure being investigated relates to four asset allocation operations within FS Italiane group, in which assets were allocated to Trenitalia S.p.A. and FS Logistica S.p.A. (now Mercitalia Logistics S.p.A.), respectively. In particular, these transfers include assets that do not constitute railway infrastructure (they are mainly workshops) and are, in any case, no longer functional for the infrastructure operator. The second measure being investigated relates to the fees from Italy to Trenitalia S.p.A. for rail freight transport from 2000 to 2014 under three consecutive public service contracts. After 2015 and 2016, in which there were no further developments, near the end of 2017 and in 2018, 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: i) with respect to case SA 32179, the effects of any negative development 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 is 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 2018, 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 2018.

Related party transactions

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

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

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

Outlook

FS Italiane group

FS Italiane group

In 2019, FS Italiane group will be committed to the pursuit of the new group's strategic vision which focuses on the railway core business, using an approach that places customers at the heart of operating and business processes to improve the quality of transport, logistics and infrastructural services, while generating sustainable and value shared with stakeholders.

The group expects to further improve the 2018 economic performance thanks to the organic growth of the group's business, despite increasing competition in the long-haul railway passenger transport segment.

In the area of regional transport, the goal is to increasingly satisfy passengers' needs, by expanding the range of services, tariff flexibility and differentiation, assistance and information, deploying technology to streamline the travel experience, multi-modal integration and promotion of environmental sustainability. This goal is supported by a series of major investments to radically overhaul the fleet, with the purchase of 594 new trains for a total investment of over €6 billion. With respect to the long-haul railway passenger transport segment, the goal is to strengthen the leadership in HS services through the unrelenting pursuit of excellence in the services offered and increased flexibility of offer, prices and service levels, including by shifting to a customised support model which facilitates the use of trains, using an end-to-end approach.

With respect to infrastructure, the main goals relate to "safety", "punctuality and reliability", "performance upgrade", "efficiency, innovation and sustainability", identifying five main areas of action, including stations (new concept of stations for the purposes of modal integration and projects to requalify the areas around stations), local public transport (upgrades, more speed, new stations), long haul (upgrading and more speed of the main European lines, airport connections), logistics (connections with ports, interports, production areas, increased international cooperation between operators) and social/environmental issues (water and energy efficiency, green procurement and social use of non-core assets).

After capital expenditure of roughly €7.5 billion in 2018, including more than €4 billion in railway infrastructure, in line with the above goals, the group intends to remain Italy's largest investor, spearheading the development of the group's potential and that of the Italian economy.

The above will be accompanied by initiatives to recover efficiency and effectiveness through the review of the main business processes (maintenance model, supply chain, optimisation of the production network and of physical sales channels). Furthermore, digital transformation will be boosted in all group segments, specifically focusing on customers and the areas they populate and production, maintenance and back-office activities.

In the short-term (i.e., by the first half of the year), the group's new business plan will be finalised and presented. Furthermore, the feasibility and the effect of the potential investment in the "new Alitalia", which is currently being assessed, will also be considered.

Ferrovie dello Stato Italiane S.p.A.

Ferrovie dello Stato Italiane S.p.A. – which reports a profit for 2018 – will continue to manage and coordinate the processes of the group in the pursuit of its strategic vision, expecting to generate a profit also for 2019.

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

Independent auditors' report on the consolidated non-financial statement pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 and article 5 of the Consob Regulation adopted with Resolution no. 20267 of 18 January 2018

*To the board of directors of
Ferrovie dello Stato Italiane S.p.A.*

Pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 (the "decree") and article 5 of the Consob (the Italian Commission for listed companies and the stock exchange) Regulation adopted with Resolution no. 20267 of 18 January 2018, we have been engaged to perform a limited assurance engagement on the 2018 consolidated non-financial statement of the Ferrovie dello Stato Italiane Group (the "group") prepared in accordance with article 4 of the decree, presented in the specific section of the directors' report and approved by the board of directors on 26 March 2019 (the "NFS").

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Ferrovie dello Stato Italiane S.p.A. (the "parent") for the NFS

The directors are responsible for the preparation of 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"), which they have identified as the reporting standards.

The directors are also responsible, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of 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.

The directors' responsibility also includes the design of an internal model for the management and organisation of the group's activities, as well as, with reference to the aspects identified and disclosed in the NFS, the group's policies and the identification and management of the risks generated or borne.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, compliance with the decree's provisions.

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditors' responsibility

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the NFS with the requirements of the decree and the GRI Standards. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the NFS are based on our professional judgement and include inquiries, primarily of the parent's personnel responsible for the preparation of the information presented in the NFS, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

1. Analysing the material aspects based on the group's business and characteristics disclosed in the NFS, in order to assess the reasonableness of the identification process adopted on the basis of the provisions of article 3 of the decree and taking into account the reporting standards applied.
2. Analysing and assessing the identification criteria for the reporting scope, in order to check their compliance with the decree.
3. Comparing the financial disclosures presented in the NFS with those included in the group's consolidated financial statements.

4. Gaining an understanding of the following:

- the group's business management and organisational model, with reference to the management of the aspects set out in article 3 of the decree;
- the entity's policies in connection with the aspects set out in article 3 of the decree, the achieved results and the related key performance indicators;
- the main risks generated or borne in connection with the aspects set out in article 3 of the decree.

Moreover, we checked the above against the disclosures presented in the NFS and carried out the procedures described in point 5.a).

5. Understanding the processes underlying the generation, recording and management of the significant qualitative and quantitative information disclosed in the NFS.

Specifically, we held interviews and discussions with the parent's management personnel and personnel of Rete Ferroviaria Italiana – RFI S.p.A., Trenitalia S.p.A., ANAS S.p.A. and Busitalia - Sita Nord S.r.l.. We also performed selected procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit non-financial data and information to the office that prepares the NFS.

Furthermore, with respect to significant information, considering the group's business and characteristics:

- at parent level,
 - a) we held interviews and obtained supporting documentation to check the qualitative information presented in the NFS and, specifically, the business model, the policies applied and main risks for consistency with available evidence,
 - b) we carried out analytical and limited procedures to check, on a sample basis, the correct aggregation of data in the quantitative information;
- we visited Rete Ferroviaria Italiana – RFI S.p.A., Trenitalia S.p.A., ANAS S.p.A., Ataf Gestioni S.r.l., Busitalia - Sita Nord S.r.l., Busitalia Veneto S.p.A., Grandi Stazioni Rail S.p.A., Ferrovie del Sud Est e Servizi Automobilistici S.r.l., Netinera Deutschland GmbH, Qbuzz BV, the Production, Strategies, planning and sustainability, Technical, Umbria Regions and Asset management departments and the long haul and regional passenger divisions, which we have selected on the basis of their business, contribution to the key performance indicators at consolidated level and location, to meet their management and obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2018 consolidated non-financial statement of the Ferrovie dello Stato Italiane Group has not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the decree and the GRI Standards.

Rome, 15 April 2019

KPMG S.p.A.

(signed on the original)

Marco Maffei
Director of Audit

Consolidated financial statements
of Ferrovie dello Stato Italiane group
at 31 December 2018

Consolidated financial statements

Statement of financial position

millions of Euros

	Notes	31.12.2018	31.12.2017*
Assets			
Property, plant and equipment	9	44,371	44,449
Investment property	10	1,403	1,398
Intangible assets	11	4,260	988
Deferred tax assets	12	413	158
Equity-accounted investments	13	555	373
Service concession financial assets	14	1,917	
Financial assets (including derivatives)	15	2,155	1,863
Trade receivables	18	9	9
Other assets	16	4,471	1,307
Total non-current assets		59,554	50,545
Inventories	17	2,200	2,102
Trade receivables	18	2,494	2,548
Financial assets (including derivatives)	15	818	620
Service concession financial assets	14	1,220	17
Cash and cash equivalents	19	1,796	1,834
Tax assets	20	120	113
Other assets	16	4,317	5,231
Total current assets		12,965	12,465
Assets held for sale and disposal groups			3
Total assets		72,519	63,013
Total equity and liabilities			
Share capital	21	39,204	36,340
Reserves	21	50	42
Valuation reserves	21	(436)	(467)
Retained earnings	21	1,896	1,923
Profit for the year	21	540	542
Equity attributable to the owners of the parent	21	41,254	38,380
Profit attributable to non-controlling interests	22	19	10
Share capital and reserves attributable to non-controlling interests	22	424	240
Total equity attributable to non-controlling interests	22	443	250
Equity		41,697	38,630
Liabilities			
Loans and borrowings	23	8,335	9,125
Post-employment benefits and other employee benefits	24	1,474	1,633
Provisions for risks and charges	25	2,588	944
Deferred tax liabilities	12	525	275
Contract advances	27	995	
Financial liabilities (including derivatives)	26	1,620	44
Trade payables	29	49	96
Other liabilities	28	138	160
Total non-current liabilities		15,724	12,277
Loans and borrowings and current portion of non-current loans and borrowings	23	3,069	2,389
Current portion of provisions for risks and charges	25	35	50
Trade payables	29	5,398	4,252
Tax liabilities	30	19	18
Contract advances	27	142	
Financial liabilities (including derivatives)	26	69	33
Other liabilities	28	6,366	5,363
Total current liabilities		15,098	12,105
Liabilities held for sale and disposal groups			1
Total liabilities		30,822	24,383
Total equity and liabilities		72,519	63,013

(*) The group applied IFRS 9 and IFRS 15 on 1 January 2018. It did not restate the comparative figures given the transition method(s) elected. However, reclassifications were made where necessary to make the figures comparable.

Income statement

millions of Euros

	Notes	2018	2017*
Revenue			
Revenue from sales and services	31	11,566	8,993
Other income	32	512	300
Total revenue		12,078	9,293
Operating costs			
Personnel expense	33	(4,853)	(4,178)
Raw materials, consumables, supplies and goods	34	(1,599)	(1,136)
Services	35	(4,371)	(2,663)
Use of third-party assets	36	(257)	(229)
Other operating costs	37	(204)	(202)
Internal work capitalised	38	1,682	1,428
Total operating costs		(9,602)	(6,980)
Amortisation and depreciation	39	(1,571)	(1,378)
Net impairment losses	40	(155)	(152)
Accruals	41	(36)	(65)
Operating profit		714	718
Financial income and expense			
Financial income	42	92	62
Financial expense	43	(221)	(176)
Net financial expense		(129)	(114)
Share of profits of equity-accounted investees	44	32	14
Pre-tax profit		617	618
Income taxes	45	(58)	(64)
Profit (loss) from assets held for sale, net of taxes			(2)
Loss from discontinued operations, net of taxes			(2)
Profit for the year (attributable to the owners of the parent and non-controlling interests)		559	552
<i>Profit for the year attributable to the owners of the parent</i>		540	542
<i>Profit for the year attributable to non-controlling interests</i>		19	10

(*) The group applied IFRS 9 and IFRS 15 on 1 January 2018. It did not restate the comparative figures given the transition method(s) elected. However, reclassifications were made where necessary to make the figures comparable.

Statement of comprehensive income

millions of Euros

	Notes	2018	2017*
Profit for the year (attributable to the owners of the parent and non-controlling interests)		559	552
Other comprehensive income			
Items that will not be reclassified to profit or loss, net of the tax effect:			
Net actuarial gains (losses) attributable to the owners of the parent	21	13	(12)
attributable to non-controlling interests		13	(12)
Items reclassified to profit or loss	21	16	19
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 attributable to the owners of the parent	21	15	38
attributable to non-controlling interests		15	38
Net exchange gains	21		
Other comprehensive income, net of the tax effect		44	45
Comprehensive income (attributable to the owners of the parent and non-controlling interests)		603	597
<i>Comprehensive income attributable to:</i>			
Owners of the parent		584	587
Non-controlling interests		19	10

(*) The group applied IFRS 9 and IFRS 15 on 1 January 2018. It did not restate the comparative figures given the transition method(s) elected. However, reclassifications were made where necessary to make the figures comparable.

Statement of changes in equity

millions of Euros

	Equity														
	Reserves									Total reserves	Retained earnings	Profit for the year	Equity attributable to the owners of the parent	Equity attributable to non-controlling interests	Total equity
	Share capital	Legal reserve	Extraordinary reserve	Other reserves	Translation reserve	Hedging reserve	Actuarial reserve	Fair value reserve							
Balance at 1 January 2017	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	
Effects of IFRS 9 FTA, net of the tax effect										(242)		(242)		(242)	
Balance at 1 January 2018	36,340	39			3	(105)	(362)		(425)	1,681	542	38,138	250	38,388	
Capital increase	2,864											2,864	15	2,879	
Dividend distribution											(150)	(150)	(9)	(159)	
Allocation of profit for the previous year		11							11	381	(392)				
Change in consolidation scope					(3)	(12)	(1)		(16)	(166)		(182)	168	(14)	
Other changes															
Comprehensive income						31	13		44		540	584	19	603	
of which:															
Profit for the year											540	540	19	559	
Gains recognised directly in equity						31	13		44			44		44	
Balance at 31 December 2018	39,204	50			(86)	(350)			(386)	1,896	540	41,254	443	41,697	

(*) The group applied IFRS 9 and IFRS 15 on 1 January 2018. It did not restate the comparative figures given the transition method(s) elected. However, reclassifications were made where necessary to make the figures comparable.

Statement of cash flows

millions of Euros

	2018	2017*
Profit for the year	559	552
Amortisation and depreciation	1,571	1,378
Share of losses of equity-accounted investees	(32)	(14)
Accruals to provisions and impairment losses	305	263
Profits on sales	(82)	(74)
Change in inventories	(74)	(105)
Change in trade receivables	535	(149)
Change in trade payables	(165)	225
Change in current and deferred taxes	10	46
Change in other liabilities	263	377
Change in other assets	(578)	(1,082)
Utilisation of the provisions for risks and charges	(364)	(203)
Payment of employee benefits	(200)	(145)
Change in service concession financial assets/liabilities	(283)	(17)
Net cash flows generated by operating activities	1,466	1,069
Increases in property, plant and equipment	(5,770)	(5,306)
Investment property	(1)	(6)
Increases in intangible assets	(402)	(196)
Increases in equity investments	(141)	(131)
Investments, before grants	(6,314)	(5,639)
Grants for property, plant and equipment	4,725	4,300
Grants for investment property		
Grants for intangible assets	2	
Grants for equity investments	125	95
Grants	4,852	4,395
Decreases in property, plant and equipment	115	131
Decreases in investment property	17	17
Decreases in intangible assets	20	
Decreases in equity investments and profit-sharing arrangements	12	10
Decreases	163	159
Net cash flows used in investing activities	(1,299)	(1,085)
Finance lease payments		
Disbursement and repayment of non-current loans	(1,106)	667
Disbursement and repayment of current loans	111	(1,091)
Change in financial assets	428	456
Change in financial liabilities	154	(72)
Dividends	(159)	(300)
Changes in equity and cash from non-recur. trans.	367	(146)
Net cash flows used in financing activities	(205)	(486)
Total cash flows	(38)	(503)
Opening cash and cash equivalents	1,834	2,337
Closing cash and cash equivalents	1,796	1,834

(*) The group applied IFRS 9 and IFRS 15 on 1 January 2018. It did not restate the comparative figures given the transition method(s) elected. However, reclassifications were made where necessary to make the figures comparable.

Notes to the consolidated financial statements

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

Ferrovie dello Stato Italiane S.p.A. was set up in accordance with Italian law and is based in Italy. Its registered office is in Piazza della Croce Rossa 1, Rome.

The parent and its subsidiaries ("Ferrovie dello Stato Italiane group", "FS Italiane group" or the "group") provide passenger transport, freight transport and logistics services, both in Italy and abroad (mainly in Germany), and manage an extensive railway and road network, following Anas group's consolidation in 2018. 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 operating costs by nature;
- the statement of comprehensive income includes the profit for the year, as well as any other changes in equity captions, specifically actuarial gains or losses on employee benefits, fair value gains or losses on hedging instruments and gains and losses on the translation of the financial statements of foreign operations;
- the statement of cash flows has been prepared by reporting cash flows arising from operating activities using the indirect method.

These consolidated financial statements have been prepared on a going-concern basis, as the directors established that there are no financial or operational indicators or any other indications of critical issues with respect to 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, except for that set out below in respect of the newly-applied accounting policies.

On 26 March 2019, the directors approved the separate financial statements at 31 December 2018 and their submission to the shareholder pursuant to article 2429 of the Italian Civil Code. These consolidated 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 consolidated financial statements. For the purposes of IAS 10.17, the directors authorised these consolidated financial statements for issue on 26 March 2019, 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, joint arrangements and associates, and the related consolidation criteria, are described below.

i) Subsidiaries

The consolidated financial statements comprise the financial statements of the parent and those of the companies directly and indirectly controlled by the parent, from the date it gains control until the date when control ceases. Control can be exercised through direct or indirect holding of the majority of voting rights or through the right to variable returns from its involvement with the investees and the ability to affect those returns through its power over the investee, including regardless of shareholding relationships. The existence of potential voting rights exercisable at the reporting date is considered when determining control.

When non-controlling interests are acquired, goodwill is recognised only to the extent that it is attributable to the parent. Non-controlling interests are calculated based on the percentage of investment held by third parties in the identifiable net assets of the acquiree.

With respect to business combinations achieved in stages, when control is acquired, the previously held equity interest in the acquiree is remeasured at fair value, recognising the resulting gain or loss, if any, in profit or loss.

When non-controlling interests are acquired, once control is obtained, the positive difference between the acquisition cost and the carrying amount of the non-controlling interests acquired is recognised as a decrease in the parent's equity. Conversely, when control over an entity is retained despite the sale of a portion of equity interests, the difference between the consideration received and the carrying amount of the portions transferred is recognised directly as an increase in equity.

The group recognises business combinations under common control, which are not covered by IFRS 3 or other standards, in accordance with IAS 8 in order to reliably and fairly present the transaction in accordance with OPI 1 (Assirevi's preliminary guidance on the IFRS).

The reporting date of the financial statements of subsidiaries, joint arrangements and associates included in the consolidation scope is 31 December, which is the reporting date of the consolidated financial statements. These financial statements have been specifically prepared and approved by the boards of directors of each company and duly adjusted, where necessary, to comply with the accounting policies of FS Italiane group.

Subsidiaries have been consolidated as follows:

- the assets and liabilities, income and expense of these companies are consolidated on a line-by-line basis, allocating, where necessary, the relevant portion of equity and profit or loss for the year to non-controlling interests. Equity and

profit or loss for the year attributable to non-controlling interests are presented separately in consolidated equity and the consolidated income statement;

- business combinations of entities not under common control, whereby control of an entity is acquired, are recognised using the purchase method. The acquisition cost is the acquisition-date fair value of transferred assets, liabilities assumed and equity instruments issued. Identifiable acquired assets and identifiable assumed liabilities are recognised at their acquisition-date fair value. If positive, the difference between the acquisition cost and the fair value of identifiable acquired assets and identifiable assumed liabilities is recognised under intangible assets as goodwill; if negative, after having remeasured the fair values of the above assets and liabilities and the acquisition cost, said difference is recognised directly in profit or loss, as income. When the fair value of the identifiable acquired assets and identifiable assumed liabilities assets can only be determined provisionally, the business combination is recognised using such provisional amounts. Any adjustments related to the completion of the measurement process are recognised within twelve months of the acquisition date, recalculating comparative figures;
- profits and losses, including the related tax effects, from transactions among consolidated companies and not yet realised with third parties, are eliminated, except for unrealised losses when the transaction reflects an impairment loss on the transferred asset. Assets and liabilities and costs and revenue are also eliminated, as well as financial income and expense;
- with respect to the acquisition of non-controlling interests in companies already controlled, any difference between the acquisition cost and the related portion of the acquiree's equity is recognised in equity.

All subsidiaries are consolidated from the date the group acquires control and are excluded from the consolidation scope on the date the group no longer retains control.

ii) Joint arrangements and associates

Joint arrangements can be classified as joint operations or joint ventures based on the underlying rights and contractual obligations. Specifically: (i) a joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. In this case, individual assets and liabilities and the related costs and revenue are recognised in the financial statements of the parties based on their individual rights and obligations, regardless of the interest held; (ii) a joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement.

Associates are those companies over which 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, joint arrangements and associates, whose consolidation or recognition in the consolidated financial statements using the equity method does not generate significant effects on the group's 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

Purchase price allocation of the companies acquired in the second half of 2017

Qbuzz BV

On 31 August 2017, Busitalia-Sita Nord S.r.l. acquired 100% of Qbuzz BV from Abellio Nederland BV. Qbuzz BV is Holland's third largest road LPT operator (turnover close to €200 million, services of approximately 50 million km per year between the Utrecht and the Gronigen-Drenthe concessions in the north-east of the country, over 60 million passengers carried every year, 1,700 workers, 650 buses and 26 trams in Utrecht). The company operates local public transport in the metropolitan area of Utrecht and in the Groningen-Drenthe province. The total consideration paid to acquire the company amounted to €37 million, of which €7 million as earn out. As set out in Qbuzz BV's deed of sale, this amount would have been paid to the seller in the case of a successful outcome of current and future tenders which, over a three-year period, would have resulted in an overall increase in turnover of €90 million. Said amount was paid to the seller in September 2018, based on the results achieved.

In addition to being a significant step for the group's growth in Europe, this acquisition will enable the exchange of best practices and know-how in order to improve Busitalia group's competitiveness, including on the domestic market.

As mentioned earlier, the total consideration paid to purchase the company amounted to €37 million. The purchase costs incurred for the acquisition, amounting to €0.3 million, were taken to profit or loss. Goodwill of €33 million provisionally recognised in 2017 arose from the acquisition price in excess of the carrying amount of the net assets identified (€4 million). The purchase price allocation process took place in 2018. The tables below show the consideration transferred to acquire the company and the fair value of the acquired assets and the assumed liabilities as part of a business combination, in accordance with IFRS 3 – Business Combinations.

Purchase price allocation

	In millions of Euros
Cash	29.6
Earn out	7.0
Interest and other minor items	0.3
Purchase price	36.9
Non-controlling interests	0
Total	36.9

Equity of Qbuzz at the acquisition date	3.6
Reversal of capitalised tender costs	(1.7)
Adjusted equity of Qbuzz at the acquisition date	1.9
Intangible assets - Utrecht concession	14.0
Intangible assets - Groningen-Drenthe concession	8.1
Software	0.6
Contingent assets	0.6
Deferred tax liabilities	(5.8)
Net assets after price allocation	19.4
Goodwill	17.5

Assets	In millions of Euros
Property, plant and equipment	59.1
Intangible assets	22.7
Deferred tax assets	0.4
Other assets	2.2
Total non-current assets	84.4
Inventories	0.9
Trade receivables and service contracts	3.0
Cash and cash equivalents	19.3
Other assets	9.7
Total current assets	32.9
Total assets	117.3
Liabilities	
Loans and borrowings	40.3
Provisions for risks and charges	1.0
Deferred tax liabilities	5.8
Total non-current liabilities	47.1
Current portion of non-current loans and borrowings	12.0
Trade payables	5.7
Other liabilities	33.1
Total current liabilities	50.8
Total liabilities	97.9
Net assets	19.4

Goodwill of €17.5 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 Dutch operator, in view of the possible future LPT tenders, and the expected profitability of the contracts already obtained, which will expire in 2033. Recognised goodwill is not tax deductible.

TrainOSE SA

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 freight and passenger transport services at suburban, regional and national level in Greece.

The acquisition is aimed at expanding the group's business abroad, in a market that is not yet mature, such as that of 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.

The purchase price allocation process took place in 2018. The tables below show the consideration transferred to acquire the company and the fair value of the acquired assets and the assumed liabilities as part of a business combination, in accordance with IFRS 3 – Business Combinations.

Purchase price allocation

	In millions of Euros
Cash	45.0
Purchase price	45.0
Non-controlling interests	0
Total	45.0

Equity of TrainOSE at the acquisition date	34.7
Other intangible assets - Relationships with freight customers	6.6
Other intangible assets - PSO contract with Greece	5.5
Deferred tax liabilities	(3.5)
Net assets after price allocation	43.3
Goodwill	1.7

The above net assets result from the application of IFRS and the related recognition of all identified assets and liabilities on 14 September 2017. They may be analysed as follows:

Assets	In millions of Euros
Property, plant and equipment	0.5
Intangible assets	12.1
Total non-current assets	12.6
Inventories	1.0
Trade receivables and service contracts	6.4
Cash and cash equivalents	30.1
Other assets	22.2
Total current assets	59.7
Total assets	72.3
Liabilities	
Other liabilities	2.7
Provisions for risks and charges	5.0
Deferred tax liabilities	3.5
Total non-current liabilities	11.2
Trade payables	10.8
Other liabilities	7.0
Total current liabilities	17.8
Total liabilities	29.0
Net assets	43.3

Goodwill of €1.7 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 Greek operator, in view of the expansion of the freight corridor in Eastern Europe. Recognised goodwill is not tax deductible.

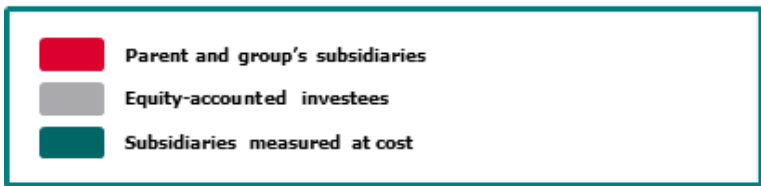
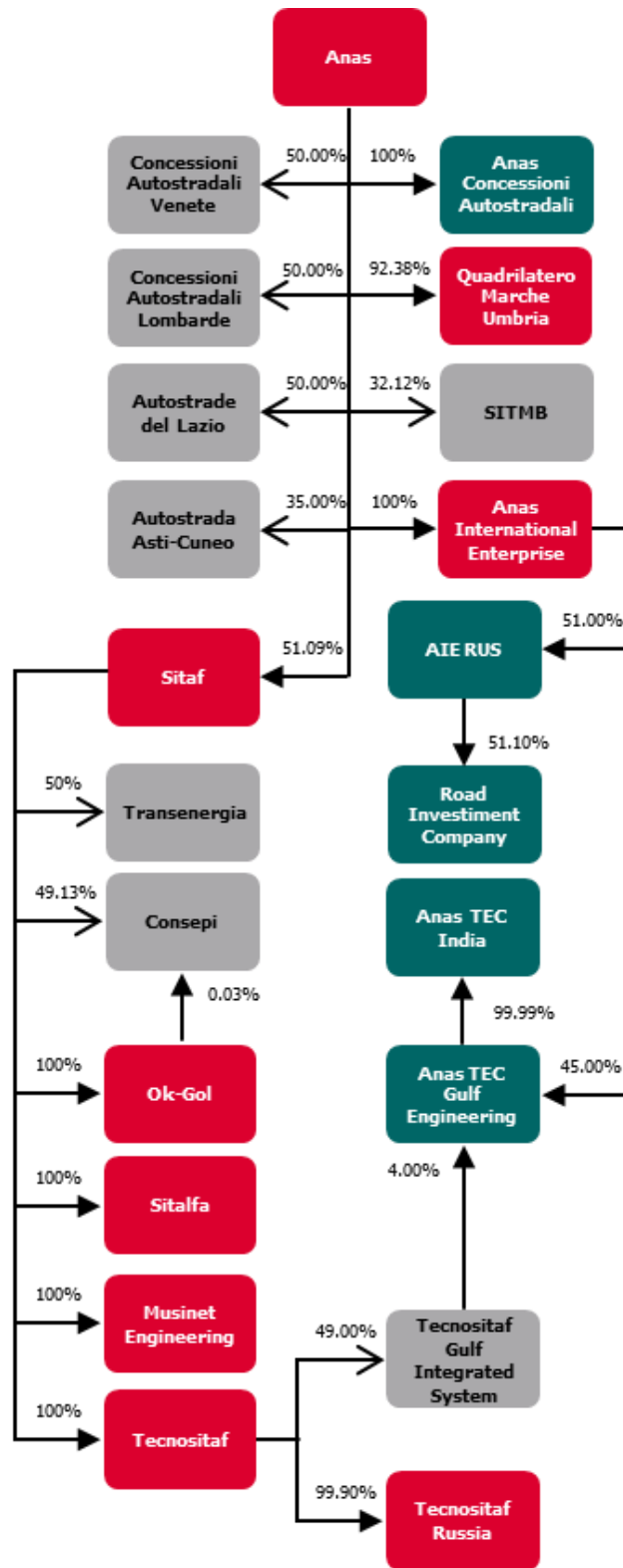
On 1 January 2018, Cemat S.p.A. changed its name to Mercitalia Intermodal S.p.A.. Furthermore, as per the deed signed on 19 December 2017, on the same date, Mercitalia Terminal S.p.A. was merged into Mercitalia Shunting & Terminal S.r.l. (formerly Serfer), which, also on the same date, changed its name from Serfer to Mercitalia Shunting & Terminal S.r.l..

Again 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 of the competent regional authorities.

On 18 January 2018, after receipt of approval from the Italian Antitrust Authority (AGCM), the Ministry of the Economy and Finance (MEF) transferred its entire investment in Anas S.p.A. to FS Italiane for a consideration of €2.86 billion. The

IFRS-compliant statement of financial position prepared at the contribution date (figures were taken from the consolidated financial statements of Anas group at 31 December 2017, approved by the shareholders in their meeting of 10 September 2018), and Anas group's structure are given below:

In millions of Euros	31.12.2017
Assets	
Property, plant and equipment	326
Intangible assets	3,176
Deferred tax assets	259
Equity-accounted investments	163
Financial assets (including derivatives)	914
Trade receivables and service contracts	1
Other assets	1,132
Service concession financial assets	1,906
Total non-current assets	7,877
Construction contracts	110
Inventories	11
Trade receivables and service contracts	443
Financial assets (including derivatives)	60
Cash and cash equivalents	364
Tax assets	18
Other assets	602
Service concession financial assets	1,077
Total current assets	2,685
Total assets	10,562
Share capital	2,270
Reserves	2,413
Valuation reserves	(14)
Losses carried forward	(1,968)
Equity attributable to the owners of the parent	2,701
Share capital and reserves attributable to non-controlling interests	165
Equity attributable to non-controlling interests	165
Equity	2,866
Liabilities	
Loans and borrowings	282
Post-employment benefits and other employee benefits	35
Provisions for risks and charges	1,844
Deferred tax liabilities	248
Financial liabilities (including derivatives)	1,428
Other liabilities	0
Contract advances	1,135
Total non-current liabilities	4,972
Loans and borrowings and current portion of non-current loans and borrowings	596
Trade payables	1,260
Tax liabilities	1
Financial liabilities (including derivatives)	71
Other liabilities	717
Contract advances	79
Total current liabilities	2,724
Total liabilities	7,696
Total equity and liabilities	10,562



On 2 February 2018, in accordance with the shareholders' resolution of 29 December 2017, Mercitalia Logistics S.p.A. and HUPAC SA subscribed the capital increase of the subsidiary Terminal Alptransit S.r.l., not in proportion to the investment percentage held by each company.

Consequently, FS Italiane group holds 58% of Terminal Alptransit S.r.l. through Mercitalia Logistics S.p.A., compared to 50% at 31 December 2017. Consequently, at 31 December 2018, Terminal Alptransit S.r.l. is a subsidiary.

On 26 February 2018, as part of the ninth capital increase resolved by the shareholders in their meeting of 20 December 2017, the only tranche of the capital increase of Tunnel Ferroviario Brennero was approved and paid for a total of €140 million. Consequently, following the various subscription mechanisms by the other shareholders, FS Italiane group, through the subsidiary RFI S.p.A., owns 88.20% of the company, compared to 87.93% at 31 December 2017.

On 19 June 2018, Cisalpino SA's shareholders approved the company's winding up. Consequently, the company is no longer included in FS Italiane group's consolidation scope.

The partial demerger deed of Centostazioni S.p.A. was signed on 27 June 2018. Consequently, the company assigned part of its assets to a newco, Centostazioni Retail S.p.A.. In accordance with the deed:

- Centostazioni S.p.A.'s share capital decreased from €8,333,335 to €5,358,335;
- Centostazioni Retail S.p.A. received assets and liabilities (the retail business unit) equal to equity of €12,584,209 at 31 October 2017 in order to free its opening share capital of €2,975,000 and allocate the residual €9,609,209 to reserves.

Centostazioni Retail S.p.A. was registered with the Rome company registrar on 9 July 2018, with an approved, subscribed and paid-up share capital of €2,975,000.

On July 10, 2018, the Concordat Plan of the subsidiary Ferrovie del Sud Est and Servizi Automobilistici Srl was approved. For further information, see the Report on Operations, paragraph Other Information.

The deed for the merger of the demerged Centostazioni S.p.A. into RFI S.p.A. was signed on 10 July 2018 with tax and accounting effects from 16 July 2018 (the date the company was struck off the company register).

Both companies participating in the merger are wholly owned by the sole shareholder Ferrovie dello Stato Italiane S.p.A.. Consequently, RFI S.p.A. did not increase its share capital, FS assets are unchanged and the merger took place with no share exchange, annulling Centostazioni S.p.A.'s share capital.

Blu Jet S.r.l. was set up on 1 August 2018. It was registered with the Messina company registrar on 2 August 2018, with an approved, subscribed and paid-up quota capital of €200,000. The company, which is wholly owned by RFI S.p.A., operates the railway connection by sea between Villa San Giovanni and Messina.

On 13 November 2018, in their extraordinary meeting, RFI S.p.A.'s shareholders approved a €3,145,434 capital increase from €31,525,279,633 to €31,528,425,067, whose subscription is fully reserved to the sole shareholder Ferrovie dello Stato Italiane S.p.A., to be freed by contributing in kind the wholly-owned investment in Grandi Stazioni Rail S.p.A.. On the same date, the sole shareholder Ferrovie dello Stato Italiane S.p.A. fully subscribed the above capital increase and concurrently transferred the entire investment in Grandi Stazioni Rail S.p.A. to RFI S.p.A..

On 30 November 2018, Italferr S.p.A. acquired 80% of Cremonesi Workshop S.r.l. - CREW, a company well established in many foreign countries which has been successful in major civil, industrial, infrastructure and energy projects. The aim of the acquisition was to create synergies to take on the Italian and the international markets, anticipating the demand for integrated infrastructure and ensuring a multi-disciplinary approach in order to operate also in the metro and tram sector. The total consideration paid, inclusive of the price adjustment envisaged in the investment agreement signed by the parties, in order to reflect the differences in Cremonesi Workshop S.r.l. - CREW's net financial position used to calculate the provisional price and that at 30 November 2018, and Italferr's option to purchase an additional 20% of share capital, as set out in the shareholders' agreements, which can be exercised from 1 January 2023, amounted to €21 million. The provisionally-recognised goodwill of €14 million is the acquisition price in excess of the carrying amount of the identified net assets and was calculated in accordance with IFRS 10, applying the present access method. The acquired business participated proportionally to consolidated revenue and the profit for the year for €4 million and €0.3 million, respectively.

On 11 December 2018, Centostazioni Retail S.p.A.'s shareholders approved a €822,064 capital increase from €2,975,000 to €3,797,064. On 28 December 2018, RFI S.p.A. subscribed the company's capital increase. Based on the above, Centostazioni Retail S.p.A. is held by Ferrovie dello Stato Italiane S.p.A. and RFI S.p.A. with respective investments of 78.35% and 21.65%.

On 14 December 2018, Mercitalia Rail S.r.l. acquired the residual 50% of Pol Rail S.r.l. which, in turn, controls Rom Rail S.r.l. with a 93% investment therein. The total consideration paid to obtain control of the company was €3 million. In accordance with IFRS 3, goodwill of €1 million was provisionally recognised in the group's consolidated financial statements as the difference between the fair value of the acquisition price and the carrying amount of the identified net assets. Financial income of €1 million was also recognised as the difference between the fair value of the equity investment at the date control was acquired and the carrying amount of the equity investment recognised in the group's consolidated financial statements.

FS Technology S.p.A. was set up on 17 December 2018. It was registered with the Rome company registrar on 20 December 2018, with an approved, subscribed and paid-up share capital of €1,000,000. The company, which is wholly owned by Ferrovie dello Stato Italiane S.p.A., provides ICT services for the FS Italiane group and the market.

5. Translation of foreign operations' financial statements

The financial statements of subsidiaries, joint arrangements and associates have been prepared using their functional currency, being the currency of the primary economic environment in which they operate. Foreign operations' financial statements expressed in a functional currency other than the Euro are translated as follows:

- assets and liabilities are translated using closing rates;
- goodwill and fair value adjustments related to the acquisition of a foreign operation are considered as assets and liabilities of the foreign operation and translated using closing rates;
- revenue and expense are translated at the average exchange rate of the year;
- the "translation reserve", recognised under consolidated equity 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:

Euros	Average exchange rate for		Closing rate at 31 December	
	2018	2017	2018	2017
Swiss Franc	1.15	1.11	1.13	1.17
Pound Sterling	0.88	0.88	0.89	0.89
Danish krone	7.45	7.44	7.47	7.44
Swedish krona	10.25	9.63	10.25	9.84
Serbian dinar	118.30	121.28	118.20	118.21
Turkish lira	5.56	4.11	6.06	4.55

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 differences are taken to profit or loss.

6. Accounting policies

The most significant accounting policies applied to the preparation of these consolidated financial statements are described below.

Property, plant and equipment

General criteria

Property, plant and equipment are recognised at purchase or production cost, net of accumulated depreciation and impairment losses, if any. The purchase or production cost includes any charges that are directly incurred to make assets available for use, as well as dismantlement and removal charges, if any, that will be incurred as a result of contractual obligations that require the asset to be returned to its original condition. Any financial expense that is directly attributable to the acquisition, construction or production of qualifying assets is capitalised and depreciated on the basis of the useful life of the asset to which it refers. Leasehold improvements or costs to upgrade and transform property, plant and equipment are recognised under assets.

Any charges incurred for ordinary maintenance and repairs are directly charged to profit or loss when incurred. Costs to expand, upgrade or improve the structural elements owned or used by third parties are capitalised when they meet the requirements for separate recognition as assets or as parts of an asset, applying the component approach, whereby a component must be accounted for separately if its useful life can be measured independently.

Depreciation is charged on a monthly straight-line basis using rates that reflect the assets' useful life. When the depreciable asset comprises separately identifiable items with a useful life that is significantly different from that of the other items comprising the asset, depreciation is charged separately using the component approach.

Trenitalia S.p.A.'s calculation of rolling stock depreciation

Under the component approach, rolling stock was broken down into similar clusters based on the relevant technology level.

Four classes of "components" were identified for each cluster:

1. components to be reconditioned: these are serialised items of a high economic value which are regularly reconditioned at set travelling/time intervals;
2. worn components: these are fully replaced with the spare parts in stock;
3. components to be restyled for obsolescence/technical ageing/safety reasons;
4. components which are not altered throughout the life of the rolling stock.

These components are depreciated over the following periods: 5/6.5 years for classes 1 and 2; 12.5 years for driving material and 10 years for hauled stock under class 3, and 23/30 years for class 4 components.

Rolling stock maintenance over the asset's useful life can be broken down into three macro-types:

- ordinary maintenance which ensures rolling stock efficiency; it is recognised in profit or loss;
- second-level maintenance which mainly involves replacing/repairing rolling stock components subject to wear and tear (classes 1 and 2); it is recognised in profit or loss;
- revamping activities which mainly increase the asset's performance, efficiency or useful life (class 3); it is recognised in profit or loss.

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. In this regard, with respect to the infrastructure, the circumstance in which future investments (limited to those which guarantee a sufficient efficiency and security level of the infrastructure equal to that of the current year, specifically, extraordinary maintenance and renewals) are considered when determining the infrastructure's total production capacity, as they are fully covered by grants and are fully financed by the government. 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 2018 and 2017 are as follows:

Line	Production indicator	
	2018	2017
HS/HC network	2.18%	2.37%
Traditional network		
Po Plain line and international transits	2.27%	2.16%
North Tyrrhenian line and branch lines	2.23%	2.18%
Backbone and branch lines	2.23%	2.20%
South Tyrrhenian line	2.27%	2.24%
Adriatic line and Apennines lines	2.29%	2.29%
Secondary network	2.24%	2.22%

The useful life of property, plant and equipment and their residual value are updated, where necessary, at least at each reporting date. Land is depreciated to the extent related to site reclamation costs. Property, plant and equipment are derecognised when they are sold or when no future economic benefit is expected to arise from use; any gain or loss (calculated as the difference between the sale price, less costs to sell, and the carrying amount) is recognised in profit or loss in the year the asset is derecognised.

The depreciation rates used by FS Italiane group for any other categories of property, plant and equipment are as follows:

Class	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.

Starting from 1 January 2018, the group companies have recognised reclassifications from/to "Investment property" applying IASB's amendments to IAS 40 and endorsed by Regulation (EU) no. 400 of 14 March 2018. Consequently, these reclassifications are made only when there is evidence of a change in use in the property, considering that a change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance, that can be controlled and can generate future economic benefits. They are recognised at purchase and/or production cost, including any directly-attributable expenses incurred to make the asset available for use, net of accumulated amortisation (except for intangible assets with an indefinite useful life) and impairment losses, if any. Interest expense, if any, that accrues during and for the development of intangible assets, is considered part of the purchase cost. Amortisation begins when the asset is available for use and is charged 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 or otherwise - any significant residual interest in the infrastructure at the end of the term of the arrangement.

The group does not recognise infrastructure for concessions under the scope of IFRIC 12 as property, plant and equipment but rather recognises at fair value either alternatively or jointly: the intangible asset, if the operator has the right to charge users of the public service for the construction or upgrading of the infrastructure; and the financial asset

when its construction or upgrade generate an unconditional contractual right to receive cash from or at the direction of the grantor and the grantor has little, if any, discretion to avoid payment. The operator recognises revenue and costs in line with the contractual terms and the stage of completion as provided by construction contracts. Revenue from the prices paid by users continues to be recognised in line with that set out in the subsequent paragraph on revenue recognition. Any intangible assets are amortised over the concession term using a method that reflects the estimated consumption of the economic benefits embedded in the right and the manner of consumption. Accordingly, amortisation is calculated considering the concession term. Provisions for concession commitments include accruals made for the operator's obligation to restore the infrastructure to a specified condition or replace the infrastructure to return it to its normal state of use. They are made when the concession arrangement includes these obligations and the grantor does not receive additional financial benefits.

Impairment losses on intangible assets and property, plant and equipment

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 group estimates the recoverable amount of the asset, recognising the impairment loss in profit or loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. The cash flows consider the overall financial performance and the relevant sector, the cash flows generated by the CGU in the past few years and the expected growth rates. In calculating value in use, the expected future cash flows are discounted using a discount rate which reflects the time value of money, compared to the investment period and risks specific to the asset. The recoverable amount of an asset that does not generate largely independent cash flows is calculated in relation to the cash-generating unit to which this asset belongs.

Impairment losses are recognised in profit or loss when the carrying amount of the asset, or of the related cash-generating unit to which the asset is allocated, exceeds its recoverable amount. Impairment losses on cash-generating units are first allocated to reduce the carrying amount of the goodwill, if any, allocated to the cash-generating unit and then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit and within the limits of the related recoverable amount. If the reasons 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

Starting from 1 January 2018 the group companies have recognised and measured financial instruments in accordance with IFRS 9 Financial instruments. This standard, which replaces IAS 39, introduces requirements for recognition and measurement, derecognition, impairment and hedge accounting. The main changes in respect of classification and measurement relate to the business model used to manage financial assets and financial liabilities and the characteristics of cash flows. The standard also introduces new requirements to measure expected credit losses and a new hedge accounting model.

The effects of the first-time application of IFRS 9, based on group assessments, are summarised in the note "Effects of the application of IFRS 9 and IFRS 15", to which reference should be made.

Classification and measurement – Financial assets

IFRS 9 introduces new requirements for the classification and measurement of financial assets which reflect the business model used to manage such assets and the characteristics of their cash flows. Under IFRS 9, financial assets are classified in accordance with three main classification categories: at amortised cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL). IFRS eliminates the previous IAS 39 categories, i.e., held to maturity, loans and receivables and available for sale.

Below is a description of the standard, as applied by the group, together with a description of the previously-applied standard (IAS 39).

<i>Classification and measurement – Financial assets</i>	
IFRS 9	IAS 39
<p>Under IFRS 9, financial assets are classified in accordance with three main classification categories: at amortised cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL).</p> <p>The analyses to be performed in order to classify financial assets in one of the above categories first require the company to identify whether the financial asset is an equity instrument, a debt instrument or a derivative.</p> <p>All financial assets representing equity instruments are always recognised at fair value.</p> <p>In the case of equity instruments held for trading, fair value gains or losses are recognised in profit or loss, while for all other investments, the entity may decide, upon initial measurement, to subsequently recognise all fair value gains or losses in other comprehensive income (OCI), exercising the FVOCI option. In this case, the</p>	<p>Under IAS 39 financial assets were classified under the following categories:</p> <ul style="list-style-type: none"> • financial assets at fair value through profit or loss; • loans and receivables; • held-to-maturity investments; • available-for-sale financial assets. <p><i>Financial assets at fair value through profit or loss</i></p> <p>This category included financial assets held for trading, derivatives and assets designated as such upon initial recognition. Their fair value was calculated based on the reporting date bid price. The fair value of unquoted derivatives was calculated by applying commonly used financial valuation techniques.</p> <p><i>Loans and receivables</i></p> <p>This category included derivative financial assets with fixed</p>

cumulative gains or losses previously recognised in OCI will not be reversed through profit or loss, including when the financial asset is derecognised. The application of the FVTOCI option is irrevocable and no reclassifications in/out the three above categories are possible, unless there is a change in business model.

With respect to the classification of loans and receivables and debt instruments, two elements must be considered:

1. the company's business model. Specifically:
 - the held to collect (HTC) model, whose objective is to hold the financial asset to collect the contractual cash flows;
 - the held to collect and sell (HTC&S) model, whose objective is both to collect the contractual cash flows and sell the financial asset;
 - other business models different from the two above.
2. the characteristics of the contractual cash flows from the financial asset. Specifically, the entity shall check whether these contractual cash flows are solely payments of principal and interest or whether they include other components (Solely Payment of Principal and Interest Test).

IFRS 9 defines principal and interest:

- principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (for example, if there are repayments of principal);
- interest consists of consideration for the time value of money and credit risk on the principal amount outstanding.

Therefore, a financial asset represented by debt instruments may be classified as follows:

1. at amortised cost when:
 - a. the contractual cash flows of the financial asset are solely payments of principal and interest (SPPI test passed); and
 - b. the company's business model provides that the entity's objective is to hold the financial asset solely to collect the contractual cash flows (HTC business model).

In this category, financial instruments are initially

or determinable payments that were not quoted on an active market. They were initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Held-to-maturity investments

These assets, measured at amortised cost, were those other than derivatives, with fixed maturity that an entity had the positive intention and ability to hold to maturity.

Available-for-sale financial assets

This category included financial assets, other than derivative financial assets, that were designated as available for sale or were not classified in any of the above categories. They were measured at fair value which was calculated based on market prices at annual or interim reporting dates or using financial valuation models and techniques. Fair value gains or losses were recognised in a specific equity caption ("reserve for available-for-sale financial assets"). This reserve was released to profit or loss only when the asset was actually sold or, in the case of a decrease, when the significant and prolonged decrease in fair value already recognised in equity could not be recovered.

recognised at fair value, inclusive of transaction costs (i.e., incremental costs that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument) and subsequently measured at amortised cost. Interest (calculated using the effective interest method as in IAS 39), impairment losses (impairment gains), exchange gains (losses) and gains (losses) on derecognition are recognised in profit or loss.

2. at fair value through other comprehensive income (FVTOCI) when:

- a. the contractual cash flows of the financial asset are solely payments of principal and interest (SPPI test passed); and
- b. the company's business model provides that the entity's objective is to hold the financial asset to collect contractual cash flows and to sell financial assets (HTC&S model).

In this category, the financial assets are initially measured at fair value, inclusive of transaction costs.

Interest (calculated using the effective interest method as in IAS 39), impairment losses (impairment gains) and exchange gains (losses) are recognised in profit or loss. Other fair value gains or losses are recognised in OCI. Upon derecognition, all the cumulative gains or losses previously recognised in OCI will be reclassified to profit or loss.

3. at fair value through profit or loss for the remaining cases when:

- a. the above criteria have not been complied with;
- b. the fair value option is exercised.

Financial instruments classified under this category are initially and subsequently measured at fair value. Transaction costs and fair value gains or losses are recognised in profit or loss.

Classification and measurement – Financial liabilities

Under IFRS 9, financial liabilities are substantially classified similarly to IAS 39.

However, while under IAS 39 all fair value gains or losses on liabilities designated at FVTPL were recognised in profit or loss, under IFRS 9, they are treated as follows:

- the amount of the fair value gains or loss attributable to changes in the credit risk of the liability is to be presented in OCI; and
- the residual amount of the fair value gains or losses is to be recognised in profit or loss.

Impairment losses – Financial assets and contract assets

IFRS 9 replaces the incurred loss model of IAS 39 with an expected credit loss (“ECL”) model which entails a significant assessment level of the impact of the changes in economic factors on the ECL which shall be probability-weighted.

The new impairment model applies to financial assets measured at amortised cost or at FVOCI, except for equity instruments and contract assets.

Under this standard, loss allowances are measured using the general deterioration method and the simplified approach. Specifically:

- under the general deterioration method, the financial instruments falling under the scope of IFRS 9 are to be classified in three stages which reflect the level of deterioration from the moment the financial instrument is acquired and provide for a different ECL calculation method;
- under the simplified approach, some simplifications may be applied to trade receivables, contract assets⁵⁴ and lease assets so that entities are not required to monitor credit risk changes, as required instead by the general approach. Under the simplified approach, lifetime expected credit losses are recognised, therefore, no stage allocation is necessary.

As mentioned early, when the General deterioration method applies, financial instruments are classified into three stages based on the deterioration of credit quality between initial recognition and the measurement date:

- *Stage 1:* includes all financial assets under assessment on the date of initial recognition regardless of qualitative indicators (e.g., ratings) and except for situations with objective evidence of impairment. Upon subsequent measurement, all financial instruments whose credit risk has not increased significantly since the date of initial recognition or whose credit risk at the reporting date is low, remain in Stage 1. For these exposures, 12-month ECL are provided for that represent the ECL that result from default events that are possible within the 12-months after the reporting date. Interest on Stage 1 financial instruments is calculated on the gross carrying amount (without deducting the loss allowance);
- *Stage 2:* includes the financial instruments whose credit risk has increased significantly since the date of initial recognition, which, however, do not show objective evidence of impairment. For these assets, only lifetime ECL are provided for, i.e., ECL that result from all possible default events over the expected life of a financial instrument. Interest on Stage 2 financial instruments is calculated on the gross carrying amount (without deducting the loss allowance);
- *Stage 3:* includes financial assets with objective evidence of impairment at the reporting date. For these assets, only lifetime ECL are provided for, i.e., ECL that result from all possible default events over the expected life of a financial instrument.

In order to identify the methodological approach to be applied to the assets that are in scope of the impairment requirements and, specifically, the correct probability of default, the group defined a conventional cluster segmentation based on counterparty and credit risk:

- Public administration: all loans and receivables with the government, regions, provinces, municipalities, the EU or related bodies;
- Intragroup: all loans and receivables with subsidiaries;
- Deposits: all deposits with banks;

⁵⁴ IFRS 15 Revenue from Contracts with Customers defines contract assets as an entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity’s future performance).

- Amounts from third parties: loans and receivables other than those above, with non-financial companies, producers and consumers.

Furthermore, the group opted to apply the low credit risk exemption allowed by IFRS 9 to loans and receivables other than trade receivables with Investment Grade rating between AAA and BBB-. Accordingly, there is no stage allocation: in fact these assets are directly allocated to Stage 1 with a one-year provision.

The impairment of financial assets is calculated based on public providers' information to determine the probability of default (PD), applying a loss given default which is in line with the scenario analysed as part of the most comparable competitors and considering the supervisory bodies' recommendations for entities with listed financial instruments. The exposure at default usually coincides with the carrying amount of the financial asset, except when lifetime ECL apply, in which case, the repayment plan and instalments of the loan asset at the maturity dates are considered.

Derivatives

In accordance with IFRS 9, upon FTA, the group availed of the option to continue to apply the hedge accounting requirements under IAS 39. Consequently, the requirements applicable to derivatives are unchanged.

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 gains or losses of recognised assets or liabilities or firm commitments (fair value hedges) or changes in cash flows expected from firm commitments or highly probable transactions (cash flow hedges). Reference should be made to note 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 gains or losses 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 gains or losses 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 hedged risk.

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, net of impairment losses calculated in accordance with IFRS 9. At the reporting date, current account overdrafts are classified in the statement of financial position as loans and borrowings under current liabilities. Cash and cash equivalents are measured at fair value through profit or loss.

Loans and borrowings and other financial liabilities

Loans and borrowings and other financial liabilities are initially recognised at fair value, net of directly-attributable costs, and are subsequently measured at amortised cost, applying the effective interest method. When there is a change in the estimated expected cash flows, the carrying amount of the liabilities is recalculated to reflect this change on the basis of the present value of the new expected cash flows and of the effective internal rate as initially determined. Loans and borrowings and other financial liabilities are classified under current liabilities, except for those with a contractual term of more than twelve months after the reporting date and those for which FS Italiane group has an unconditional right to defer their settlement for at least twelve months after the reporting date. Loans and borrowings 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.

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 does not have 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 equity 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 same accounting treatment is applied to the Free Travel Card benefits and the effects arising from actuarial gains and losses as for post-employment benefits.

Provisions for risks and charges

Provisions for risks and charges are recognised 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 with 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 time value of money is recognised as interest expense.

Risks for which a liability is only possible are disclosed in the specific section on contingent liabilities without accruing any provisions.

Revenue from contracts with customers

Starting from 1 January 2018, the group has recognised revenue from customers in accordance with IFRS 15 Revenue from contracts with customers. 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). It replaces the previous standards on revenue: IAS 18 Revenue and IAS 11 Construction contracts, and the following interpretations: IFRIC 13 Customer loyalty programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers and SIC-31 Revenue—barter transactions involving advertising services. Under IFRS 15, entities must recognise revenue so that the transfer of the goods and/or services to the customer is equal to an amount which reflects the consideration to which the entity expects to be entitled in exchange for the transfer of the promised goods and/or services. Unlike under IAS 18 and IAS 11, revenue is no longer recognised distinguishing between revenue from the sale of goods, services and work in progress. Instead, revenue is recognised using the five-step model (identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue). The effects of IFRS 15 FTA, based on the assessments carried out by the group, are described in the note "Effects of the first-time application of IFRS 9 and IFRS 15", to which reference should be made.

Since the group companies have opted to apply IFRS 15 retrospectively with the cumulative effect at the date of FTA (i.e., 1 January 2018), the comparative figures have not been restated and IAS 18 and IAS 11 will continue to apply to them. A comparison between IFRS 15, as applied by the group, and the previous GAAP is provided below.

Products and services	IFRS 15 (in force as of 1 January 2018) Nature and terms of performance obligations, significant terms and related recognition of revenue	IAS 18 and IAS 11 (in force until 31 December 2017) Nature of the change in accounting policy
Standard	<p>Under IFRS 15, revenue is measured considering the contract terms and the commercial practices usually applied to transactions with customers. The transaction price is the amount of consideration (which may include fixed amounts, variable amounts, or both) to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. Control refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset (good/service). The total consideration of contracts for the provision of services is allocated among all services based on the selling prices of the related services as if they had been sold separately.</p> <p>Under IFRS 15, for each contract, the reference element for the recognition of revenue is the single performance obligation. For each separately-identified performance obligation, an entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.</p> <p>For performance obligations satisfied over time, revenue is recognised over time, assessing the progress towards complete satisfaction of the performance obligation at each reporting date. The group measures progress in accordance with an input method (cost-to-cost method). Accordingly, revenue is recognised based</p>	<p>Under IAS 18, revenue was recognised when it was probable that future economic benefits would flow to the group and those benefits could be measured reliably, net of returns, rebates, trade discounts and bulk discounts. Revenue from services was recognised in profit or loss on a percentage of completion basis and only when the outcome of the service could be estimated reliably. Revenue from the sale of goods was recognised at the fair value of the consideration received or receivable and when the group transferred to the buyer the significant risks and rewards of ownership of the goods and the related costs could be measured reliably.</p> <p>Under IAS 11, construction contracts were 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 was 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 could not be estimated reliably, revenue was recognised only to the extent of contract costs incurred that it was probable would be recoverable. When the outcome of a construction contract could be estimated reliably and it was probable that the economic benefits associated with the contract would flow to the group, revenue was recognised over the term of the contract. When it was probable that total contract costs exceeded total contract revenue, the potential loss was immediately recognised in profit or loss,</p>

	<p>on the inputs used to satisfy the obligation up to the reporting date, compared to the total inputs assumed to satisfy the entire obligation. When the inputs are distributed consistently over time, the group recognises the corresponding revenue on a straight-line basis. In some circumstances, when the group is unable to reasonably measure the outcome of a performance obligation, revenue is recognised only to the extent of the costs incurred.</p>	<p>regardless of the contract progress. Contracts were shown net of allowances, if any, losses to complete contracts and payments on account and advances related to the contract in progress. Differences were recognised under assets when positive, while negative differences were taken to the liability caption "Trade payables".</p>
Revenue from transport services	<p>Revenue from transport services arises from passenger and freight transport in Italy and abroad. This caption includes revenue from market services (e.g., high speed services) and public service contract fees (MIT (Ministry of Infrastructure and Transport), the regions, etc.). Further information is provided later on.</p>	<p>The application of IFRS 15 had no significant impacts.</p>
Revenue from transport-market services	<p>Revenue from rail/road transport services is governed by the General terms of transport applicable to several types of services: regional or long haul throughout Italy.</p> <p>Revenue from freight transport services, both rail and road, are governed by specific contracts agreed with the customer which generally provide for free at destination deliveries.</p> <p>Contracts with customers generally coincide with the ticket which also grants access to a number of services (e.g., transport, lounge, complementary drink, wi-fi, etc.). However, these services are considered as a single performance obligation which customers may benefit from, except for reward points. Freight transport services are governed by standard contracts which substantially provide for the obligation to transport the goods to destination.</p> <p>Revenue is recognised from the moment</p>	<p>The application of IFRS 15 had no significant impacts.</p>

	<p>the customer starts using the service. In the case of partial services (delays, cancellations, etc.), the current terms and conditions provide for reimbursements and bonuses which are recognised as a direct adjustment to revenue. During the year, the group offers discounts and promotions to enhance customer loyalty. Reward points, which entitle customers to buy the group's products in the future, qualify as a performance obligation and their amount has never been significant. Revenue is recognised as the reward points are redeemed or expired.</p> <p>Because of the nature of the business, amounts are collected in advance. However, the timing of this advance does not have a significant impact.</p> <p>Since customers enjoy the benefits at the time of their transfer, revenue is recognised over time.</p>	
<p>Revenue from transport services-Service contracts</p>	<p>Revenue from rail transport services is governed by long-term service contracts signed with the regions, autonomous provinces and the ministries (MIT and MEF) for local and national rail transport services covered by a public service arrangement, and also includes regional services and day and night intercity trains. The transport services governed by said contracts represent the performance obligation.</p> <p>Revenue is recognised on an accruals basis in accordance with the contract. If the contractually-agreed services are not provided in the agreed quantities (e.g., cancellations), the contract provides for adjustments to the consideration. It also provides for penalties when quality targets (delays, cleanliness, etc.) are not met. In this respect, an estimate is made and an accrual is recognised in the risk provision to be used when the adjustments are</p>	<p>The application of IFRS 15 had no significant impacts.</p>

	<p>finalised.</p> <p>Since customers enjoy the benefits at the time of their transfer, revenue is recognised over time.</p>	
Revenue from infrastructure services	<p>Revenue from infrastructure services related to the rail/road/motorway infrastructure arises from management of this infrastructure. This caption includes revenue from tolls, service concession arrangements and, to a lesser extent, revenue from ferrying services. Additional information is provided later on.</p>	<p>The application of IFRS 15 had no significant impacts.</p>
Revenue from rail/road/motorway infrastructure services - Tolls	<p>Tolls are the amounts paid by railway companies to use the train paths necessary to carry out the long and short haul domestic passenger rail transport and for freight transport. Therefore, only one performance obligation exists. Revenue is recognised over time based on contract amounts; every quarter, it is adjusted to reflect the actual number of trains in operation. This figure is calculated for each train by pricing the train paths under the contract and those actually used by each railway company.</p> <p>With respect to road infrastructure, tolls are the amount paid by third-party companies assigned road and motorway construction, operation and maintenance under specific concession arrangements. A single performance obligation is identified. The price is set by the law and is equal to a percentage of the net proceeds from tolls received from operators. Revenue is recognised over time.</p>	<p>The application of IFRS 15 had no significant impacts.</p>
Revenue from road and motorway infrastructure services – Service concession arrangements	<p>The Government Programme Contract governs Anas S.p.A.'s obligations as the operator with respect to road and motorway construction, maintenance and management. Therefore, the government/Anas relationship relates to the management of the infrastructure, as a</p>	<p>The application of IFRS 15 had no significant impacts.</p>

	<p>whole, which, in turn, consists of extraordinary maintenance/new works and routine maintenance. With respect to the first category, the company acts as the “builder” of new works or performs extraordinary maintenance of said works which are individually identified in the plan as single performance obligations assessed by their progress (progress reports/production), as set out in the relevant contract. Contracts, i.e., the extraordinary maintenance and/or construction of a new part of the infrastructure (e.g., new bridge, viaduct, road, etc.), is the unit of account of the various activities. The individual progress reports of the contracts are heavily interdependent and integrated, measure the portion of service rendered against the entire performance obligation and are aimed at transferring the new work in its entirety.</p> <p>The transaction price is the amount of consideration to which the group expects to be entitled in exchange for transferring the promised infrastructure to the customer. The consideration is set in the Government Programme Contract. Revenue is recognised as the performance obligation is satisfied over time since the construction activity results in an asset (the infrastructure) which does not offer an alternative use to that for which it was designed and the group is entitled to collect the consideration for the services provided.</p>	
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Variable consideration

If the consideration promised in a contract includes a variable amount (e.g., because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or because the consideration is contingent on the occurrence or non-occurrence of a future event), an entity shall estimate the amount of consideration to which the entity will be entitled. The group companies estimate variable considerations consistently for similar items, using the expected

value or the most likely amount method. They subsequently include in the transaction price the amount of variable consideration estimated, only to the extent that it is highly probable.

Existence of a significant financing component

When a significant financing component exists, revenue is adjusted, both when companies are financed by their customer (advance collection) and when they finance it (deferred collection). The existence of a significant financing component is identified when the contract is signed by comparing expected revenue against the payments to be received. It is not recognised if the period between when the entity transfers a promised good or service and when the customer pays for that good or service will be one year or less.

Incremental costs of obtaining a contract and costs to fulfil a contract

The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, a sales commission), which it expects to recover. Conversely, if no contract is obtained, they are recognised provided that they are explicitly chargeable to the customer. An entity recognises the costs incurred to fulfil a contract only when they relate directly to a contract, generate or enhance resources that will be used in satisfying performance obligations in the future and are expected to be recovered.

Government grants

Government grants, when formally assigned and, in any case, when the right to their disbursement is deemed definitive as it is reasonably certain that 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 under 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 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 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 entity 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 income statement, net of tax effects, for comparative purposes. Non-current assets and liabilities (or disposal groups) classified as held for sale, are firstly recognised in accordance with the specific standard applicable to each asset and liability and, subsequently, are recognised at the lower of carrying amount and fair value, less costs to sell. Subsequent impairment losses are recognised directly as an adjustment to non-current assets (or disposal groups) classified as held for sale through profit or loss.

Impairment losses are reversed for any subsequent increase in fair value less costs to sell of an asset, and may not exceed the cumulative impairment loss that has been previously recognised.

New standards

FIRST-TIME ADOPTION OF STANDARDS, AMENDMENTS AND INTERPRETATIONS

The following new standards are effective for annual periods beginning on after 1 January 2018.

IFRS 9 Financial instruments

On 24 July 2014, the IASB issued the definitive version of IFRS 9 Financial instruments. This document was endorsed by the EU with Regulation no. 2067 of 22 November 2016. It presents the results of the IASB's project to replace IAS 39 and supersedes all the previous versions of IFRS 9 as regards classification, measurement, derecognition, impairment and hedge accounting. For a detailed description of this standard, reference should be made to that set out earlier and to that subsequently described about FTA impacts.

IFRS 15 Revenue from contracts with customers

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). Under IFRS 15, entities must recognise revenue so that the transfer of the goods and/or services to the customer is equal to an amount which reflects the consideration to which the entity expects to be entitled in exchange for the transfer of the promised goods and/or services. Consequently, revenue is no longer recognised distinguishing between revenue from the sale of goods, services and work in progress. Instead, revenue is recognised using the five-step model (identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue). For a detailed description of this standard, reference should be made to that set out earlier and to that subsequently described about FTA impacts.

IFRIC 22 Foreign currency transactions and advance consideration

On 8 December 2016, the IASB issued IFRIC 22 Foreign currency transactions and advance consideration which was endorsed by the EU with Regulation no. 519 of 28 March 2018. This interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. Because of its nature, the application of the interpretation had no significant effects on this document.

Annual improvements to IFRS: 2014-2016 cycle

On 8 December 2016, the IASB issued the Annual improvements to IFRS. 2014-2016 Cycle which was endorsed by the EU with Regulation no. 182 of 7 February 2018. 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. Because of their nature, the application of the amendments had no significant effects on this document.

Amendments to IAS 40 – Transfers of investment property

On 8 December 2016, the IASB issued some amendments to IAS 40 - Investment property which were endorsed by the EU with Regulation no. 400 of 14 March 2018. The amendments provide guidance on transfers to, and from investment property. An entity shall transfer a property to, or from, investment property when, and only when, there is a change in use and not only a change in management's intentions. Given the structure of the decision-making process governing the reclassification of the above assets, the application of these amendments had no significant effects on these notes.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS RECENTLY ENDORSED BY THE EUROPEAN UNION NOT YET APPLIED

IFRS 16 Leases

On 13 January 2016, the IASB issued IFRS 16 Leases which was endorsed by the EU with Regulation no. 1990 of 9 November 2017. This standard, which replaces IAS 17, 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 for entities that also adopt IFRS 15 Revenue from contracts with customers.

The group, which will apply IFRS 16 Leases starting from 1 January 2019, estimated the FTA effects, which are described in paragraph 7, on the consolidated financial statements. The actual effects of the application of this standard starting from 1 January 2019 may be considerably different. Indeed:

- the group has not yet completed the check and assessment of controls over the new information systems; and;
- in Italy, in coordination with OIC (the Italian accounting standard setter), the interpretation of some contracts and significant provisions about the non-cancellable period is still underway;
- the new measurement criteria may change until the presentation of the group's first consolidated financial statements inclusive of the first-time application date; and
- in connection with the above, the group has not yet decided about the application of some of the practical expedients allowed by the standard.

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets which represent the right-of-use of the underlying assets and lease liabilities. There are exemptions to the application of IFRS 16 for short-term leases and leases for which the underlying asset is of low value. The approach of IFRS 16 to lessor accounting is similar to that under IAS 17, i.e., lessors continue to classify leases as operating or finance.

IFRS 16 replaces the current lease provisions, including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases—Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease.

Leases in which the group is the lessor

The group will recognise new assets and liabilities for the operating leases of railway vehicles, other vehicles and some property leases. The nature of the costs related to the above leases will change since the group will depreciate the right-of-use assets and the borrowing costs on lease liabilities. Under the previous standard, the group recognised operating lease liabilities on a straight-line basis over the term of the lease and recognised assets and liabilities only in the case of temporary differences between the moment it paid the lease and the costs incurred. According to the currently available preliminary information, the group expects to recognise additional lease liabilities for an amount ranging between €500 and €600 million starting from 1 January 2019.

First-time application

The group intends to apply IFRS 16 from the date of first-time application (i.e., 1 January 2019) using the modified retrospective application method. Consequently, the cumulative effect of initially applying IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, without restating comparative information.

Amendments to IFRS 9 Prepayment features with negative compensation

On 12 October 2017, the IASB issued the amendment to IFRS 9 Financial Instruments - Prepayment features with negative compensation which was endorsed by the EU with Regulation no. 498 of 22 March 2018. The amendments clarify the accounting of particular prepayable financial assets when IFRS 9 is applied. Specifically, the amendment proposes measuring such financial assets, which may result in a negative compensation, at amortised cost or at fair value through other comprehensive income depending on a company's business model. The amendments are to be applied no later than the year beginning on or after 1 January 2019. The assessment of the impacts of the application of this standard is underway.

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. No significant impacts are expected from the coming into force of this interpretation.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

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. The EU is expected to endorse this amendment in the first quarter of 2019.

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. The EU is expected to endorse this amendment in the first quarter of 2019.

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. The EU is expected to endorse this amendment in the first quarter of 2019.

Amendments to references to the conceptual framework in IFRS standards

On 29 March 2018, the IASB issued the revised version of the Conceptual framework for financial reporting. The main changes compared to the 2010 version include: a new chapter on measurement, improved definitions and guidance, specifically with respect to the definition of liability, clarifications of major concepts, such as stewardship, prudence and measurement uncertainties. The EU is expected to endorse this amendment in 2019.

Amendments to IFRS 3 Business Combination

On 22 October 2018, the IASB issued an amendment to IFRS 3 Business combinations. The amendment relates to the definition of business which, at present, is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. Previously, it was an integrated set of activities and assets that was capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. The amended definition of business shall be applied to acquisitions that occur on or after 1 January 2020. The EU is expected to endorse this amendment in 2019.

Amendments to IAS 1 and IAS 8 – Definition of material

On 31 October 2018, the IASB issued an amendment to IAS 1 and IAS 8 Definition of Material. The main changes relate to the alignment of the references and quotes included in some standards in order to reflect the new version of the Conceptual Framework, which was approved in March 2018, instead of the 2010 version. The amendment applies to annual periods beginning on or after 1 January 2020. The EU is expected to endorse this amendment in 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 - non-financial assets

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) Impairment losses - financial assets

As mentioned early, IFRS 9 replaced IAS 39 as related to the impairment model.

Under IFRS 9, an expected loss is the sum of the expected losses that result from possible default events on a financial instrument over a specific time horizon; this results in the recognition of a loss using both past and present figures and forward looking information.

iii) Amortisation and depreciation

Amortisation and depreciation are a significant cost for the group. The cost of property, plant and equipment and intangible assets with a finite useful life and of investment property is depreciated and amortised, respectively, over the estimated useful lives of the assets, except for RFI S.p.A. which applies the production unit.

Calculating the amortisation/depreciation of these assets entails a complex accounting estimate that is, by its nature, subjective, as it is influenced by a number of factors, including:

- the estimated production volumes expressed as train-km for the railway infrastructure (for further details, see the paragraph on "RFI S.p.A.'s calculation of depreciation of property, plant and equipment");
- the identification of each component of rolling stock with a significant cost in proportion to the total cost of the item to be depreciated separately (component approach) and the estimated useful life (for further details, see the paragraph on "Trenitalia S.p.A.'s calculation of rolling stock depreciation");
- the estimated residual value. In accordance with IAS 16, 38 and 40, the depreciable cost of the railway infrastructure and rolling stock is calculated by subtracting their residual value. The residual value of an asset is the estimated amount that an entity could obtain at the time of disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of the concession or the useful life of the rolling stock. The subsidiaries RFI S.p.A. (which operates the railway infrastructure) and Trenitalia S.p.A. (which owns the rolling stock), periodically review the residual value of assets and measure their recoverability using the best information available at that date. Periodic updates may cause changes in the depreciation rate for future years;
- the impacts of any changes to the regulatory framework.

The directors determine the useful lives of the group's assets when the assets are purchased. They are based on past experience for similar assets, market conditions and forecasts concerning future events that may have an impact on the useful life. Therefore, the actual economic life may differ from the estimated useful life. 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.

iv) 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.

v) 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.

vi) 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. Effects of the application of IFRS 9 and IFRS 15

Below is a description of the effects of the application of IFRS 9 and IFRS 15:

IFRS 9 – FINANCIAL INSTRUMENTS

Transition method

The changes to accounting policies resulting from the application of IFRS 9 are substantially applied retrospectively, except for the following:

- the group avails of the exemption not to restate the prior year comparative information related to classification and measurement changes (including impairment losses). Generally speaking, the differences in the carrying amounts of financial assets and financial liabilities resulting from the application of IFRS 9 are recognised in retained earnings and reserves at 1 January 2018;
- as mentioned earlier, with respect to hedge accounting, the group decided to continue to apply IAS 39 provisions.

Classification and measurement of financial assets and liabilities

As described in note 3 “accounting policies”, IFRS 9 changed the classification of financial assets, while it substantially maintained IAS 39 requirements for the classification of financial liabilities. Based on the analyses carried out by the group and considering the nature of the assets owned, these fall entirely in the amortised cost category, except for derivatives, which continue to be measured at fair value.

Impairment losses

Below is a description of the effects of the application of the new requirements for calculating impairment losses under IFRS 9 on opening equity (1 January 2018):

	millions of Euros
Loss allowance at 31 December 2017	586
<i>Additional impairment at 1 January 2018:</i>	
Trade receivables	42
Other financial assets	199
Cash and cash equivalents	1
Loss allowance at 1 January 2018	828

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Transition method

The group set up specific work groups to perform and complete an analysis of the effects of the application of IFRS 15. This standard is applied retrospectively with cumulative effect on the date of FTA (i.e., 1 January 2018). Consequently, the comparative figures have not been restated and continue to be recognised in accordance with IAS 18 and IAS 11. The application of IFRS 15 had no effects on the opening balances at 1 January 2018. The standard introduced new disclosure requirements, both qualitative and quantitative, in order to provide financial statements users with useful information about

the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. To this end, the group developed new detailed information disclosed later on in these notes.

8. 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 loans 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 2018, compared with that at 31 December 2017.

millions of Euros

	31.12.2018	31.12.2017
Trade receivables	3,160	3,011
Loss allowance	(666)	(520)
Current trade receivables, net of the loss allowance	2,494	2,491
Other assets	4,259	4,622
Loss allowance	(122)	(57)
Other current assets, net of the loss allowance	4,137	4,565
Financial assets (including derivatives)	3,807	1,791
Loss allowance	(131)	
Non-current financial assets (including derivatives), net of the loss allowance	3,676	1,791
Other assets	4,380	1,131
Loss allowance	(10)	(7)
Other non-current assets, net of the loss allowance	4,370	1,125
Cash and cash equivalents	1,750	1,786
Loss allowance	(1)	
Cash and cash equivalents, net of the loss allowance	1,749	1,786
Financial assets (including derivatives)	2,089	637
Loss allowance	(51)	
Current financial assets (including derivatives), net of the loss allowance	2,038	637
Trade receivables	16	9
Loss allowance	(7)	
Non-current trade receivables, net of the loss allowance	9	9
Construction contracts		58
Loss allowance		(1)
Construction contracts, net of the loss allowance		57
Total exposure, net of the loss allowance (*)	18,473	12,461

(*) Does not include prepayments and accrued income, tax assets, cash in hand and equity investments.

The tables below show the exposure to credit risks by counterparty, in absolute terms and as a percentage.

millions of Euros

	31.12.2018	31.12.2017
Public administration	13,693	8,685
Third party customers	2,734	1,765
Financial institutions	1,794	1,812
Group companies	252	199
Total exposure, net of the loss allowance	18,473	12,461

	31.12.2018	31.12.2017
Public administration	74.1%	69.7%
Third party customers	14.8%	14.2%
Financial institutions	9.7%	14.5%
Group companies	1.4%	1.6%
Total exposure, net of the loss allowance	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 loss allowance was accrued in this respect.

The following table gives a breakdown of financial assets and trade receivables at 31 December 2018 by overdue bracket.

millions of Euros

31.12.2018

	Overdue by					Total
	Not overdue	0-180	180-360	360-720	More than 720 days	
Public administration (gross)	13,086	256	174	139	212	13,867
Loss allowance	(109)	(1)			(64)	(174)
Public administration (net)	12,977	255	174	139	148	13,693
Third party customers (gross)	2,386	334	67	105	635	3,527
Loss allowance	(228)	(8)	(6)	(6)	(545)	(793)
Third party customers (net)	2,158	326	61	99	90	2,734
Financial institutions (gross)	1,663	123	7	2		1,795
Loss allowance	(1)					(1)
Financial institutions (net)	1,662	123	7	2		1,794
Group companies (gross)	173	52		19	13	257
Loss allowance					(5)	(5)
Group companies (net)	173	52		19	8	252
Total exposure, net of the loss allowance	16,970	756	242	259	246	18,473

millions of Euros

31.12.2017

	Overdue by					Total
	Not overdue	0-180	180-360	360-720	More than 720 days	
Public administration (gross)	7,706	491	89	284	215	8,785
Loss allowance	(5)	(3)	(5)	(36)	(51)	(100)
Public administration (net)	7,701	488	84	248	164	8,685
Third party customers (gross)	1,412	225	64	203	344	2,248
Loss allowance	(35)	(17)	(19)	(126)	(286)	(483)
Third party customers (net)	1,377	208	45	77	58	1,765
Financial institutions (gross)	1,800	12				1,812
Loss allowance						
Financial institutions	1,800	12				1,812
Group companies (gross)	151	10	14	9	21	205
Loss allowance					(6)	(6)
Group companies (net)	151	10	14	9	15	199
Total exposure, net of the loss allowance	11,029	718	143	334	237	12,461

With respect to the breakdown by due date, the €6,012 million increase on 2017 is mainly due to the consolidation of Anas group and is reflected by the rise in the "Not overdue" bracket (€5,941 million) which is essentially attributable to current and non-current service concession financial assets.

The total exposure and the impairment of each category was reclassified by risk class at 31 December 2018, as per the Standard & Poor's rating, shown below:

	31.12.2018			31.12.2017		
	FVTPL	FVOCI	Amortised Cost			
		12-months expected credit losses	12-months expected credit losses	Lifetime - not impaired	Lifetime - impaired	Loans and receivables
from AAA to BBB-		8,691	6,860	599		11,305
from BB to BB+		454	241	820		819
from B to CCC		213	1,454	129		919
from CC to C						
D						4
Gross carrying amounts		9,358	8,555	1,548		13,047
Loss allowance		55	272	661		586
Carrying amount		9,303	8,283	887		12,461

Changes in the loss allowance are shown below. The 2017 comparative figures reflect the loss allowance calculated in accordance with IAS 39.

	2018				2017
	12-months expected credit losses	Lifetime-not impaired	Lifetime-impaired	Total	Loss allowance
Balance at 31 December 2017				586	586
Effects of IFRS 9 FTA				242	
Balance at 1 January 2018	46	268	514	828	
Net revaluation of the loss allowance	10	12	106	128	
Transfer to lifetime -impaired					
Transfer to lifetime -not impaired			22	22	
Repaid financial assets	(2)	(5)	32	25	
New assets acquired		5	2	7	
Utilisation of the allowance	1	(8)	(15)	(22)	
Balance at 31 December 2018	55	272	661	988	

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 2018 (€2 billion) for general purposes.

Furthermore, the group has numerous uncommitted credit lines granted by banks.

The following tables show the due dates of financial liabilities and trade payables at 31 December 2018 and 2017, including interest to be paid:

	millions of Euros						
31 December 2018	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	After 5 years
Non-derivative financial liabilities							
Bonds	5,343	5,705	16	402	977	1,789	2,521
Bank loans and borrowings	4,655	4,934	1,217	1,275	656	1,119	667
Loans and borrowings from other financial backers	1,402	1,549	142	143	421	401	442
Loans and borrowings from shareholders	5	5				5	
Financial liabilities	1,620	1,621	13	20	10	100	1,478
Total non-derivative financial liabilities	13,025	13,814	1,388	1,840	2,064	3,414	5,108
Trade payables	5,446	5,360	1,766	3,536	20	32	6
Derivative financial liabilities	69	74	9	7	12	11	35

millions of Euros

31 December 2017	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	After 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

The contractual flows from variable-rate loans have been calculated using the forward rates estimated at the reporting date. The amounts include both principal and interest.

The following table shows the repayments of non-derivative financial liabilities and trade payables within one year, 1-5 years and after five years.

millions of Euros

31 December 2018	Carrying amount	Within one year	1-5 years	After 5 years
Non-derivative financial liabilities				
Bonds	5,343	366	2,565	2,412
Bank loans and borrowings	4,655	2,450	1,637	568
Loans and borrowings from other financial backers	1,402	251	761	390
Loans and borrowings from group companies	5		5	
Financial liabilities	1,620	33	106	1,481
Total non-derivative financial liabilities	13,025	3,100	5,074	4,851
Trade payables	5,446	5,384	55	7

millions of Euros

31 December 2017	Carrying amount	Within one year	1-5 years	After 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

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 manage and maintain 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 policies approved by the relevant boards of directors and implemented with the technical and operational support of the parent.

Despite the various customisations due to the financial and business characteristics of each company, the common objective of the applied policies is to limit cash flow fluctuations in financing transactions in place and, where possible, to exploit the opportunities to optimise borrowing costs offered by the indexing of variable-rate debt.

In accordance with the above policies, the group only uses plain vanillas, such as interest rate swaps, interest rate collars and interest rate caps.

The table below shows variable and fixed rate loans and borrowings:

	Carrying amount	Contractual cash flows	Current portion	1-2 years	2-5 years	After 5 years
Variable rate	5,408	5,340	1,750	702	1,216	1,672
Fixed rate	7,617	8,474	1,478	1,362	2,198	3,436
Balance at 31 December 2018	13,025	13,814	3,228	2,064	3,414	5,108
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

millions of Euros

The table below shows the impact of variable and fixed rate loans and borrowings, before and after hedging derivatives, which convert variable rates into fixed rates, i.e., which hedge against rises in variable rates beyond the maximum levels defined.

	31.12.2018	31.12.2017
Before hedging with derivatives		
Variable rate	42%	51%
Fixed rate	58%	49%
After hedging with derivatives		
Variable rate	63%	39%
Hedged variable rate	8%	3%
Fixed rate	30%	58%

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 2018:

	millions of Euros	
	+ 50 bps	- 50 bps
Greater/(lower) interest expense on variable-rate debt	353	(21)
Net cash flow from hedges	22	8
Total	375	(13)

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 2018.

	millions of Euros	
	+ 50 bps	- 50 bps
Fair value of hedging derivatives	52	(18)
Total	52	(18)

Currency risk

The group is mainly active in Italy. Therefore, the risk arising from the different currencies in which it operates is limited and substantially relates to the contracts agreed by Italferr.

In February 2017, Trenitalia UK Ltd, a British company set up in 2016 and wholly-owned by Trenitalia S.p.A., acquired NXET Trains Limited. The liquid funds necessary for the acquisition were provided by the parent which granted an intragroup loan to Trenitalia UK Ltd (GBP60 million), while the residual amount was raised by means of a capital increase carried out by Trenitalia S.p.A. in favour of Trenitalia UK Ltd (GBP13 million). Cross currency swaps hedging the currency risk were agreed in respect of FS Italiane's intragroup loan granted to Trenitalia UK Ltd.

The group also has loans and borrowings in Swiss francs totalling CHF45 million.

Capital management

FS Italiane group's main objective with respect to capital risk management is to safeguard its ability to continue as a going concern, while ensuring returns for shareholders and benefits for the other stakeholders. FS Italiane group also intends to maintain an optimal capital structure in order to reduce the cost of debt.

Financial assets and financial liabilities by category

To complete financial risk information, the table below gives a reconciliation between financial assets and liabilities as reported in the consolidated statement of financial position and the categories of financial assets and liabilities identified pursuant to IFRS 7.

			millions of Euros
31 December 2018	Loans and receivables	Loans and borrowings	of which: hedging derivatives
Non-current financial assets (including derivatives) (*)	1,758		3
Non-current service concession financial assets	1,917		
Non-current trade receivables	9		
Other non-current assets (*)	4,372		
Current trade receivables	2,494		
Current financial assets (including derivatives)	818		
Current service concession financial assets	1,220		
Cash and cash equivalents	1,796		
Tax assets	120		
Other current assets (*)	4,155		
Non-current loans and borrowings		8,335	
Non-current financial liabilities (including derivatives)		1,620	67
Contract advances		995	
Non-current trade payables		49	
Other non-current liabilities		138	
Current loans and borrowings and current portion of non-current loans and borrowings		3,069	
Current trade payables		5,398	
Tax liabilities		19	
Current financial liabilities (including derivatives)		69	2
Contract advances		142	
Other current liabilities		6,365	

(*) VAT receivables and equity investments are not included

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

9. 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	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 1.1.2017	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)
Non-recurring transactions						
Change in consolidation scope		59		17	8	84
Exchange rate differences						
Disposals and divestments	(27)	(21)	(1)	(3)	(5)	(57)
Other changes						
Reclassifications from/to "Assets held for sale"	(1)	(1)				(2)
Increases in grants	(3,158)	(115)	(82)	(9)	(936)	(4,301)
Other reclassifications	195	(25)	2	(9)	13	176
Total changes	422	(112)	6	7	(465)	(142)
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
Investments	10	144	4	21	5,591	5,770
Roll-outs	6,529	827	73	55	(7,484)	
Depreciation	(142)	(1,093)	(14)	(44)		(1,293)
Impairment losses		(111)			(1)	(112)
Change in consolidation scope (1)	299	8		27	6	340
Disposals and divestments (2)	(24)	(6)		(1)	(2)	(33)
Reclassifications from/to "Assets held for sale" (3)						
Increases and roll-outs of grants during the year	(5,923)	(19)	(64)	(27)	1,308	(4,725)
Other reclassifications (3)	(74)	10	4	2	33	(25)
Total changes	675	(240)	3	33	(549)	(78)
Historical cost	98,443	20,875	1,061	1,294	25,352	147,025
Depreciation and impairment losses	(24,705)	(11,651)	(565)	(903)	(1,562)	(39,386)
Grants	(41,330)	(856)	(314)	(132)	(20,636)	(63,268)
Balance at 31.12.2018	32,408	8,368	182	259	3,154	44,371

Notes (1), (2) and (3) are broken down in the following table.

	Land, buildings, railway and port infrastructure	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
1) Change in consolidation scope						
Historical cost	406	30		162	6	605
Depreciation	(107)	(23)		(135)		(265)
Impairment losses						
Grants						
	299	8		27	6	340
2) Disposals and divestments						
Historical cost	(30)	(153)	(3)	(28)	(2)	(215)
Depreciation	3	95	3	20		121
Impairment losses	3	48		(1)		51
Grants		3		8		11
	(24)	(6)		(1)	(2)	(33)
3) Other reclassifications and transfers from/to "Assets held for sale"						
Historical cost	(311)	(581)	1	5	(38)	(924)
Depreciation	111	596	2	(2)		707
Impairment losses	43					44
Grants	82	(5)	2	(1)	71	149
	(74)	10	4	2	33	(25)

The increase in investments under "Assets under construction and payments on account" (€5,591 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 (€4,655 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 new electric *Jazz* trains and new diesel *Swing* trains (€642 million);
- the costs incurred to upgrade workshop plants and buildings and technical equipment (€79 million);
- the capitalisation of internal and external costs mainly related to designs and works for the measures covered by the "Obiettivo law" (external works) and for surveillance, in addition to extraordinary maintenance (€38 million);
- the costs incurred by the investee QBuzz to purchase new buses (€81 million) to be used as part of the concessions it manages in the Netherlands;
- the capitalisation of the costs incurred for ordinary maintenance on freight rolling stock, in addition to the advances related to the investments in the supply of the first lot of new locomotives to be delivered in 2019 (€85 million).

The roll-outs of "Land, buildings, railway and port infrastructure" mainly refer to RFI S.p.A.'s railway infrastructures (€6,474 million), the main Italian stations (€23 million) and the sheds for rolling stock (€16 million). The roll-outs of "Plant and machinery" principally relate to new locomotives and new buses (€796 million) and ancillary works for station complexes (€15 million).

As described in detail in note 4, the changes to the consolidation scope related to "Land, buildings, railway and port infrastructure", "Plant and machinery" and "Other assets" relate to Anas group's first consolidation (€326 million) whose property, plant and equipment mainly include the carrying amount of the engineering departments and the buildings owned by said group. The residual €14 million relates to the change of the consolidation method applied to Terminal Alptransit S.r.l., from the equity to the line-by-line method.

Impairment losses amount to €112 million and mainly relate to rolling stock adjustments made by Mercitalia Rail S.r.l. (€105 million) based on the outcome of the impairment test and the impairment of Trenitalia S.p.A.'s rolling stock following the beginning of the sale process (€35 million).

At 31 December 2018, 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.

Impairment test – Mercitalia Rail

For impairment test purposes, the parent of the "Freight hub" identified a single cash-generating unit ("CGU"). The cash flows for 2018 were calculated based on the best information available during the preparation stage, using the 2019 budget forecasts, the figures of the most recent 2019-2023 business plan and its projection until 2028. The negative figures generated by operations which characterised 2018, and the significant discrepancies compared to the company's budget, resulted in the need for an analysis of its business and the net investments made, in accordance with applicable reporting standards (IAS 36, impairment of assets).

Based on the outcome of the test, determined using commonly measurement techniques applicable to this case, the cash flows and the expected future returns of freight transport operations, discounted using a rate which represents the risk specific to this business, do not fully remunerate the company's net invested capital, resulting in the need to impair operating assets by €70 million.

The terminal value was estimated using the perpetual capitalisation of prospective cash flows in the last year of the explicit projection period. At the end of the impairment test and when calculating the terminal value, the business plan was projected until 2028.

For test purposes, a WACC (Weighted Average Cost of Capital) of 6.09% and a growth rate of 1.50% were used. The comparison between the CGU's invested capital (€358 million) and the discounted value of cash flows plus the terminal value (value in use of €288 million) resulted in an impairment loss of €70 million, which was recognised against the carrying amount of the assets.

Consequently, the recoverable amount of the CGU is in line with the carrying amount. Any increases or decreases in the basic assumptions may result in an impairment gain (also partial) or a further impairment loss.

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 €4,727 million, were disbursed. They may be analysed as follows:

- €25 million related to the advances for grants related to assets from the MEF for investments in HS/HC infrastructures;
- €4,225 million related to the advances for grants from the MEF and €239 million related to the advances for grants related to assets from the MIT and other bodies for infrastructural investments in the traditional network;
- €21 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);
- other grants (€192 million) mainly related to the European Union and local bodies.

Finally, contractual constraints, with an average term of 12 years, apply to the grants received in connection with the investments into the bus fleet for the operation of LPT services. The repayment obligation, in the event of early sale of the contributed asset, is replaced with the possibility of using the residual grant to purchase a new asset, of the same type and for the same use, replacing the previous asset.

10. Investment property

The following table shows the opening and closing balances of investment property at 31 December 2018 and 2017.

	2018		2017	
	Land	Buildings	Land	Buildings
millions of Euros				
Balance at 1 January				
Cost	2,268	670	2,421	743
of which:				
Historical cost	2,268	732	2,422	797
Grants		(61)	(1)	(54)
Accumulated depreciation		(412)		(354)
Loss allowance	(1,061)	(67)	(1,141)	(104)
Carrying amount	1,207	191	1,280	285
Changes of the year				
Acquisitions/Increases		1	1	5
Roll-outs				
Reclassifications (1)	(366)	404	(51)	(93)
Grants				
Depreciation and impairment losses	(8)	(9)	(5)	(4)
Disposals and divestments	(2)	(15)	(18)	(2)
Change in consolidation scope				
Total changes	(376)	381	(73)	(94)
Balance at 31 December				
Cost	2,140	1,242	2,268	670
of which:				
Historical cost	2,158	1,376	2,268	731
Grants	(18)	(134)		(61)
Accumulated depreciation		(487)		(412)
Loss allowance	(1,309)	(183)	(1,061)	(67)
Carrying amount	831	572	1,207	191
Reclassifications (1)				
Cost	(102)	660	(136)	(87)
Accumulated depreciation		(68)		(51)
Loss allowance	(246)	(116)	86	43
Grants	(18)	(72)	(1)	2
Total	(366)	404	(51)	(93)

"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.

11. 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	Concession financial assets	Other	Goodwill	Total
Historical cost	122	13	1,368	317		93	112	2,026
Amortisation and impairment losses	(92)	(12)	(838)	(8)		(73)		(1,022)
Grants	(7)		(208)	(21)				(237)
Balance at 1.1.2017	22	1	323	288		20	112	766
Investments		1	4	186		4		195
Roll-outs	8		89	(97)				
Amortisation	(1)	(1)	(69)			(8)		(79)
Disposals and divestments								
Non-recurring transactions			7				99	106
Impairment losses								
Change in consolidation scope								
Reclassifications from/to "Assets held for sale"								
Increases in grants	(8)		(53)	61				
Other reclassifications			1					1
Total changes	(1)		(22)	150		(4)	99	222
Historical cost	128	14	1,140	464	43	51	211	2,051
Amortisation and impairment losses	(93)	(13)	(579)	(7)	35	(43)		(770)
Grants	(13)		(261)	(19)				(293)
Balance at 31.12.2017	22	1	300	438	8	8	211	988
Investments		2	24	307	40	14		387
Roll-outs	1	1	211	(214)				
Amortisation	(1)	(1)	(95)		(165)	(9)		(271)
Disposals and divestments (1)			(1)	(19)				(20)
Non-recurring transactions (2)			25	343	2,808		15	3,191
Impairment losses							(1)	(1)
Change in consolidation scope								
Reclassifications from/to "Assets held for sale" (3)								
Increases in grants			(44)	42				(2)
Other reclassifications (3)			(4)	(33)	22	28	(25)	(12)
Total changes		2	116	426	2,705	33	(10)	3,272
Historical cost	130	10	1,494	915	4,874	59	200	7,682
Amortisation and impairment losses	(96)	(6)	(774)	(7)	(830)	(18)		(1,731)
Grants	(13)		(305)	(44)	(1,332)			(1,693)
Balance at 31.12.2018	21	4	416	865	2,713	41	200	4,260

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	Concession financial assets	Other	Goodwill	Total
1) Disposals and divestments								
Historical cost		(6)	(2)	(18)		(43)		(69)
Amortisation		6	1			40		47
Impairment losses						3		3
Grants				(1)				(1)
Total			(1)	(19)				(20)
2) Non-recurring transactions								
Historical cost	2	(1)	142	366	4,782		15	5,307
Amortisation	(2)	1	(117)		(629)			(747)
Impairment losses								
Grants				(24)	(1,346)			(1,370)
Total			25	342	2,808		15	3,191
3) Other reclassifications								
Historical cost			(21)	9	9	37	(25)	9
Amortisation			17			(9)		8
Impairment losses								
Grants				(42)	13			(29)
Total			(4)	(33)	22	28	(25)	(12)

Intangible assets increased by €3,272 million essentially as a result of Anas group's consolidation (€3,176 million), as per the MEF's contribution described earlier.

Specifically, the rise in "Concession financial assets", totalling €2,705 million, mainly relates:

- for €1,124 million, to the non-compensated revertible assets of the operator SITAF S.p.A., related to the concessions of the Turin-Bardonecchia – A32 and the Frejus tunnel – T4 motorway sections. These assets include borrowing costs and other costs related to the signing of the €320 million loan with the European Investment Bank and Cassa Depositi e Prestiti on 27 November 2013;
- for €1,391 million, to the new value of Anas S.p.A.'s concession calculated under the new 2016-2020 Programme contract, which the company signed on 27 December 2017. For €1,391 million, to the new value of Anas S.p.A.'s concession calculated under the new 2016-2020 Programme Contract, which the company signed on 27 December 2017. Based on the new economic/financial plan, the actual figures for the year, those for the period between the recognition of the concession and the reporting date and the beginning of the process to extend the concession term up to a maximum of 50 years, Anas' directors decided to check the recoverability of said concession again, also considering the enhancement initiatives included in Anas' new Programme Contract dated December 2017. The check fully confirmed the recognised amounts.

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 and the increase in the efficiency and streamlining of sales channels for the group's business.

Goodwill recognised during the year totals €15 million and refers to Pol Rail S.r.l. (€2 million) and CREW - Cremonesi Workshop S.r.l. (€13 million). Furthermore, following the purchase price allocation (PPA) process carried out during the year in respect of the acquisitions of Qbuzz BV and TrainOSE SA, €25 million was reclassified from Goodwill, of which, €22 million to "Concession financial assets", €12 million to "Other", €0.6 million to "Software" and €9 million to "Deferred tax liabilities". For additional information on the acquisitions and the PPA process carried out during the year, reference should be made to note 4.

"Other reclassifications" mainly relate to the portion pertaining to software for sundry investment projects which was duly reclassified to the relevant caption when it was rolled out.

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 2018, the impairment test focused exclusively on the goodwill of Netinera Deutschland GmbH group, Mercitalia Logistics S.p.A., Ataf Gestioni S.r.l., Busitalia - Sita Nord S.r.l. (the latter "inherited" the goodwill of Umbria Mobilità Esercizio S.r.l., which merged into Busitalia Sita Nord S.r.l., effective from 1 December 2015), Busitalia Simet S.p.A., Busitalia Campania S.p.A., Trenitalia c2c, TrainOSE SA and Qbuzz BV, each of which is an independent CGU.

With respect to these CGUs, the test was carried out using 2019 forecast figures and the amounts included in 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 S.r.l., 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 – is 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	5.18%	1.00%
Mercitalia Logistics (formerly FS Logistica)	7	7.33%	1.50%
Ataf Gestioni	9	5.85%	
Busitalia - Umbria CGU	18	6.13%	
Busitalia Simet	5	8.10%	2.00%
Busitalia Campania	2	7.02%	
TrainOSE	2		
Trenitalia c2c	46	5.30%	1.00%
Qbuzz	18	4.47%	

The impairment test related to the companies acquired during the year (Pol Rail S.r.l. and CREW - Cremonesi Workshop S.r.l.) was carried out based on the fair value less cost to sell, which coincides with the purchase 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 effects on the outcome of the assessments made.

12. Deferred tax assets and deferred tax liabilities

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2018 and changes of the year due to the main temporary differences.

				millions of Euros
	31.12.2017	Incr. (decr.) through profit or loss	Incr. (decr.) OCI	Other changes
				31.12.2018
Deferred tax assets	158	(6)		261
Deferred tax liabilities	275	(7)		257

Deferred tax assets and deferred tax liabilities mainly relate to the misalignment between the carrying amount and the tax value of property, plant and equipment, investment property and intangible assets on which depreciation and amortisation are calculated, and buildings held for trading, in addition to the deferred deductibility applied to provisions for risks and charges and impairment losses on non-current assets.

Changes in deferred tax assets and liabilities include the new temporary differences and releases generated by group companies during the year, the increases related to Anas group's contribution and the reclassifications made following the PPA process in relation to TrainOSE SA and Qbuzz BV, as described in detail in note 4, which are recognised in other changes.

13. Equity-accounted investments

They include the carrying amount of investments in joint arrangements and associates.

The following table gives a breakdown of the carrying amount of equity investments at 31 December 2018, 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 31.12.2018	% of investment	Carrying amount at 31.12.2017	% of investment
Investments in joint arrangements				
Cisalpino SA			3.75	50.00
ODEG Ostdeutsche Eisenbahngesellschaft mbH	3.71	50.00	2.82	50.00
Trenord S.r.l.	40.58	50.00	40.67	50.00
TELT Sas (formerly LTF Sas)	95.05	50.00	95.05	50.00
Verkehrsbetriebe Osthannover GmbH*	2.36	57.45	3.01	57.45
Other**	8.54		8.48	
Investments in associates				
Autostrada Asti-Cuneo S.p.A.	18.29	35.00		
B.B.T. SE S.p.A.	126.61	50.00	111.68	50.00
Concessioni Autostradali Venete CAV S.p.A.	73.58	50.00		
Ferrovie Nord Milano S.p.A.	60.21	14.74	56.21	14.74
Metro 5 S.p.A.	39.57	36.70	35.00	36.70
Quadrante Europa Terminal Gate S.p.A.	7.08	50.00	7.08	50.00
SITMB S.p.A. Società Italiana per il Traforo del Monte Bianco	68.19	32.12		
Other**	11.51		8.79	
Total	555		373	

* Despite holding more than 50% of Verkehrsbetriebe Osthannover GmbH and more than half of the related voting rights, through the subsidiary Netinera Deutschland GmbH, the group does not control this entity in accordance with an agreement entered into with the other shareholders.

** "Other" investments in associates and joint arrangements include similar situations which are not broken down as they are not significant.

The following table gives a breakdown of equity investments, grouped by category, and changes therein:

	Closing balance at 31.12.2017	Decrease due to dividends	Change in the consolidation scope	Income statement impact	Other	Closing balance at 31.12.2018
Investments in joint arrangements	154	(4)	(4)	6	(2)	150
Investments in associates	219	(6)	152	26	14	405
Total	373	(10)	148	32	12	555

The change in the consolidation scope of associates substantially refers to the investments in Concessioni Autostradali Venete CAV S.p.A. (€62 million), SITMB S.p.A. Società Italiana per il Traforo del Monte Bianco (€76 million) and Autostrada Asti-Cuneo S.p.A. (€18 million), which joined the group in January 2018 following the above-mentioned contribution of the entire investment in Anas S.p.A. by the MEF.

The change in the consolidation scope of joint arrangements is the combined effect of the decrease in the investment in Terminal Alptransit S.r.l., which has become a subsidiary since 2 February 2018 following the above-mentioned capital transaction, the reduction in the investment in Cisalpino SA, which was put into liquidation last year, and the incorporation, in December 2018, of Mercitalia Maintenance S.r.l., which is jointly held by Mercitalia Rail S.r.l. and Lucchini RS S.p.A. on a 50:50 basis.

"Other" investments in associates essentially refer to TFB S.p.A.'s subscription of BBT SE's share capital (€140 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 (€125 million). These amounts were recognised as an adjustment to the carrying amount of the investment. "Other" also includes changes in the "Hedging reserve" and the "Actuarial reserve".

With respect to investments in joint arrangements, Telt Sas carried out a €88 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 2018.

Investments in joint arrangements

The following financial information is provided about the most significant investments in joint arrangements. The following tables also include a reconciliation between the investment's summarised financial information and its consolidated carrying amount.

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.	31.12.2018	31.12.2017
% of investment	50%	50%
Cash and cash equivalents	52	62
Current financial assets		
Other current assets	252	238
Non-current financial assets	2	2
Other non-current assets	211	200
Current financial liabilities	(1)	(1)
Other current liabilities	(353)	(316)
Non-current financial liabilities		(1)
Other non-current liabilities	(71)	(91)
Equity	91	93
Equity attributable to the owners of the parent	46	46
Elimination of gain on business unit contribution	(9)	(9)
Other adjustments	4	4
Carrying amount of the equity investment	41	41
Revenue	797	804
Operating costs	(729)	(727)
Amortisation, depreciation and impairment losses	(63)	(60)
Accruals		
Operating profit	5	17
Financial income		3
Financial expense	(1)	(2)
Pre-tax profit	4	18
Net tax expense	(2)	(8)
Profit for the year	2	10
Other comprehensive income (expense)		
Comprehensive income	2	10
Portion of comprehensive income attributable to the owners of the parent	1	5
Dividends received from the group	2	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	31.12.2018	31.12.2017
% of investment	50%	50%
Cash and cash equivalents	11	27
Current financial assets		
Other current assets	35	35
Non-current financial assets	4	4
Other non-current assets	3	3
Current financial liabilities		
Other current liabilities	(18)	(37)
Non-current financial liabilities	(17)	(18)
Other non-current liabilities	(9)	(8)
Equity	8	6
Equity attributable to the owners of the parent	4	3
Carrying amount of the equity investment	4	3
Revenue	150	156
Operating costs	(138)	(146)
Amortisation, depreciation and impairment losses	(1)	(1)
Accruals	(1)	(1)
Operating profit	10	8
Financial income		1
Financial expense	(1)	(1)
Pre-tax profit	10	8
Net tax expense	(3)	(3)
Profit for the year	7	5
Other comprehensive income (expense)		
Comprehensive income	7	5
Portion of comprehensive income attributable to the owners of the parent	4	3
Dividends received from the group		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)	31.12.2018	31.12.2017
% of investment	50%	50%
Cash and cash equivalents	25	49
Current financial assets		
Other current assets	13	9
Non-current financial assets		
Other non-current assets	1,254	6
Current financial liabilities		
Other current liabilities	(61)	(63)
Non-current financial liabilities		
Other non-current liabilities	(1,229)	
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	38	118
Operating costs	(37)	(117)
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 from the group		

* Reclassification of the governments grants disbursed until 2006 and related to assets in accordance with the group's accounting policies (as per IAS 20.27) through the former parent RFI S.p.A.. These grants are intended to finance the studies and preliminary works for the construction of the international section of the Turin-Lyon railway line. In accordance with French GAAP, the company does not present in equity.

Investments in associates

The following tables provide summarised financial information about the group's investments in associates which are deemed individually material. Furthermore, they include a reconciliation between the summarised financial information and the consolidated carrying amount of each investment.

B.B.T. SE focuses on the development and design of a railway tunnel under the Brenner mountain between Innsbruck and Fortezza.

	millions of Euros	
B.B.T. SE	31.12.2018	31.12.2017
% of investment	50%	50%
Cash and cash equivalents	116	92
Current financial assets		
Other current assets	40	104
Non-current financial assets		1,507
Other non-current assets	1,948	
Current financial liabilities		
Other current liabilities	(158)	(127)
Non-current financial liabilities		(518)
Other non-current liabilities	(709)	
Equity	1,238	1,058
Equity attributable to the owners of the parent	619	529
Effect of grants on consolidated carrying amount of equity investment*	(503)	(428)
Other adjustments	11	11
Carrying amount of the equity investment	127	112
Revenue	21	19
Operating costs	(20)	(18)
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 from the group		

* Reclassification of the grant as a shareholder injection, offset against the equity investment's carrying amount in the consolidated financial statements

Ferrovie Nord Milano S.p.A. negotiates and manages investments in companies, including, but not limited to, those operating in the transport and real estate sectors.

FNM S.p.A. is listed on Borsa Italiana's OTC market. At 31 December 2018, its price per share was €0.4960.

The following figures are taken from the consolidated financial statements of FNM group at 30 June 2018 as, at the preparation date of these notes, FNM S.p.A. had not made available the figures updated to 31 December 2018.

millions of Euros

Ferrovie Nord Milano group	31.12.2018	31.12.2017
% of investment	14.74%	14.74%
Cash and cash equivalents	160	76
Current financial assets	85	122
Other current assets	112	107
Non-current financial assets	7	9
Other non-current assets	561	515
Current financial liabilities	(188)	(17)
Other current liabilities	(149)	(286)
Non-current financial liabilities	(84)	(81)
Other non-current liabilities	(80)	(63)
Equity	425	382
Equity attributable to the owners of the parent	63	56
Other adjustments	(3)	
Carrying amount of the equity investment	60	56
Revenue	148	157
Operating costs	(113)	(131)
Amortisation, depreciation and impairment losses	(19)	(13)
Accruals		
Operating profit	17	13
Financial income	1	10
Financial expense	(1)	
Pre-tax profit	17	23
Tax expense	(4)	(3)
Profit for the year	13	20
Other comprehensive income	6	1
Comprehensive income	19	21
Portion of comprehensive income attributable to the owners of the parent	3	3
Dividends received from the group	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.	31.12.2018	31.12.2017
% of investment	36.70%	36.70%
Cash and cash equivalents	54	66
Current financial assets	4	3
Other current assets	76	101
Non-current financial assets	629	628
Other non-current assets	14	15
Current financial liabilities	(14)	(12)
Other current liabilities	(76)	(77)
Non-current financial liabilities	(518)	(564)
Other non-current liabilities	(75)	(78)
Equity	95	82
Equity attributable to the owners of the parent	35	30
Goodwill	5	5
Carrying amount of the equity investment	40	35
Revenue	26	28
Operating costs	(27)	(27)
Amortisation, depreciation and impairment losses		
Accruals		
Operating profit (loss)	(2)	1
Financial income	53	52
Financial expense	(34)	(40)
Pre-tax profit	17	13
Tax expense	(6)	(5)
Profit for the year	11	8
Other comprehensive income (expense)		(8)
Comprehensive income	11	1
Portion of comprehensive income attributable to the owners of the parent	4	
Dividends received from the group		

Concessioni Autostradali Venete CAV S.p.A.'s business object is the completion and performance of all activities, deeds and relationships related to the operation, including ordinary and extraordinary maintenance, of the motorway link between the A4 motorway - Venice-Trieste section, and ancillary works, and the Venice-Padua motorway section.

millions of Euros

Concessioni Autostradali Venete CAV S.p.A.*	31.12.2018
% of investment	50%
Cash and cash equivalents	76
Current financial assets	10
Other current assets	80
Non-current financial assets	73
Other non-current assets	643
Current financial liabilities	(62)
Other current liabilities	(30)
Non-current financial liabilities	(620)
Other non-current liabilities	(22)
Equity	147
Equity attributable to the owners of the parent	74
Carrying amount of the equity investment	74
Revenue	177
Operating costs	(65)
Amortisation, depreciation and impairment losses	(46)
Accruals	(13)
Operating profit	53
Financial income	1
Financial expense	(21)
Pre-tax profit	33
Tax expense	(10)
Profit for the year	23
Other comprehensive income (expense)	
Comprehensive income	
Portion of comprehensive income attributable to the owners of the parent	
Dividends received from the group	

* This company joined FS Italiane group on 18 January 2018.

Autostrada Asti-Cuneo S.p.A.'s business object is the design, construction, maintenance and operation of the motorway link between Asti and Cuneo, acting as MIT's operator.

millions of Euros

Autostrada Asti-Cuneo S.p.A.*	31.12.2018
% of investment	35%
Cash and cash equivalents	1
Current financial assets	5
Other current assets	3
Non-current financial assets	23
Other non-current assets	340
Current financial liabilities	(182)
Other current liabilities	(18)
Non-current financial liabilities	(50)
Other non-current liabilities	(68)
Equity	53
Equity attributable to the owners of the parent	19
Carrying amount of the equity investment	18
Revenue	27
Operating costs	(24)
Amortisation, depreciation and impairment losses	
Accruals	
Operating profit	3
Financial income	
Financial expense	
Pre-tax profit	3
Tax expense	(1)
Profit for the year	2
Other comprehensive income (expense)	
Comprehensive income	
Portion of comprehensive income attributable to the owners of the parent	
Dividends received from the group	

* This company joined FS Italiane group on 18 January 2018.

SITMB S.p.A. Società Italiana per il Traforo del Monte Bianco's business object is the construction and operation, or only the operation, of the motorways and tunnels covered by the relevant concession.

millions of Euros

SITMB S.p.A. Società Italiana per il Traforo del Monte Bianco*	31.12.2018
% of investment	32%
Cash and cash equivalents	163
Current financial assets	
Other current assets	14
Non-current financial assets	
Other non-current assets	338
Current financial liabilities	(35)
Other current liabilities	(88)
Non-current financial liabilities	
Other non-current liabilities	(181)
Equity	211
Equity attributable to the owners of the parent	68
Carrying amount of the equity investment	68
Revenue	65
Operating costs	(30)
Amortisation, depreciation and impairment losses	(3)
Accruals	(12)
Operating profit	19
Financial income	
Financial expense	
Pre-tax profit	19
Tax expense	(6)
Profit for the year	13
Other comprehensive income (expense)	
Comprehensive income	
Portion of comprehensive income attributable to the owners of the parent	
Dividends received from the group	

* This company joined FS Italiane group on 18 January 2018.

14. Service concession financial assets - current and non-current

Service concession financial assets - current and non-current, total €3,137 million (the current portion amounts to €1,220 million) and relate to the production volume generated on the infrastructure under concession, mainly motorways, whose reimbursement by the relevant ministries or bodies is pending.

Current and non-current concession financial assets mainly relate to:

- the agreements entered into with the regions and local bodies (€1,143 million);
- the measures included in the Programme contracts from 2007 and 2015 (€605 million);
- the measures financed by long-term grants, CIPE (the interministerial committee for economic planning) resolutions and the funds for development and cohesion (€412 million);
- the measures covered by EU projects (€218 million);
- the measures covered by the three "Bridges and viaducts" schemes (€81 million);
- the works financed by MIT loans (€198 million);
- the measures financed by the Sisma funds and the Infrastructure fund (€75 million);
- the Quadrilateros' contract (€100 million).

The amount substantially comprises the costs incurred by Anas S.p.A., whose reporting and claim for reimbursement has already been submitted to the competent ministries and bodies, and those incurred by the company which will be recognised in the future as they refer to production completed, but not yet paid to contractors.

Service concession financial assets are discounted using a 3% rate, which reflects the current borrowing costs of Anas S.p.A.'s loans. The discounted effect is taken to profit or loss as cost.

At 31 December 2018, service concession financial assets are shown net of the IFRS 9 loss allowance of €95 million.

15. Financial assets (including derivatives)

The following table gives a breakdown of financial assets at the 2018 and 2017 year ends:

millions of Euros

	Carrying amount								
	31.12.2018			31.12.2017			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Hedging derivatives	3		3	3		3			
Other equity investments	406		406	76		76	330		330
Securities and loans	47	25	72	46	24	70	1	1	2
Fifteen-year grants from the MEF	1,097	592	1,689	1,623	580	2,203	(526)	12	(514)
Loans	133	11	144	119	11	130	14		14
Loans with Strada dei Parchi (pursuant to article 7 of Law no. 178/02)	552	123	675				552	123	675
Other loans		81	81		6	6		75	75
Total	2,238	832	3,070	1,867	621	2,488	371	211	582
Loss allowance	(83)	(14)	(97)	(4)	(1)	(5)	(79)	(13)	(92)
Total net of the loss allowance	2,155	818	2,973	1,863	620	2,483	292	198	490

The increase in this caption is essentially due to the rise in "Loans with Strada dei Parchi" and "Other equity investments", which was partially offset by the reduction in the "Fifteen-year grants from the MEF".

Loans with the operator Autostrade dei Parchi S.p.A. amount to €675 million. They are discounted using a 6% rate and are recognised in accordance with the Agreement in place between Anas S.p.A. and Strada dei Parchi S.p.A., and Law decree no. 50/2017, containing emergency financial and earthquake safety measures for the A24 and A25 motorways.

"Fifteen-year grants from the MEF", of €1,689 million, can be analysed as follows:

- €470 million related to the fifteen-year grants pursuant to article 1.84 of the 2006 Finance Act for the implementation of railway investments. They are recognised against the amounts to be used for the loan agreement entered into by the parent with Cassa Depositi e Prestiti and authorised by a specific decree of the MEF. This caption decreased by €176 million on the 2017 year-end balance due to the combined effect of the interest accrued in 2018 (€24 million) on the loan and the collection of the annual grant pertaining to 2018 (€200 million);
- €1,192 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 €349 million decrease on 31 December 2017 is due to the combined effect of the interest accrued in 2018 (€51 million) on the loan and the collection of the annual grant pertaining to 2018 (€400 million).

The increase in "Other equity investments" is mainly due to Anas S.p.A.'s investment in Stretto di Messina S.p.A. in liquidation (€315 million). Following the Anas group's consolidation, FS Italiane group's investment in Stretto di Messina

S.p.A. in liquidation is equal to 94.85%, i.e., the sum of the investment percentages held by Anas S.p.A. and RFI S.p.A.. The company was not consolidated as it is in liquidation.

The €75 million increase in "Other loans" relates to Anas group's consolidation (€63 million). They mainly comprise short-term deposits agreed with the former Central Guarantee Fund.

The loss allowance rose by €92 million as a consequence of the FTA of IFRS 9. For additional information, reference should be made to the paragraph "Effects of the application of IFRS 9 and IFRS 15".

16. Other non-current and current assets

They can be analysed as follows:

millions of Euros									
	31.12.2018			31.12.2017			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other assets from group companies		27	27		20	20		7	7
VAT assets	80	132	212	183	623	806	(103)	(491)	(594)
MEF	2,078	1,980	4,058	444	2,367	2,811	1,634	(387)	1,247
MIT	1,248	1,192	2,440	587	1,391	1,978	661	(199)	462
Grants related to assets from the EU, other Ministries and other		157	157		149	149		8	8
Government for litigation	975		975				975		975
Other government authorities		128	128		69	69		59	59
Sundry assets and prepayments and accrued income	99	823	922	100	668	768	(1)	155	154
Total	4,480	4,439	8,919	1,314	5,287	6,601	3,166	(848)	2,318
Loss allowance	(9)	(122)	(131)	(7)	(56)	(63)	(2)	(66)	(68)
Total net of the loss allowance	4,471	4,317	8,788	1,307	5,231	6,538	3,164	(914)	2,250

"VAT assets" decreased by €594 million, mainly due to the difference generated by the tax authorities' reimbursements (€530 million), the settlement of the 2015, 2016 and 2017 VAT claimed for reimbursement by the companies participating in the group VAT scheme, offset in the 2018 VAT return (€135 million) and the recognition of the VAT credit for the year.

The assets with the MEF and the MIT of €6,498 million, are mainly related to:

- grants earmarked for FS S.p.A. (€594 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 (€72 million);
- MIT grants earmarked for Mercitalia Logistics and Mercitalia Intermodal pursuant to Law no. 166/2002 (€15 million);
- grants earmarked for RFI S.p.A. (€5,743 million).

The table below shows the relevant figures:

Grants to FS Italiane group	Carrying amount at 31.12.2017	Increases	Decreases	Other changes	Carrying amount at 31.12.2018
Grants related to income:					
due from the MEF		1,016	(1,016)		
due from the MIT		139	(9)	(49)	81
Total grants related to income		1,155	(1,025)	(49)	81
Grants related to assets:					
due from the MEF	2,811	4,369	(3,081)	(41)	4,058
due from the MIT	1,908	519	(228)	90	2,289
Total grants related to assets	4,719	4,888	(3,309)	49	6,347
Capital injections:					
MIT	70				70
Total grants to FS Italiane group	4,789	6,043	(4,334)		6,498

Grants related to income

The following were recognised in 2018:

- from the MEF for "Grants related to income under the Government Programme Contract" of €1,016 million, equal to that set by the 2018 Budget Act and the 2018 Tax Decree (Law decree no. 119/2018). All amounts were collected in the year;
- from the MIT for the 2018 Freight grant of €120 million. Furthermore, amounts totalling €19 million were recognised pursuant to Law no. 166/2002. During the year, €9 million was collected in respect of the 2017 freight grant and the above grants pursuant to Law no. 166/2002.

Grants related to assets

The following were recognised in 2018:

- from the MEF, mainly related to the Government Programme Contract of €4,369 million. These amounts refer to investments and extraordinary maintenance for the development and upgrade of railway infrastructure, as established by the 2018 Budget Act, the 2018 Tax Decree (Law decree no. 119/2018) and the 2017 Budget Act, and refinanced by the 2015 and 2016 Stability Acts. This caption also comprises the additional amounts related to management plans 2 and 4 for the 2019-2021 three-year period;
- from the MIT of €519 million. Specifically, the funds relate to the completion of the Milan-Genoa HS/HC line (€120 million), the laying of quadruple tracks on the Pistoia-Lucca line (€121 million), the completion of the Brenner Base

Tunnel (€270 million), while additional funds of €8 million relate to the elimination and automation of level crossings on the railway network.

With respect to the MIT's capital injections, the amount which ensures the business continuity of Ferrovie del Sud Est e Servizi Automobilistici – FSE S.r.l., equal to €70 million, is unchanged in 2018.

During the year, €4,334 million was collected in total.

The grants related to assets recognised as amounts due from the MEF and the MIT as per the Government Programme Contract mostly refer to work not yet performed. Accordingly, they have a balancing entry in liabilities under payments on account.

The €8 million increase in "Grants related to assets from the EU, other Ministries and other" reflects the greater grants for the group companies from the EU, other Ministries and bodies.

The amounts from the Government for litigation, of €975 million, relate to the provision accrued in connection with work disputes which have become probable and cover the measures financed by grants where, unlike investments against a consideration, the risk of additional costs no longer lies with Anas S.p.A..

"Other government authorities" rose by €59 million on the previous year-end balance, mainly as a consequence of corporate transactions, including, inter alia, the consolidation of Anas group (€22 million).

"Sundry assets and prepayments and accrued income" increased by €154 million on 31 December 2017, mainly as a consequence of the effect of Anas group's consolidation (€324 million) and greater advances to electricity providers (€57 million). This effect was partially offset by the fall in grants from CSEA (the environmental and energy services fund) (€229 million).

The following table gives a breakdown of other non-current and current assets by geographical segment:

	millions of Euros		
	31.12.2018	31.12.2017	Changes
Italy	8,707	6,454	2,253
Eurozone countries	169	122	47
United Kingdom	18	7	11
Other European countries (EU, non-Euro)	1		1
Other non-EU European countries	22	12	10
United States			
Other countries	2	6	(4)
Total	8,919	6,601	2,318

17. Inventories

This caption can be analysed as follows:

	31.12.2018	31.12.2017	Changes
			millions of Euros
Raw materials, consumables and supplies	1,586	1,477	109
Allowance for inventory write-down	(176)	(181)	5
Carrying amount	1,410	1,296	114
Work in progress and semi-finished products	2	3	(1)
Allowance for inventory write-down			
Carrying amount	2	3	(1)
Finished products and goods	5		5
Allowance for inventory write-down			
Carrying amount	5		5
Derecognised assets to be disposed of	13	18	(5)
Allowance for inventory write-down	(10)	(13)	3
Carrying amount	3	5	(2)
Buildings and land held for trading	1,072	1,080	(8)
Allowance for inventory write-down	(292)	(282)	(10)
Carrying amount	780	798	(18)
Total inventories	2,200	2,102	98

Raw materials, consumables and supplies comprise the inventories to be used in investments, superstructure material, electrical systems, navigation equipment and maintenance materials.

The €114 million increase is mainly due to the combined effect of higher purchase volumes, and the related consumption, of infrastructure materials (€97 million) and the consolidation of Anas group companies (€15 million related to road and motorway maintenance).

Buildings and land held for trading refer to the properties held by the group which will be sold. The €18 million decrease is due to the sales of the year, net of the write-downs which brought the carrying amount of the assets into line with the related market value (€10 million).

18. Non-current and current trade receivables

millions of Euros

	31.12.2018			31.12.2017			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Ordinary customers	15	1,645	1,660	6	1,213	1,219	9	432	441
Government authorities and other public authorities	1	205	206	3	229	232	(2)	(24)	(26)
Foreign railways		9	9		16	16		(7)	(7)
Railways under concession		21	21		15	15		6	6
Agencies and other transport companies		23	23		29	29		(6)	(6)
Receivables for public service contracts:									
- regions		740	740		867	867		(127)	(127)
- government		228	228		508	508		(280)	(280)
Receivables from group companies		141	141		134	134		7	7
Total trade receivables	16	3,012	3,028	9	3,011	3,020	7	1	8
Loss allowance	(7)	(665)	(672)		(520)	(520)	(7)	(145)	(152)
Carrying amount	9	2,347	2,356	9	2,491	2,500		(144)	(144)
Contract assets for contract work in progress		148	148		58	58		90	90
Loss allowance		(1)	(1)		(1)	(1)			
Carrying amount		147	147		57	57		90	90
Total non-current and current trade receivables	9	2,494	2,503	9	2,548	2,557		(54)	(54)

The €8 million increase in trade receivables, before the loss allowance, is substantially due to:

- the €432 million increase in current receivables from "Ordinary customers", mainly as a result of ANAS group's consolidation (€386 million);
- the decrease in "Receivables for public service contracts - regions" (€127 million) and the MEF (€280 million) following their settlement;
- the €26 million decrease in receivables from the "Government authorities and other public authorities".

The loss allowance increased by €152 million, mainly as a consequence of the Anas group's customers (€104 million), greater accruals of the year hedging the receivables for travel irregularities and the effect of the application of IFRS 9.

The increase in Contract assets for contract work in progress (up €90 million on the balance at 31 December 2017) is essentially due to ANAS group's consolidation (€103 million).

The following table gives a breakdown of non-current and current trade receivables, including contract assets for contract work in progress, by geographical segment:

	millions of Euros		
	31.12.2018	31.12.2017	Changes
Italy	2,936	2,902	34
Eurozone countries	171	118	53
United Kingdom	9	8	1
Other European countries (EU, non-Euro)	18	4	14
Other non-EU European countries	19	36	(17)
Other countries	23	10	13
Total	3,176	3,078	98

19. Cash and cash equivalents

They can be analysed as follows:

	31.12.2018	31.12.2017	Changes
			millions of Euros
Bank and postal accounts	795	565	230
Cash and cash on hand	47	48	(1)
Cash pooling accounts	955	1,221	(266)
Total	1,797	1,834	(37)
Loss allowance	(1)		(1)
Total net of the loss allowance	1,796	1,834	(38)

The decrease in this caption is the result of the offsetting of:

- the greater liquidity contributed by Anas group (€371 million) and by Teralp and Pol Rail, which have been consolidated starting from 2018 (€18 million); against
- the payment of dividends to the MEF (€150 million) and group companies' financial requirements; and
- the decrease in the cash pooling account balances, 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.

20. Tax assets

Tax assets of €120 million at 31 December 2018 relate to prior year income tax assets. The €7 million increase on 31 December 2017 (€113 million) is due to Anas group's consolidation (€3 million) and the tax asset recognised by Netinera group for withholding taxes on dividends paid by group companies (€4 million).

21. Equity attributable to the owners of the parent

Changes in the main equity captions in 2018 and 2017 are shown in the statement of changes in equity.

Share capital

As described in the "Change in consolidation scope" section, on 18 January 2018, the MEF subscribed a €2,863,741,000 capital increase, contributing the entire investment held in Anas S.p.A. to FS S.p.A..

Following the above transaction, at 31 December 2018, the parent's share capital, fully subscribed and paid up by the sole shareholder, the MEF, was made up of 39,204,173,802 ordinary shares, with a par value of €1 each, for a total of €39,204 million.

Legal reserve

The legal reserve, of €50 million, rose to the extent related to the profit of the parent allocated to this caption.

Translation reserve

This reserve has a nil balance following the beginning of Cisalpino's winding-up procedure.

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 accumulated reserve with previous financial instruments in relation to which, in 2012, the counterparties exercised the contractually-permitted early termination option. At 31 December 2018, this reserve was negative by €86 million (negative by €105 million at 31 December 2017) essentially due to the fair value measurement of hedging instruments at the reporting date (increase of €15 million) and the release of the portion of the year following the above-mentioned early termination of contracts (increase of €16 million) and Anas group's consolidation (-€12 million).

Actuarial reserve

The actuarial reserve, which includes the effects of actuarial gains and losses on post-employment benefits and the Free Travel Card, is a negative €350 million at the reporting date (31 December 2017: negative by €362 million).

Retained earnings

Net retained earnings of €1,896 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 above-mentioned contribution of the investment in Anas (€-166 million).

Finally, the slight decrease in the caption reflects the dividend distributed and paid to the shareholder on 15 May 2018 (€150 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.

Effects of IFRS 9 FTA

Starting from 1 January 2018, FS Italiane group has applied IFRS 9. The FTA effects (€-242 million) are described in detail in the "Accounting policies" section to which reference should be made.

22. Equity attributable to non-controlling interests

The following table shows the financial highlights of each subsidiary with significant non-controlling interests for the group, before intragroup eliminations. Consequently, these figures match the information provided by these companies in their financial statements and in the consolidated financial statements of Netinera Deutschland group, before intragroup eliminations.

millions of Euros

	Grandi Stazioni Immobiliare S.p.A.	SITAF S.p.A.	Terminal Alptransit	Mercitalia Intermodal S.p.A. (formerly Cemat S.p.A.)	Tunnel Ferrovia del Brennero S.p.A.	NETINE RA Deutschland Group	Other subsidiaries which are not individually material	Eliminations/ Adjustments	Total
Balances at 31.12.2018									
Non-controlling interests (%)	40%	49%	42%	46.72%	11.80%	49%			
Current assets	6	153	21	101	78	204			
Non-current assets	59	1,504	14	67	630	645			
Current liabilities	(13)	(141)	(16)	(116)		(209)			
Non-current liabilities	(14)	(1,178)	(4)	(12)		(390)			
Net assets	39	339	15	40	708	250			
Net assets pertaining to non-controlling interests	16	166	6	19	83	122	29	3	443
Revenue	6	240		209		625			
Profit (loss) for the year		28		(4)		6			
Other comprehensive income (expense)		(23)							
Comprehensive income (expense)		5		(4)		6			
Profit (loss) attributable to non-controlling interests		14		(2)		5	2		19
Other comprehensive income (expense) attributable to non-controlling interests		(11)							
Net cash flows generated by operating activities	1	114		11		20			
Net cash flows generated by (used in) investing activities		(63)	7	(11)	(90)	(6)			
Net cash flows generated by (used in) financing activities	(1)	(39)	9		140	(37)			
Total net cash flows for the year		13	16		50	(23)			
Dividends paid to non-controlling interests						(16)			

	Grandi Stazioni Immobiliare S.p.A.	Busitalia Simet S.p.A.	Ataf Gestioni S.r.l.	Mercitalia Intermodal S.p.A. (formerly Cemati S.p.A.)	Tunnel Ferroviario del Brennero S.p.A.	NETINER A Deuschl and 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)			

Net assets pertaining to non-controlling interests of €443 million increased by €194 million on 31 December 2017 (€250 million) mainly following the above-mentioned contribution of the investment in Anas group (+€165 million), the increase in Tunnel Ferroviario del Brennero – Società di partecipazioni S.p.A.'s and Terminal Alptransit S.r.l.'s capital (the investment in the latter company rose to 58% on 1 February 2018) and the profit for the year, which was partially offset by the dividends approved for non-controlling investors.

23. Non-current and current loans and borrowings

This caption amounts to €11,404 million and can be analysed as follows:

millions of Euros

Non-current loans and borrowings, net of the current portion	Carrying amount		
	31.12.2018	31.12.2017	Changes
Bonds	4,975	5,113	(138)
Bank loans and borrowings	2,198	2,874	(676)
Loans and borrowings from other financial backers	1,162	1,138	24
Total	8,335	9,125	(790)

millions of Euros

Current loans and borrowings and current portion of non-current loans and borrowings	Carrying amount		
	31.12.2018	31.12.2017	Changes
Bonds (current portion)	367	636	(269)
Bank loans and borrowings (current portion)	2,457	1,494	963
Loans and borrowings from other financial backers (current portion)	240	259	(19)
Loans and borrowings from group companies (current portion)	5		5
Total	3,069	2,389	680
Total loans and borrowings	11,404	11,514	(110)

"Bonds" at 31 December 2018 comprise:

- thirteen bonds issued by the parent and fully subscribed by the Swiss investee, Eurofima SA (private placement), totalling €1,378 million. The aim of these bonds (up to 2012) was to finance the investments for the plan to renew and upgrade rolling stock. Repayment will take place in one instalment at the maturity date. Coupons accrue every six months at the variable interest rate for twelve bonds and at a fixed annual rate for the remaining bond. They are not listed on "official markets", domestic or foreign stock exchanges, cannot be traded and will remain with Eurofima's financial statements as the sole holder;
- nine tranches, for a total of €3,950 million, of the bonds related to the Euro Medium Term Notes Programme placed by FS S.p.A. on the Dublin Stock Exchange between 2013 and 2018. The first tranche, with a nominal amount of €750 million and annual fixed coupon of 4%, matures on 22 July 2020; the second tranche, with a nominal amount of €600 million and annual fixed coupon of 3.5%, matures on 13 December 2021; the third tranche, with a nominal amount of €300 million and a variable six-monthly coupon indexed to the 6M Euribor, matures on 31 December 2025; the fourth tranche, with a nominal amount of €350 million and a variable six-monthly coupon indexed to the 6M Euribor, matures on 18 July 2022; the fifth tranche, with a nominal amount of €50 million and an annual fixed coupon of 1.65%, matures on 25 July 2031; the sixth tranche, with a nominal amount of €1,000 million and an annual fixed coupon of 1.5%, matures on 27 June 2025; the seventh tranche, as part of the Green Bond Framework, with a nominal amount of €600 million and

an annual fixed coupon of 0.875%, matures on 7 December 2023; the eighth tranche, with a nominal amount of €100 million and a variable rate, matures on 19 December 2025 and the ninth tranche, with a nominal amount of €200 million and variable coupon indexed to the 6M Euribor, matures on 26 March 2030.

The bonds (both current and non-current portions) decreased by €407 million during the year as a result of the repayment of the Eurofima bonds of €607 million, which was partially offset by the ninth tranche of the bonds related to the Euro Medium Term Notes Programme.

Bank loans and borrowings (both current and non-current portions) increased during the year by €287 million mainly due to the combined effect of the €30 million increase in short-term funding, €443 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 and the inclusion of the loans and borrowings related to Anas group (€669 million).

Loans and borrowings from other financial backers (both current and non-current portions) increased by €5 million mainly as a consequence of the €220 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 2018, offset by the €270 million increase due to the acquisition of Anas. 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 (€18 million) and Qbuzz (€12 million).

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 2017:

millions of Euros

Net financial debt	31.12.2018	31.12.2017	Change
Current net financial position	(555)	(65)	(490)
Cash pooling accounts	(954)	(1,221)	267
Fifteen-year grants from the MEF	(592)	(580)	(12)
Loans and borrowings from other financial backers	240	276	(36)
Bank loans and borrowings	2,457	1,494	963
Bonds	367	636	(269)
Current concession financial assets	(1,220)	(17)	(1,203)
Contract advances	142		142
Other financial liabilities	67	17	50
Other	(1,062)	(670)	(392)
Net non-current financial debt	7,210	7,338	(128)
Fifteen-year grants from the MEF	(1,096)	(1,623)	527
Loans and borrowings from other financial backers	1,162	1,138	24
Bank loans and borrowings	2,198	2,874	(676)
Bonds	4,975	5,113	(138)
Non-current concession financial assets	(1,917)		(1,917)
Contract advances	995		995
Other	893	(164)	1,057
Total	6,655	7,273	(618)

Pursuant to the amendments to IAS 7, the reconciliation between the total changes in financial assets and liabilities broken down by monetary and non-monetary is given below:

millions of Euros

	31.12.2017	Monetary items (statement of cash flows)	Non-monetary items			31.12.2018	
			Change in consolidation scope	New leases	Hedging reserve		Other
Disbursement and repayment of current and non-current loans	11,514	(995)	878	4		3	11,404
Change in other financial assets	2,483	(428)	974			(56)	2,973
Change in other financial liabilities	77	154	1,498		(31)	(9)	1,689
Total	14,074	(1,269)	3,350	4	(31)	(62)	16,066

24. Post-employment benefits and other employee benefits

	millions of Euros	
	2018	2017
Present value of post-employment benefit obligations	1,426	1,584
Present value of Free Travel Card obligations	48	49
Total present value of obligations	1,474	1,633

Changes in the present value of liabilities for defined benefit obligations are shown in the table below.

	millions of Euros	
	2018	2017
Defined benefit obligations at 1 January	1,633	1,785
Service costs	7	4
Interest cost (*)	13	18
Actuarial (gains) losses recognised in equity	(11)	13
Advances, utilisations and other changes	(168)	(187)
Total defined benefit obligations	1,474	1,633

(*) through profit or loss

Actuarial assumptions

The main assumptions for the actuarial estimate process are described below:

	2018	2017
Discount rate (post-employment benefits)	0.83%	0.71%
Discount rate (Free Travel Card)	1.57%	1.30%
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	3.38%	3.42%
Expected turnover rate for employees - Free Travel Card	3.14%	3.17%
Expected rate of advances	1.97%	1.95%
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.

	Post-employment benefits	Free Travel Card	Other employee benefits
	millions of Euros		
Inflation rate +0.25%	1,463	52	
Inflation rate -0.25%	1,436	45	
Discount rate +0.25%	1,428	47	
Discount rate -0.25%	1,472	49	
Turnover rate +1%	1,444		
Turnover rate -1%	1,456		
Plan duration	7	16	
Payment - first year	159	4	
Payment - second year	149	3	
Payment - third year	143	3	
Payment - fourth year	173	3	
Payment - fifth year	150	3	

25. Provisions for risks and charges

The opening and the closing balances of, and changes in, the provisions for risks and charges for 2018 are given below, indicating the current and non-current portions.

millions of Euros					
Provisions for risks and charges	31.12.2017	Accruals	Utilisations and other changes	Release of excess provisions	31.12.2018
Provision for taxation	21		(1)		20
Other provisions	923	157	1,591	(103)	2,568
Total non-current portion	944	157	1,590	(103)	2,588

millions of Euros					
Current portion of provisions for risks and charges	31.12.2017	Accruals	Utilisations and other changes	31.12.2018	
Other provisions	50	3	(18)	35	
Total current portion	50	3	(18)	35	

This caption increased by a €1,629 million, of which €1,548 million is due to the dispute over works on roads classified as national roads or motorways under concession and with third parties, related to Anas group.

Other provisions are broken down below.

The Bilateral fund for income assistance, set up for proactive income and employment assistance, amounts to €110 million. €16 million was used during the year for the projects launched during the year and €27 million was accrued for the extraordinary benefits to be paid in future years.

The provision for termination benefits amounts to €27 million. It was increased by accruals of approximately €17 million and decreased by utilisations of €16 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 €90 million. In 2017, a total of €17 million was accrued. The provision was used for a total of €18 million to cover the social security contribution charges and costs related to disputes with personnel.

The provisions for litigation with third parties of €1,869 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 accrued for probable disputes with the regions about the quality of the transport services rendered as part of service contracts. During the year, approximately €27 million was accrued, with several income statement captions as balancing entries. Approximately €169 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 €92 million was released through profit or loss to reflect the smaller needs related to some pending disputes.

The provision accrued to cover the charges related to the reclamation of polluted sites and the enhancement of works to be sold amounting to €51 million is unchanged compared to the previous year-end balance.

Other provisions of approximately €456 million include accruals mainly for maintenance, workshop expense, expense related to buildings held for trading and disputes with agents. During the year, the group accrued €72 million for probable future risks and charges. It also released €11 million to profit or loss due to smaller-than-expected requirements for pending contractual disputes and used €40 million essentially to cover charges related to contractual obligations.

26. Non-current and current financial liabilities (including derivatives)

millions of Euros

	Carrying amount								
	31.12.2018			31.12.2017			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Hedging derivatives	67	2	69	41	16	57	26	(14)	12
Other financial liabilities	1,553	67	1,620	3	17	20	1,550	50	1,600
Total	1,620	69	1,689	44	33	77	1,576	36	1,612

Hedging derivatives essentially reflect the total of interest rate swaps, interest rate collars, forward rate agreements and fair value hedges, calculated using standard market valuation techniques (at fair value) in accordance with IFRS 13. They were entered into by the FS Italiane group companies to hedge non-current loans at variable rates and financial rates. The €12 million increase is due to the combined effect of the rise resulting from the consolidation of Anas group's derivatives (€31 million), which was partially offset by the decrease recorded by the other group companies, mainly caused by the reduction in the fair value of said instruments (€19 million).

Other financial liabilities increased by €1,600 million mostly in connection with the payments on account collected by Anas S.p.A. for works still to be performed (€827 million) whose construction, given the lack of specific scheduling, is still uncertain, the residual portion of Anas S.p.A.'s liability to the operator CAV S.p.A. for long-term grants (€13 million) and Sita S.p.A.'s liability for the instalments of the loan granted by the former Central Guarantee Fund (€759 million). This caption also reflects the effects of the factoring transactions whereby current bank loans and borrowings increase in line with the group companies' requirements.

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 information 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).

27. Contract advances - non-current and current

Contract advances - non-current and current, totalling €1,137 million (current portion: €142 million), refer to portion of grants already collected for works still to be performed related to Anas S.p.A..

This caption mainly comprises advances related to prior year grants, such as the amounts pursuant to article 7 of Law no. 178/2002, 2003-2005 capital injections, former FAS and Funds for development and cohesion, which were not required to be reported prior to collection. The advances relate to works not yet performed and scheduled over the next few years and works in progress which resulted in bidding discounts and economies pending their utilisation in the work or their use in other programmes, after discussion with the competent ministries.

It also includes extraordinary maintenance yet to be performed and financed using the portion of revenue from fee integration as per article 19.9-bis of Law no. 102/09, which was suspended until 2016 (€82 million).

28. Other non-current and current liabilities

They can be analysed as follows:

millions of Euros									
	31.12.2018			31.12.2017			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Advances for grants		4,175	4,175		3,965	3,965		210	210
Advances to customers									
Social security charges payable	36	310	346	42	283	325	(6)	27	21
VAT liabilities		6	6		8	8		(2)	(2)
Other liabilities with group companies		56	56		6	6		50	50
Other liabilities and accrued expenses and deferred income	102	1,819	1,921	118	1,101	1,219	(16)	718	702
Total	138	6,366	6,504	160	5,363	5,523	(22)	1,003	981

Advances for grants are mainly related to:

- additional accruals for FS S.p.A. in connection with the Tunnel Euralpin Lyon Turin Sas – TELT Sas (formerly Lyon Turin Ferroviarie Sas – LTF Sas) project, as already described in the note to “Other non-current and current assets” to which reference should be made;
- the accruals mainly recognised by RFI S.p.A. against the grants related to assets from the government (MEF and MIT), the EU and other bodies, for infrastructural investments.

The table below shows the changes in advances for grants related to the FS Italiane group:

millions of Euros

	31.12.2017	Increases	Decreases	Other changes	31.12.2018
Advances for grants:					
- MEF	1,414	4,457	(4,483)	(138)	1,250
- MIT	2,043	519	(260)		2,302
- European Regional Development Fund	45	167	(87)		125
- Trans-European Network	196	5	(14)		187
- Other	267	158	(91)	(23)	311
Total	3,965	5,306	(4,935)	(161)	4,175

The increases in advances for grants from the MEF and the MIT include the new amounts related to grants allocated during the year, as described in the notes to Other non-current and current assets and Financial assets.

The decrease in advances refer to the recognition of grants under "Property, plant and equipment" and "Intangible assets", to which reference should be made for additional information. Furthermore, €85 million refers to grants recognised in profit or loss to cover financial expense.

"Other" mainly refers to the derecognition of the advances, with a balancing entry under assets, made in respect of works on the Andra-Finale Ligure section (€30 million) and the net decrease (€161 million) related to the capital increase of Tunnel Ferroviario del Brennero S.p.A., as described in detail in the note to "Equity investments", to which reference should be made for additional information.

The €702 million increase in "Other liabilities and accrued expenses and deferred income" is mainly due to Anas group's consolidation (€676 million) and the recognition of advances for the Freight grants (€62 million). It is partially offset by the decrease due to the change of the year in liabilities and accrued expenses and deferred income. The change related to Anas group mainly refers to the liabilities for grants from the Ministries to be transferred to motorway operators (€413 million) and local bodies (€34 million).

29. Non-current and current trade payables

They can be analysed as follows:

millions of Euros									
	31.12.2018			31.12.2017			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Suppliers	44	5,246	5,290	91	4,109	4,200	(47)	1,137	1,090
Payments on account	5	84	89	5	83	88		1	1
Group companies		54	54		44	44		10	10
Contract liabilities for contract work in progress		14	14		16	16		(2)	(2)
Total	49	5,398	5,447	96	4,252	4,348	(47)	1,146	1,099

"Suppliers" (current and non-current) rose by €1,090 million on the previous year-end balance, mainly as a consequence of the combined effect of the consolidation of the suppliers of Anas group companies (€1,191 million), in part, by the recognition of credit notes for advances to rolling stock suppliers (€102 million).

Payments on account (current) refer to advances received from ordinary customers and group companies. They are substantially unchanged compared to the previous year (+€1 million).

30. Tax liabilities

The balance at 2018 year end, equal to €19 million (€18 million at 2017 year end), includes €13 million due by the group companies included in the tax consolidation scheme, for IRAP purposes, and by the other group companies not included in the scheme, for IRES and IRAP purposes, as well as €6 million related to the income taxes of foreign companies.

31. Revenue from sales and services

The table and comments below give a breakdown of changes in revenue from sales and services.

	millions of Euros		
	2018	2017	Change
Revenue from contracts with customers			
Revenue from transport services	7,348	7,061	287
Passenger traffic products	3,751	3,610	141
Freight traffic products	821	839	(18)
Market revenue	4,572	4,449	123
Public service contracts and other contracts	408	360	48
Fees from the regions	2,368	2,252	116
Service contract fees	2,776	2,612	164
Revenue from infrastructure services	2,488	327	2,161
Other service revenue	319	266	53
Revenue from contract work in progress	73	27	46
Total	10,228	7,681	2,547

Revenue from "Passenger traffic products" rose by €141 million on 2017, highlighting the positive performance of the various passenger service sectors.

Revenue from medium and long haul passenger transport decreased by €29 million, while that from the regional transport sector rose by €113 million, thanks to the good performance of the domestic and foreign markets. Specifically, the €37 million rise in the domestic market is due, in part, to the slight increase in fees and, above all, actions to curb recurrent fare evasion through the checks performed by the national and regional fare evasion officers at stations and on trains. Abroad, the growth is equal to €76 million and was driven by the successful results achieved on the German and the British markets, up by €17 million and €27 million, respectively, and the consolidation of the Greek company TrainOSE SA (+€32 million) as of 14 September 2017.

Passenger traffic products by road rose by €57 million, mainly as a result of Busitalia group's acquisition of the Dutch companies (€47 million), which joined the consolidation scope in August 2017. Revenue from the domestic market is up slightly by €8 million, mainly as a result of the fare evasion actions onboard buses and at bus stops.

The decrease in revenue from "Freight traffic products" (down by €18 million) in both the domestic (-€16 million) and the international markets (-€2 million) is due, in particular, to the reduced traffic volumes following the high number of services cancelled and the reduction in revenue from the chemical sector, which fell by 25% on the previous year.

"Public service contract fees" rose by €48 million. The increase refers to the adjustment of the 2018 fee, net of the estimated penalties, 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 stock (€14 million) and the consolidation of Trainose SA in September 2017 (€34 million).

“Fees from the regions” rose by €116 million and mainly related to the Dutch market through the subsidiary Qbuzz BV (€93 million), which joined the consolidation scope in August 2017, and the renegotiation of the contracts currently being renewed with the Veneto, Liguria, Sicily, Puglia and Lazio regions.

The table below gives a breakdown of fees for public service contracts with the government:

	millions of Euros		
	2018	2017	Changes
Rate and service obligations: for passenger transport	359	342	17
Total	359	342	17

“Revenue from infrastructure services” increased by €2,161 million which mainly reflects Anas group’s consolidation starting from January 2018 (€2,144 million, comprising road infrastructure construction and concession management activities). Revenue from other group companies rose by €17 million, mainly as a consequence of the increase in toll revenue (+€16 million), essentially attributable to the cost-of-living adjustment to prices and the increase in production volumes.

“Other service revenue” includes, inter alia:

- revenue from services provided to railway companies and traffic-related services, which rose by €40 million. The increase is mostly due to the rise in revenue from the sale of electrical energy for traction (€28 million), as per the effect of Law no. 167 of 20 November 2017, and the increase in oil prices, which heavily affected prices on the wholesale electricity market;
- revenue from other services which include revenue from penalties and sanctions, commissions on ticket sales and health services provided to third parties. The €9 million increase is attributable to the international market (+€10 million), specifically to the Netinera group.

“Revenue for contract work in progress” increased by €46 million and is essentially due to the Anas group’s consolidation (+€49 million).

	millions of Euros		
	2018	2017	Change
Other revenue			
Leases	154	152	2
Recharging of condominium expenses and IRE tax	29	35	(6)
Sale of advertising spaces	13	12	1
Revenue from property management	196	199	(3)
Sundry revenue	83	91	(8)
Revenue from grants	1,059	1,022	37
Total	1,338	1,312	26

The €8 million reduction in "Revenue from property management" is mostly due to the drop in revenue from leases (-€5 million).

"Revenue from grants" rose by €37 million mainly as a result of the rise in grants from the Government Programme Contract (+€40 million), offset, in part, by the lower grants received by TrainOSE SA (-€3 million).

REVENUE BROKEN DOWN UNDER IFRS 15

In the table below, revenue from contracts with customers is broken down by geographical segment, product line and moment of recognition:

millions of Euros

	Transport		Infrastructure		Real estate		Other services		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Geographical segment										
Italy	6,310	6,261	2,650	422	28	23	3	5	8,991	6,711
Europe	1,147	917	10	4					1,157	921
Non-EU	23	25	57	24					80	49
Total revenue from contracts with customers	7,480	7,203	2,717	450	28	23	3	5	10,228	7,681
Product lines										
Revenue from contracts with customers										
Revenue from transport services	7,330	7,061	18						7,348	7,061
· Market revenue	4,554	4,449	18						4,572	4,449
Passenger traffic products	3,749	3,610	2						3,751	3,610
Freight traffic products	805	839	16						821	839
· Revenue from public service contracts	2,776	2,612							2,776	2,612
Public service contracts and other contracts	408	360							408	360
Fees from the regions	2,368	2,252							2,368	2,252
Revenue from infrastructure services	6	6	2,482	321					2,488	327
Other service revenue	143	134	145	103	28	23	3	6	319	266
Revenue from contract work in progress	1	2	72	26				(1)	73	27
Total revenue from contracts with customers	7,480	7,203	2,717	450	28	23	3	5	10,228	7,681
Moment of recognition*										
At a point in time	351	350	227	18	8	1		(1)	586	368
Over time	7,129	6,853	2,490	432	20	22	3	6	9,642	7,313
Total revenue from contracts with customers	7,480	7,203	2,717	450	28	23	3	5	10,228	7,681
Total other revenue from sales and services	147	155	1,131	1,053	60	103		1	1,338	1,312
Total revenue from sales and services	7,627	7,358	3,848	1,503	88	126	3	6	11,566	8,993

CONTRACT ASSETS AND LIABILITIES

The table below provides information about contract assets and liabilities:

	31.12.2018	31.12.2017
Contract assets classified under "Current/non-current trade receivables"	1,221	1,309
Contract assets classified under "Other current assets/Non-current assets"	56	20
Other assets not included in the above categories	3,138	
Contract assets	756	879
Contract liabilities	(118)	(103)

BREAKDOWN OF CHANGES IN CONTRACT ASSETS AND LIABILITIES

The table below shows the significant changes in contract assets and liabilities for the year:

In millions of Euros	31.12.2018	
	Contract assets	Contract liabilities
Revenue recognised during the year which was included in the opening balance of "contract liabilities"		68
Increases in contract liabilities due to collections, net of the amounts recognised during the year		(97)
Reclassifications from "contract assets" recognised at the beginning of the year	(697)	14
Increases in contract assets due to the provision of services	538	
Increases in contract assets due to changes in the assessment of the percentage of completion	1	
Business combinations		
Other changes	35	

32. Other income

“Other income”, of €512 million (2017: €300 million), increased by €212 million mainly as a consequence of the consolidation of Anas group companies (€125 million), the bankruptcy discharge following the finalisation of the deed of arrangement of Ferrovie del Sud Est e Servizi Automobilistici S.r.l. (€63 million) and the rise in penalties for both the performance regime and other penalties, the releases of advances for insurance compensation received in prior years and greater gains resulting from the increase in revenue from the sale of idle material no longer used in operations.

33. Personnel expense

This caption can be analysed as follows:

	millions of Euros		
	2018	2017	Change
Wages and salaries	3,452	3,011	441
Social security charges	945	804	141
Other expense for employees	31	22	9
Post-employment benefits	206	186	20
Post-employment benefits/Free Travel Card service costs	7	4	3
Accruals/releases	51	15	36
Employees	4,692	4,042	650
Wages and salaries	5	5	
Social security charges			
Other costs			
Consultants and freelancers	5	5	
Other costs	156	131	25
Total	4,853	4,178	675

“Employees” increased by €650 million in 2018 following the combined effect of the increase in the workforce, including as a result of the direct hiring of temporary workers, the rise in the average unit cost as per the full application of the new national labour agreement (€98 million), and the consolidation of the following companies:

- Anas group (€437 million), from January 2018;
- Qbuzz BV (€77 million), from August 2017;
- TrainOSE SA (€20 million), from September 2017;
- Trenitalia c2c Ltd (€6 million), from February 2017;
- Busitalia Simet S.p.A. (€2 million), in operation since April 2017.

The €25 million increase in “Other costs”, which essentially include the costs related to temporary workers or trainees, is mainly due to the Dutch company Qbuzz BV (€13 million) and the consolidation of Anas group companies (€5 million).

The table below gives a breakdown of FS Italiane group’s average number of employees by category:

	2018	2017	Changes
Managers	957	751	206
Junior managers	12,988	11,044	1,944
Other	67,717	60,646	7,071
TOTAL	81,662	72,441	9,221

34. Raw materials, consumables, supplies and goods

millions of Euros

	2018	2017	Change
Raw materials and consumables	1,155	905	250
Electrical energy and fuel for traction	354	138	216
Lighting and driving force	60	58	2
Change in buildings and land held for trading	32	26	6
Accruals/releases	(2)	9	(11)
Total	1,599	1,136	463

The €250 million increase in "Raw materials and consumables" is mainly due to the greater consumption of materials, both for grants related to assets (€178 million) following the significant investments of the year, and for grants related to income (€28 million) to increase ordinary maintenance, and the material used by Anas group companies (€26 million) to operate road and motorway concessions.

"Electrical energy and fuel for traction" rose by €216 million on the previous year, mainly as a result of the application of Law no. 167 of 20 November 2017 (€187 million) in the previous year, and the consolidation of Anas group companies (€5 millions), Qbuzz BV (€13 million) and TrainOSE SA (€15 million), which joined the group in August and September 2017, respectively.

The €6 million increase in Change in buildings and land held for trading is due to the different carrying amounts of the assets sold in 2018 compared to 2017.

The €11 million decrease in "Accruals/releases" is mainly due to the reduction in accruals to the allowance for inventory write-down (€9 million) following the analysis of obsolete and slow-moving items to be disposed of.

35. Services

This caption can be analysed as follows:

	millions of Euros		
	2018	2017	Change
Other transport-related services	89	87	2
Toll	358	332	26
Shunting services	25	27	(2)
Freight transport services	322	325	(3)
Accruals/releases for transport services		3	(3)
Transport services	793	774	19
Contracted services and work	39	39	
Cleaning and other contracted services	414	389	25
Maintenance and repair of intangible assets and property, plant and equipment	983	662	321
Accruals/releases for maintenance	1	(1)	2
Maintenance, cleaning and other contracted services	1,438	1,089	349
Property services and utilities	92	80	12
Administrative and IT services	227	194	33
External communications and advertising expense	45	31	14
Costs for new works and extraordinary maintenance of the road and motorway network	1,196		1,196
Professional services and consultancies	82	52	30
Prize competitions and fees to other railway companies	6	6	
Insurance	64	64	
Sleeping carriages and catering	115	114	1
Agency fees	76	70	6
Engineering services	38	40	(2)
Other costs for services, accruals/releases	(69)	22	(91)
Other	268	127	141
Other sundry services	580	495	85
Total	4,371	2,663	1,708

The €19 million increase in "Transport services" is essentially due to higher toll costs (€26 million), following the consolidation of Trenitalia c2c Ltd (€26 million) and TrainOSE SA (€11 million), which were acquired in February and September 2017, respectively, offset, in part, by the €11 million decrease in train path costs on the German market.

The increase in costs for "Maintenance, cleaning and other contracted services" (€349 million) is mainly due to the consolidation of Anas group (€255 million, related to the ordinary maintenance of the road and motorway network under

concession) and of Trenitalia c2c Ltd (€2 million), Qbuzz BV (€12 million) and TrainOSE SA (€16 million), which joined FS group in February, August and September 2017, respectively, and the rise in the cost for rolling stock maintenance (€19 million).

The rise in "Administrative and IT services" (€33 million) is mainly due to higher hardware and software maintenance and repair costs (€6 million), and the consolidation differences related to Anas group companies (€10 million) and Qbuzz BV (€1 million).

The increase in "Costs for new works and ordinary maintenance of the road and motorway network" (€1,196 million) is entirely attributable to Anas group.

Finally, the rise in "Other sundry services" (€85 million) is also substantially due to Anas group (€104 million).

36. Use of third-party assets

This caption can be analysed as follows:

	millions of Euros		
	2018	2017	Change
Operating lease payments	13	3	10
Lease payments, condominium expenses and registration tax	86	78	8
Leases and indemnities for rolling stock and other	158	149	9
Accruals/releases		(1)	1
Total	257	229	28

“Operating lease payments” and “Lease payments, condominium expenses and registration tax” rose by a total of €18 million mainly as a consequence of the consolidation of Anas group companies (€11 million), and of Qbuzz BV (€5 million) which joined FS Italiane group in August 2017.

The increase in “Leases and indemnities for rolling stock and other” is mainly due to the rise in rolling stock leases during the year to meet transport requirements, given the slightly late delivery of the rolling stock purchased (€8 million).

37. Other operating costs

This caption can be analysed as follows:

	millions of Euros		
	2018	2017	Change
Other costs	188	160	28
Losses	2	12	(10)
Accruals/releases	14	30	(16)
Total	204	202	2

“Other operating costs” increased by €2 million on 2017 following the decrease in losses related to the demolition and disposal of rolling stock and spare parts (€10 million) and in accruals (€16 million), specifically in respect of the IMU/TASI municipal property taxes (€14 million), partially offset by the rise in “Other costs” (€28 million), mainly due to Anas group consolidation (€17 million).

38. Internal work capitalised

Internal work capitalised mainly relates to the cost of materials, personnel and transport expense capitalised in 2018 against work performed on the infrastructure and value-increasing maintenance of the rolling stock carried out at the FS Italiane group's workshops. The caption amounts to €1,682 million, up by €254 million on 2017. Of this amount, €213 million relates to the greater use of materials in relation to major technological upgrading activities and the development and extraordinary maintenance of the railway infrastructure and regular and value-increasing maintenance of rolling stock, while €35 million refers to the development of the road and motorway infrastructure.

39. Amortisation and depreciation

This caption can be analysed as follows:

	millions of Euros		
	2018	2017	Change
Amortisation	271	79	192
Depreciation	1,300	1,299	1
Total	1,571	1,378	193

This caption increased by €193 million on 2017 mainly as a result of Anas group's consolidation (€196 million), including the amortisation of concession financial assets (€99 million).

40. Impairment losses (gains)

This caption can be analysed as follows:

	millions of Euros		
	2018	2017	Change
Impairment losses on intangible assets	5		5
Impairment losses on property, plant and equipment	124	107	17
Impairment losses and gains	26	45	(19)
Impairment losses on cash and cash equivalents			
Total	155	152	3

This caption increased by €3 million on 2017 following the increase in the impairment losses on freight transport operations (€70 million, partly offset by the decrease in impairment losses on rolling stock (€43 million) and on plant and machinery (€34 million).

The impairment losses on freight transport operations are based on the outcome of the impairment test conducted, which suggest that the cash flows and the expected future return on freight transport operations, discounted using a rate which reflects the risk level of the specific business, do not fully remunerate the business' net invested capital.

41. Provisions

"Provisions", totalling €36 million (2017: €65 million), essentially include the accruals recognised by FS Italiane group companies for the extraordinary portion of the Bilateral fund for income assistance and the provision for the restructuring of redundancy incentives, as already described in note 25 "Provisions for risks and charges".

42. Financial income

This caption can be analysed as follows:

	millions of Euros		
	2018	2017	Change
Financial income from non-current loans and receivables and securities	2	2	
Financial income from derivatives			
Other financial income	73	49	24
Exchange gains	17	11	6
Total	92	62	30

"Other financial income" increased by €24 million mainly as a consequence of the effect of Anas group's consolidation (€47 million), offset, in part, by the lower interest accrued on the VAT credit claimed for reimbursement (€16 million) and default interest.

Finally, "Exchange gains" rose by €6 million as a result of the exchange fluctuations of the year, mainly due to the transactions carried out in Pound sterling.

43. Financial expense

This caption can be analysed as follows:

	millions of Euros		
	2018	2017	Change
Interest on financial liabilities	182	137	45
Financial expense on employee benefits	14	18	(4)
Financial expense on derivatives		3	(3)
Impairment losses on financial assets	9		9
Exchange loss	16	14	2
Accruals/releases		4	(4)
Total	221	176	45

"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, increased by €45 million as a consequence of Anas group's consolidation. This caption includes the present value of the financial liability for concessions (€23 million) and interest expense on loans and borrowings and current accounts (€22 million).

"Financial expense for employee benefits", which includes the measurement of post-employment benefits and the Free Travel Card, decreased by €4 million due to the change in the discounting rate applied to post-employment benefits and personnel who left the group.

"Impairment losses on financial assets" increased by €9 million on 2018 following Anas group's consolidation and the impairment loss on the amounts due from Strada dei Parchi, which was recognised under IFRS 9.

The above financial expense is shown net of government grants of €85 million (reference should also be made to note 28 "Other non-current and current liabilities").

44. Share of profits of equity-accounted investees

This caption, which includes the profits and losses of the group's associates and jointly controlled companies recognised using the equity method, came to €32 million, up by €18 million on 2017 (€14 million). For additional information, reference should be made to note 13 "Equity-accounted investments".

45. Current and deferred taxes

Income taxes can be analysed as follows:

		millions of Euros	
	2018	2017	Change
IRAP	37	34	3
IRES	11	2	9
Income from the tax consolidation scheme (unconsolidated companies)	(7)		(7)
Foreign current taxes	9	7	2
Deferred taxes	6	16	(10)
Foreign deferred taxes	(7)	2	(9)
Adjustments to prior year income taxes	9	3	6
Total income taxes	58	64	(6)

Current IRES (corporate income tax) and IRAP (regional production tax) increased by €12 million following the greater taxable income, mainly in relation to Ferrovie del Sud Est, which does not participate in the group's tax consolidation scheme.

The group's IRES is net of the "Income from the tax consolidation scheme" of €135 million (of which €10 million related to Anas group), recognised on the tax losses transferred to the group over the years and used during the year, as their subsequent remuneration was not deemed probable.

In 2018, deferred taxes amount to €1 million. For additional information about changes in deferred taxes, reference should be made to note 12 "Deferred tax assets and deferred tax liabilities".

46. Contingent assets and contingent liabilities

FS Italiane group is a party in civil, administrative and tax proceedings related to its normal business activities. Without prejudice to the provisions already set up in the consolidated financial statements, the group may therefore incur additional liabilities, currently deemed possible and, however, unquantifiable, as 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 Court of Appeals is also pending. On the hearing for the final briefs held on 6 June 2018, the case was taken under advisement. In its ruling no. 5276 filed on 23 September 2015, the Rome Court of Appeals allowed the appeal against the award filed 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 motorway operator 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. TAV/RFI and Anas/SATAP were unable to reach a compromise as the latter rejected RFI S.p.A.'s requests for the allocation to them of some of the costs to upgrade the multimodal corridor regarding the motorway modernisation and extension. Therefore, on 9 June 2016, RFI S.p.A. issued a writ of summons to Anas/SATAP to appear before the Rome Court, claiming over €1,000 million, plus ancillary charges. On 17 July 2018, the Rome Court rejected RFI S.p.A.'s requests, stating that "the claimant was not entitled to any amount from the defendants in respect of the relevant works";
- Trenitalia S.p.A. is a party to some disputes with its rolling stock suppliers mainly in respect of the different interpretation of the price revision clause. In April 2018, the Rome Court handed down an unfavourable decision for the company on appeal, overturning the previous first-instance decisions. Trenitalia S.p.A. is considering whether to appeal to the Court of Cassation. However, any expenses consequent to this ruling would further increase the investments to which the price revision clause relates;
- Anas S.p.A. vs. Grandi Lavori Fincosit S.p.A: as per the writ served on 10 December 2018, Grandi Lavori Fincosit S.p.A. summoned Anas S.p.A. before the Rome Court, claiming approximately €130 million for claims from 1 to 19 recognised during the contract for the executive design and performance of the "works to construct the new Sulcitana SS 195, Cagliari-Pula section, Lots 1 and 3 and the related works of "Opera Connessa Sud". The risk of losing the case is currently being assessed, pending the internal report. However, it is believed that, over the next few months, this risk may be assessed as probable with a 45% charge of the claim, based on the internal policy "guidelines to assess the litigation risk".

- ruling no. 63958/2016 RG Anas S.p.A./Strada dei Parchi: with respect to ruling no. 63958/2016 RG, commenced by Anas S.p.A. following the failure of Strada dei Parchi (the operator in charge of the operation, completion and modernisation of the A24 and A25 motorways) to pay the 2015 portion of the concession, the question of the constitutional legitimacy of article 52 *quinquies* of Law decree no. 50 of 24 April 2017, converted with amendments into Law no. 96 of 21 June 2017, was brought before the Constitutional Court. Under this law "The operator shall pay Anas S.p.A. the outstanding amount of the concession fee, entirely pertaining to Anas S.p.A., for a total of €111.7 million, in three instalments falling due on 31 March of 2028, 2029 and 2030, each amounting to €37.2 million, plus legal interest. The expiry dates of all remaining instalments of the fee due to Anas S.p.A. remain unchanged. The potential question of constitutional legitimacy refers to Anas S.p.A. role as the recipient of the fee payable by Strada dei Parchi, which the referring court did not manifestly find unfounded in two respects: i) the breach of article 77.2 Const., since the provision "was included in a completely new measure with respect to the original Law decree with a clear and obvious lack of any connection, both with the subject of the new article 52 *quinquies*, as described in the related section – earthquake safety measures for the A24 and A25 motorway – and the perceptive content and purpose of the remaining part, resulting even in contrast with them"; ii) the breach of articles 1, 3, 24 and 101 Const. since the challenged provision "...covers a specific individual contract between specific parties, pending a number of proceedings which challenge payment of the instalments comprising the concession fee to which it refers, and also impose by law a decision which, conversely, already rests with the court". In this respect, the fee of the granted concession was and still is a significant component of Anas S.p.A.'s assets and any related loss would immediately result in a considerable loss for the company and the consequent impairment, unquestionably putting at risk the value of the company (which includes the receivable from the operator with a nominal amount of approximately €900 million which, in the financial statements, is equal to assets worth an estimated €576 million);
- 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 S.p.A. and the former Grandi Stazioni S.p.A. were rejected by the Piedmont Regional Administrative Court with rulings nos. 541/2017 and 1025/2017, respectively. The companies filed an appeal against said rulings;
- appeal against ART resolution no. 96/2015: the proceedings refers to the extraordinary appeals lodged to the President of Italy by RFI S.p.A., Trenitalia S.p.A. and the former Grandi Stazioni S.p.A. against ART resolution no. 96 of 13 November 2015 containing the principles and criteria for determining the fees to access and use the railway infrastructure. Their appeals were transferred to the Piedmont Regional Administrative Court. RFI S.p.A. also appeared in the proceedings pending before the Piedmont Regional Administrative Court for the appeal lodged by another railway company against the same ART resolution no. 96/2015. Following the termination of the proceedings commenced by RFI S.p.A. for loss of interest by the infrastructure operator (Piedmont Regional Administrative Court's ruling no. 1287/2017), the appeals lodged by Trenitalia S.p.A. against ruling no. 1240/2017, in which the Piedmont Regional Administrative Court rejected Trenitalia S.p.A.'s appeal against Resolution no. 80/2016 (and related measures) remain in progress, as well as ruling no. 57/2018, with which the Piedmont Regional Administrative Court rejected Trenitalia S.p.A.'s appeal against Resolution no. 96/2015 (and related measures). In its ruling no. 58/2018,

the Piedmont Regional Administrative Court also rejected the appeal lodged by former Grandi Stazioni S.p.A. against Resolution no. 96/2015 (and related measures);

- AGCM/519 proceedings: as per the resolution approved in its meeting of 3 May 2018, the Italian Antitrust Authority (AGCM), began a formal investigation into Ferrovie dello Stato Italiane S.p.A., RFI S.p.A. and Trenitalia S.p.A. to ascertain the possible violation of article 102 of the Treaty on the Functioning of the European Union (abuse of a dominant position). According to AGCM, FS, through RFI S.p.A. and Trenitalia S.p.A., allegedly implemented a group strategy to influence the procedure used to assign railway LPT services in the Veneto region. The notice of the investigation was served on 11 May 2018, concurrently with the performance of inspections at the offices of the involved companies. FS S.p.A., RFI S.p.A. and Trenitalia S.p.A. confirmed the lawfulness of their behaviour during the separate interviews held at AGCM's offices and provided written comments to support the independence of the negotiation process which resulted in the signing of the contract service for the network electrification process. The deadline for the completion of the investigation is 30 May 2019;
- tax audit on Ferrovie del Sud Est e Servizi Automobilistici S.r.l.: on 13 December 2018, Ferrovie del Sud Est e Servizi Automobilistici S.r.l. received a preliminary assessment report about the outcome of the tax audit carried out on 10 May 2018 by the Tax police – Bari unit. The audit covered the tax years between 2013 and 2018 and commenced following a number of criminal proceedings brought by the Public Prosecutor's Office at the Bari Court and related to the crime of fraudulent bankruptcy committed to the detriment of the company by the company's interim sole director and some of its managers and employees, including in collaboration with consultants and suppliers, when performing specific management operations. The preliminary assessment report raises objections for IRES (corporate income tax) and IRAP (regional production tax) taxes and VAT purposes for the years from 2013 to 2016. The objections – all of which relate to the above criminal proceedings, focus on the non-deductibility of costs and/or expenses which can be denied by the Tax authorities and which imply taxation as "costs deriving from a crime" pursuant to article 14.4-bis of Law no. 537/1993, or as "costs that do not meet the relevant requirements", in whole or in part, pursuant to article 109 of the TUIR (consolidated income tax act), resulting in an increase in IRAP and the non-deductibility of VAT, under article 19 of Presidential decree no. 633/72. Based on the above objectives, for IRAP purposes only, the Tax authorities, Puglia regional office, Large taxpayers' department, sent, on 21 December 2018 notice of assessment no. TUB0C0200034/2018, against which the company filed a request for tax settlement proposal on 13 February 2019.

47. 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 for 2018 amount to €5,408 thousand and include the fees paid for services other than the statutory audit (€1,888 thousand).

48. Directors' and statutory auditors' fees

The following fees were paid to directors and statutory auditors for the performance of their duties:

thousands of Euros

	2018	2017	Change
Directors (1)	3,235	1,217	2,019
Statutory auditors	100	100	
TOTAL	3,335	1,317	2,019

(1) Includes the end-of-office fee paid to the former CEO.

Directors' fees include the amounts envisaged for the positions of Chairman and Chief Executive Officer, as well as any amounts envisaged for the remaining board members. In addition to the above fees, the external member of the supervisory body received €78 thousand (2017: €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.

49. Related parties

Related parties were identified in accordance with IAS 24.

Transactions with key managers

The general conditions that govern transactions with key managers and the parties related to them are not more favourable than those applied, or that could have been reasonably applied, to similar transactions with managers other than key managers associated with the same entities at market conditions.

Key managers' fees are as follows:

	millions of Euros	
	2018	2017
Short-term benefits	26.0	13.5
Post-employment benefits	1.7	0.9
Other long-term benefits		
Termination benefits	6.1	0.4
Total	33.8	14.8

The benefits relate to the fees paid to the above parties. In addition to short-term benefits of €26 million paid out in 2018, a variable portion is to be paid in 2019, for an amount not exceeding €6.3 million (€3.7 million in 2017).

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.

Other 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					
	Assets	Liabilities	Purchases for investments	Guarantees	Revenue	Costs
Enel group	80	97		17	2	100
Eni group	10	7			17	12
Leonardo - Finmeccanica group		48			5	41
Invitalia group		2				
Cassa Depositi e Prestiti group	10	109		24	11	70
GSE group		3		150		379
Poste Italiane group	1	1			1	2
SO.G.I.N. group		1			2	
IPZS						1
EUROFER		1				14
PREVINDAI		2				4
Other pension funds	(6)	(77)				29
Other related parties		2		1	215	18
Total	95	196		192	253	670

Financial transactions

millions of Euros

	Assets	Liabilities	Income	Expense
Cassa Depositi e Prestiti group		748		25
Poste Italiane group	2			
Total	2	748		25

The nature of the main transactions with non-group parties is described below.

Amounts due from Enel group and Eni group mainly refer to lease payments and material transport costs, while liabilities relate to sundry utility payments.

Amounts due from Leonardo - Finmeccanica group mainly relate to lease payments, transport costs and lease of rolling stock, while liabilities relate to sundry maintenance (rolling stock, lines and software) and purchase of materials.

Liabilities with GSE group mainly refer to the purchasing of electrical energy for train traction.

Amounts due from Cassa Depositi e Prestiti group mainly relate to lease and easement payments for land, while liabilities relate to loans and borrowings and electrical energy with Terna S.p.A..

Amounts due from Poste Italiane group mainly relate to lease payments, while payables principally relate to postal charges.

50. Guarantees and commitments

Guarantees given mainly refer to:

- collateral on Trenitalia S.p.A.'s rolling stock, issued by the company in favour of Eurofima SA, guaranteeing non-current loans and borrowings granted through Ferrovie dello Stato Italiane S.p.A. (the liability with Eurofima SA at 31 December 2018 amounts to €1,378 million);
- guarantees issued by FS S.p.A. in favour of the EIB on behalf of RFI S.p.A. (€150 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 group companies to the tax authorities (€2,688 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 (€22 million);
- bank sureties issued to other parties such as bid bonds, performance bonds and advance payment bonds;
- sureties issued in favour of third parties by Anas (€824 million), of which €763 million related to the recovery of the 2013-2014 VAT credit and €41 million related to the contracts in Algeria, Libya, Qatar, Russia, Georgia and India;
- sureties and comfort letters issued in favour of third parties by Sitaf group (mainly Sitaf S.p.A.) (€58.5 million);

- Sitaf group's commitments related to the interest swaps agreed in order to hedge the interest rate risk (€245 million);
- special-purpose loans from the Government agreed and not yet disbursed related to loans for Quadrilatero Marche-Umbria S.p.A.'s contracts (€41 million).

For additional information about the parent's guarantees and commitments issued on behalf of group companies, reference should be made note 41 of the notes to the separate financial statements.

51. Information pursuant to Law no. 124/2017

Reference should be made to Annex 6 for the information required by article 1.125 of Law no. 124/2017 about consolidated Italian investees, as shown in the financial statements of such investees.

52. Segment reporting by operating segment

The financial highlights of the group's operating segments for 2018 and 2017 are show below:

	millions of Euros					
2018	Transport	Infrastructure	Real Estate Services	Other Services	Adjustments and inter-segment eliminations	FS Italiane group
Revenue from third parties	7,655	4,036	87	6	5	11,789
Inter-segment revenue	293	1,338	53	255	(1,650)	289
Revenue	7,948	5,374	140	261	(1,645)	12,078
Personnel expense	(2,611)	(2,113)	(4)	(152)	27	(4,853)
Other costs, net	(3,658)	(2,444)	(121)	(133)	1,607	(4,749)
Operating costs	(6,269)	(4,557)	(125)	(285)	1,634	(9,602)
Gross operating profit (loss)	1,679	817	15	(24)	(11)	2,476
Amortisation and depreciation	(1,228)	(314)	(10)	(19)		(1,571)
Impairment losses and accruals	(115)	(48)	(11)	(19)	2	(191)
Operating profit (loss)	336	455	(6)	(62)	(9)	714
Net financial income (expense)	(91)	(31)	2	(101)	124	(97)
Income taxes	(55)	(25)	1	112	(91)	(58)
Segment profit (loss) (attributable to the owners of the parent and non-controlling interests)	190	399	(3)	(51)	24	559

	millions of Euros					
31.12.2018	Transport	Infrastructure	Real Estate Services	Other Services	Adjustments and inter-segment eliminations	FS Italiane group
Net invested capital	10,213	36,884	1,458	231	(368)	48,418

millions of Euros

2017	Transport	Infrastructure	Real Estate Services	Other Services	Adjustments and inter-segment eliminations	FS Italiane group
Revenue from third parties	7,352	1,490	147	21	(3)	9,007
Inter-segment revenue	290	1,137	180	251	(1,572)	286
Revenue	7,642	2,627	327	272	(1,575)	9,293
Personnel expense	(2,478)	(1,559)	(27)	(139)	25	(4,178)
Other costs, net	(3,404)	(573)	(248)	(127)	1,550	(2,802)
Operating costs	(5,882)	(2,132)	(275)	(266)	1,575	(6,980)
Gross operating profit	1,760	495	52	6		2,313
Amortisation and depreciation	(1,234)	(108)	(22)	(14)		(1,378)
Impairment losses and accruals	(114)	(92)	(8)	(4)		(217)
Operating profit (loss)	412	295	22	(12)		718
Net financial income (expense)	(92)	(35)	(1)	29		(100)
Income taxes	(63)	3	(31)	119	(92)	(64)
Loss attributable to assets held for sale	(2)					(2)
Segment profit (loss) (attributable to the owners of the parent and non-controlling interests)	255	263	(10)	136	(92)	552

millions of Euros

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

Reference should be made to the directors' report for information on the performance of the individual segments.

53. Events after the reporting date

January

Demerger of Blufferries S.r.l.

On 8 November 2018, the quotaholders of Blufferries S.r.l. and Blu Jet S.r.l. approved the project for the partial demerger of the demerged Blufferries S.r.l. to Blu Jet S.r.l.. The demerger will be effective for accounting and tax purposes from the date of registration of the demerger deed with the Company registrar or any subsequent date which will be defined in the demerger deed to be completed in 2019.

Merger of Mercitalia Transport & Services S.r.l. into Mercitalia Shunting & Terminal S.r.l.

On 1 January 2019, Mercitalia Shunting & Terminal S.r.l. merged Mercitalia Transport & Services S.r.l. as per the deed signed on 19 December 2018.

Intragroup restructuring related to the transfer of Netinera and TrainOSE

On 28 January 2019, Ferrovie dello Stato Italiane S.p.A.'s board of directors approved the transfer of the investments in Netinera Deutschland GmbH and TrainOSE SA to the subsidiary Trenitalia S.p.A.. The transaction, which is currently underway, is governed by articles 2343-ter and 2343-quater of the Italian Civil Code. It will entail the capital increase of the subsidiary Trenitalia for an amount equal to the sum of the carrying amounts of the above investments in Ferrovie dello Stato Italiane S.p.A.'s financial statements at the reporting date, which will be considered as the reference date in the report of the independent expert engaged by the company.

February

Netzes Elbe-Spree tender for regional transport

On 5 February 2019, Ostdeutsche Eisenbahngesellschaft (ODEG), part of Netinera group, won the Netzes Elbe-Spree tender in Germany for the provision of regional transport services in the Berlin, Brandenburg and Saxony-Anhalt areas.

The 12-year contract assigned to the company, which is owned by Netinera and the railway holding BeNEX on a 50:50 basis, will become effective in 2022 and provides for investments of up to €400 million over its term.

The first lot of the Netzes Elbe-Spree tender covers the RE1 regional express line connecting Magdeburg to Cottbus via Berlin and Frankfurt am Oder. The RE8 regional line, from Wismar to Elsterwerda/Finsterwalde via Schwerin and Berlin, is part of the fourth lot. Both Stadler KISS trains (400 seats), which have been refurbished with free Wi-Fi and a new passenger information system, and Siemens Desiro HC trains will be used.

Italferr wins a new contract in India

On 6 February 2019, the FS Italiane group's engineering company won, in joint venture with Lombardi SA, the contract for the executive design and work supervision of the construction of the first 12 km (almost entirely comprised of tunnel) of the Himalayan rail tunnel along the Rishikesh – Karnaprayag line in Uttarakhand.

The executive design and the work supervision stages will last nine and 60 months, respectively. The contract is worth more than €5 million. The entire line (total length: 125 km), which is characterised by demand for religious tourism transport, runs parallel to the (bed of the) Ganges river, at the foot of the Himalayas.

Expression of interest for Alitalia

On 13 February 2019, in the light of Delta Air Lines' confirmed expression of interest in becoming FS Italiane's business partner in the Alitalia's transaction, Ferrovie dello Stato Italiane's board of directors decided to enter into negotiations with the above airline company to proceed with the complex process of establishing the foundations underpinning the plan for the new Alitalia.

ART resolution no. 11/2019

ART resolution no. 11/2019 was issued on 15 February 2019 in which the Authority ordered the infrastructure operator to implement a series of corrective measures, also considering RFI S.p.A.'s willingness (expressed in the note dated 4 February 2019) to adjust the eligible operating costs for the purposes of calculating the PMdA (minimum service package) toll and the fees for the PMdA extra services starting from 1 January 2019.

Vastint Hospitality Italy S.r.l. acquires the heritage site of the former Turin Porta Susa station

On 19 February 2019, FS Sistemi Urbani, the owner, sold the heritage site of the former Turin Porta Susa station to the real estate company Vastint Hospitality Italy S.r.l. for €6.4 million.

As per the 2017 tender, Vastint Hospitality Italy also acquired the option for the "Mezzanine" owned by the Turin municipality, for a consideration of €1.7 million.

This heritage site, located in Piazza XVIII Dicembre, includes building rights for 5,261 square metres, of which 1,800 already existing in the station building. The area will be used for tourism/accommodation, commercial and catering purposes.

Cooperation between FS Italiane and the Turkish railways (TCDD)

The third Capacity Development training module was completed in February 2019 in Ankara, with the participation of the maintenance personnel of the Turkish railway lines, including Halim özgümüş, head of the capacity management department.

FS Italiane group organised and managed the courses, which involved Trenitalia's and Rete Ferroviaria Italiana's ("RFI") personnel as teachers. The training, which took place between 21 January and 15 February 2019 and lasted for four weeks, is part of the 2017 memorandum of understanding (MoU) signed by FS and TCDD and confirms FS S.p.A.'s commitment in this direction to support TCDD operations and strengthen the partnership with the Turkish railways.

Investments in Lombardy's mobility by rail

The investment programme worth over €14.6 billion launched by FS Italiane group and Rete Ferroviaria Italiana to improve mobility in Lombardy was unveiled in Milan on 20 February 2019. The plan, scheduled to run until/for completion in 2025, provides for a infrastructural and technological upgrade, the elimination of 110 level crossings, and works at stations and maintenance of the Lombardy lines. This will create benefits for commuters, ranging from increased frequency to better network reliability, while improving intermodality and decreasing rail and road crossings, culminating, once the scheduled infrastructural upgrade has been completed, in a significant increase in the capacity of some of Lombardy's main high-traffic public transport lines.

Sale of Rome Tiburtina Lot C1

On 22 February 2019, two options for the sale of Rome Tiburtina Lot C1 were put forward, extending the deadline to submit offers from 15 March to 15 April 2019. Separate offers are possible for option A (lot C1 with building rights for

12,000 square metres for hotel purposes and 7,000 square metres for commercial use) and option B (Lot C1 with 12,000 square metres for hotel purposes). The lot on sale, near the entry to Rome Tiburtina station, on the Nomentano west side, is well connected to the train/metro/bus hub, enjoying a strategic position for the construction of a hotel and commercial areas.

Annexes

Consolidation scope and the group's equity investments

1. PARENT AND LIST OF SUBSIDIARIES

Parent

Name	Registered office	Country of operation	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Ferrovie dello Stato Italiane S.p.A.	Rome	Italy	39,204,173,802				

Operating segment: Transport

Name	Registered office	Country of operation	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
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In Italy

Ataf Gestioni S.r.l.	Florence	Italy	5,927,480	Busitalia - Sita Nord S.r.l. Non-controlling interests	70.00 30.00	70.00	Line-by-line
Busitalia - Sita Nord S.r.l.	Rome	Italy	73,000,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Busitalia Campania S.p.A.	Salerno	Italy	5,900,000	Busitalia - Sita Nord S.r.l.	100.00	100.00	Line-by-line
Busitalia Simet S.p.A.	Rome	Italy	3,000,000	Busitalia - Sita Nord S.r.l.	51.00 49.00	51.00	Line-by-line
Busitalia Rail Service S.r.l.	Rome	Italy	3,497,788	Simet S.p.A. Busitalia - Sita Nord S.r.l.	100.00	100.00	Line-by-line
Busitalia Veneto S.p.A.	Padua	Italy	5,500,000	Busitalia - Sita Nord S.r.l. ASP Holding S.p.A.	55.00 45.00	55.00	Line-by-line
Ferrovie del Sud Est e Servizi Automobilistici S.r.l.	Bari	Italy	4,682,830	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Firenze City Sightseeing S.r.l.	Florence	Italy	200,000	Ataf Gestioni S.r.l. Non-controlling interests	60.00 40.00	42.00	Line-by-line
I-Mago S.p.A.	Florence	Italy	408,000	Ataf Gestioni S.r.l. Non-controlling interests	58.00 42.00	40.60	Line-by-line
Mercitalia Intermodal S.p.A. (formerly CEMAT S.p.A.)	Milan	Italy	7,000,000	Mercitalia Logistics S.p.A. Non-controlling interests	53.28 46.72	53.28	Line-by-line
Mercitalia Logistics S.p.A. (formerly FS Logistica S.p.A)	Rome	Italy	379,806,212	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	229,641,748	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 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
Pol Rail S.r.l.	Rome	Italy	2,000,000	Mercitalia Rail S.r.l.	100.00	100.00	Line-by-line
Savit S.r.l.	Terni	Italy	1,000,000	Busitalia - Sita Nord S.r.l.	100.00	100.00	Line-by-line
Terminal Alpransit S.r.l.	Milan	Italy	15,000,000	Mercitalia Logistics S.p.A.	58.00 42.00	58.00	Line-by-line

Trenitalia S.p.A.	Rome	Italy	1,417,782,000	Non-controlling interests FS Italiane S.p.A.	100.00	100.00	Line-by-line
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Name	Registered office	Country of operation	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
Autobus Sippel GmbH	Hofheim am Taunus (Germany)	Germany	50,000	NETINERA Deutschland GmbH	100.00	51.00	Line-by-line
Die Länderbahn GmbH DLB (formerly Vogtlandbahn-GmbH)	Viechtach (Germany)	Germany	1,022,584	Regentalbahn GmbH	100.00	51.00	Line-by-line
erixx GmbH	Celle (Germany)	Germany	25,000	Osthannoversche Eisenbahnen Aktiengesellschaft	100.00	44.63	Line-by-line
Metronom Eisenbahngesellschaft mbH	Uelzen (Germany)	Germany	500,000	NiedersachsenBahn GmbH & Co. KG	73.58	37.18	Line-by-line
Neißeverkehr GmbH	Guben (Germany)	Germany	1,074,000	Prignitzer Eisenbahngesellschaft mbH	80.00	40.80	Line-by-line
NETINERA Bachstein GmbH	Celle (Germany)	Germany	150,000	NETINERA Deutschland GmbH	95.34	51.00	Line-by-line
NETINERA Deutschland GmbH	Viechtach (Germany)	Germany	1,025,000	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	Amersfoort (The Netherlands)	The Netherlands	400,000	Busitalia - Sita Nord S.r.l.	100.00	100.00	Line-by-line
Qbuzz Groningen-Utrecht BV	Amersfoort (The Netherlands)	The Netherlands	18,000	Qbuzz BV	100.00	100.00	Line-by-line
Qbuzz Mobility Service BV	Utrecht (The Netherlands)	The Netherlands	18,000	Busitalia - Sita Nord S.r.l.	100.00	100.00	Line-by-line
Qbuzz Multimodaal BV	Amersfoort (The Netherlands)	The Netherlands	100	Qbuzz BV	100.00	100.00	Line-by-line
Qbuzz Taxi BV	Amersfoort (The Netherlands)	The Netherlands	100	Qbuzz BV	100.00	100.00	Line-by-line
Regentalbahn GmbH	Viechtach (Germany)	Germany	2,444,152	NETINERA Deutschland GmbH	100.00	51.00	Line-by-line
Rom Rail	Bucharest (Romania)	Romania	1,800,000 (1)	Pol Rail S.r.l. Non-controlling interests	93.00 7.00	93.00	Line-by-line
Sei Mobil Verkehrsgesellschaft mbH (formerly Lausitzer Nahverkehrsgesellschaft mbH)	Sendenhorst (Germany)	Germany	26,000	Verkehrsbetriebe Bils GmbH	100.00	51.00	Line-by-line
Sippel-Travel GmbH	Frankfurt am Main (Germany)	Germany	127,950	Autobus Sippel GmbH	100.00	51.00	Line-by-line
Südbrandenburger Nahverkehrs GmbH	Berlin (Germany)	Germany	1,022,584	NETINERA Deutschland GmbH	100.00	51.00	Line-by-line
Thello SAS	Paris (France)	France	10,500,000	Trenitalia S.p.A.	100.00	100.00	Line-by-line
TrainOSE SA	Athens (Greece)	Greece	34,406,509	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	13,000,100 (1)	Trenitalia S.p.A.	100.00	100.00	Line-by-line
TX Logistik AG	Troisdorf (Germany)	Germany	286,070	Mercitalia Logistics S.p.A.	100.00	100.00	Line-by-line
TX Consulting GmbH	Troisdorf (Germany)	Germany	25,000	TX Logistik AG	100.00	100.00	Line-by-line
TX Logistik Austria GmbH	Schwechat (Austria)	Germany	35,000	TX Logistik AG	100.00	100.00	Line-by-line
TX Logistik A/S	Padborg (Denmark)	Germany	500,000 (1)	TX Logistik AG	100.00	100.00	Line-by-line
TX Logistik AB	Helsingborg (Sweden)	Germany	400,000 (1)	TX Logistik AG	100.00	100.00	Line-by-line
TX Logistik GmbH	Basel (Switzerland)	Germany	50,000 (1)	TX Logistik AG	100.00	100.00	Line-by-line
TX Service Management GmbH	Troisdorf (Germany)	Germany	50,000	TX Logistik AG	100.00	100.00	Line-by-line
Verkehrsbetriebe Bils GmbH	Sendenhorst (Germany)	Germany	25,000	NETINERA Deutschland GmbH	100.00	51.00	Line-by-line
Vlexx GmbH	Mainz (Germany)	Germany	25,000	Regentalbahn GmbH	100.00	51.00	Line-by-line

(1) Figures expressed in local currency

Operating segment: Infrastructure

Name	Registered office	Country of operation	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Anas S.p.A.	Rome	Italy	2,269,892,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Anas International Enterprise S.p.A.	Rome	Italy	3,000,000	Anas S.p.A.	100.00	100.00	Line-by-line
Bluferries S.r.l.	Messina	Italy	20,100,000	Rete Ferroviaria Italiana - RFI S.p.A.	100.00	100.00	Line-by-line
Centostazioni Retail S.p.A.	Rome	Italy	3,797,064	FS Italiane S.p.A. Rete Ferroviaria Italiana - RFI S.p.A.	78.35 21.65	100.00	Line-by-line
Cremonesi workshop S.r.l.	Brescia	Italy	100,000	Italferr S.p.A. Non-controlling interests	80.00 20.00	80.00	Line-by-line
Grandi Stazioni Rail S.p.A.	Rome	Italy	4,304,201	Rete Ferroviaria Italiana - RFI S.p.A.	100.00	100.00	Line-by-line
Italferr S.p.A.	Rome	Italy	14,186,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Musinet Engineering S.p.A.	Turin	Italy	520,000	Società Italiana Autostradale del Frejus - SITAF S.p.A.	100.00	51.09	Line-by-line
Ok-Gol S.r.l.	Susa	Italy	100,000	Società Italiana Autostradale del Frejus - SITAF S.p.A.	100.00	51.09	Line-by-line
Quadrilatero Marche-Umbria S.p.A.	Rome	Italy	50,000,000	Anas S.p.A. Non-controlling interests	92.38 7.62	92.38	Line-by-line
Metropark S.p.A.	Rome	Italy	3,016,463	FS Sistemi Urbani S.r.l.	100.00	100.00	Line-by-line
Rete Ferroviaria Italiana - RFI S.p.A.	Rome	Italy	31,528,425,067	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Sitalfa S.p.A.	Bruzolo	Italy	520,000	Società Italiana Autostradale	100.00	51.09	Line-by-line

Società Italiana Autostradale del Frejus - SITAF S.p.A.	Susa	Italy	65,016,000	del Frejus - SITAF S.p.A. Anas S.p.A. Non-controlling interests	51.09 48.91	51.09	Line-by-line
Tecnositaf S.p.A.	Turin	Italy	520,000	Società Italiana Autostradale del Frejus - SITAF S.p.A. Rete Ferroviaria Italiana - RFI S.p.A.	100.00	51.09	Line-by-line
Terminali Italia S.r.l.	Rome	Italy	7,345,686	Mercitalia Intermodal S.p.A. (formerly CEMAT S.p.A.) Rete Ferroviaria Italiana - RFI S.p.A.	89.00 11.00	94.86	Line-by-line
Tunnel Ferroviario del Brennero S.p.A.	Rome	Italy - Austria	705,790,910	Rete Ferroviaria Italiana - RFI S.p.A. Non-controlling interests	88.20 11.80	88.20	Line-by-line

Name	Registered office	Country of operation	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
Infrastructure Engineering Services doo Beograd	Belgrade (Serbia)	Serbia	39,626,684 (1)	Italferr S.p.A.	100.00	100.00	Line-by-line
Tecnositaf Russia LLC	Moscow (Russia)	Russia	300,763 (1)	Tecnositaf S.p.A. Non-controlling interests	99.90 0.10	51.04	Line-by-line

(1) Figures expressed in local currency

Operating segment: Real estate services

Name	Registered office	Country of operation	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
FS Sistemi Urbani S.r.l.	Rome	Italy	532,783,501	FS Italiane S.p.A.	100.00	100.00	Line-by-line
Grandi Stazioni Immobiliare S.p.A.	Rome	Italy	4,000,000	FS Italiane S.p.A. Eurostazioni S.p.A.	60.00 40.00	60.00	Line-by-line

Operating segment: Other services

Name	Registered office	Country of operation	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
NUGO S.p.A.	Rome	Italy	1,000,000	FS Italiane S.p.A.	100.00	100.00	Line-by-line

2. LIST OF JOINT VENTURES

Operating segment: Transport

Name	Registered office	Country of operation	Quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Mercitalia Maintenance S.r.l.	Milan	Italy	6,000,000	Mercitalia Rail S.r.l. (formerly FS Telco S.r.l.) 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	Country of operation	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
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 Verkehrsbetriebe	100.00	13.75	Equity
Kraftverkehr Celle Stadt und Land GmbH	Celle (Germany)	Germany	1,099,300	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	Country of operation	Share 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 Taahhüt San. Ve Tic. Ltd. Şti.	50.10 49.90	50.10	Equity
SWS Italferr Adi Ortakligi	Ankara	Turkey	1,000 (1)	Italfer SpA 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	Country of operation	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	20,000	Busitalia - Sita Nord S.r.l. Non-controlling interests	25.00 75.00	25.00	Equity
Eurogateway S.r.l.	Novara	Italy	599,000	Mercitalia Intermodal S.p.A. (formerly CEMAT S.p.A.) Mercitalia Rail S.r.l. Non-controlling interests	38.95 11.58 49.47	32.33	Equity
FNM S.p.A. (formerly Ferrovie Nord Milano S.p.A.)	Milan	Italy	230,000,000	FS Italiane S.p.A. Non-controlling interests	14.74 85.26	14.74	Equity
La Spezia Shunting Railways S.p.A.	La Spezia	Italy	1,000,000	Mercitalia	15.50	20.00	Equity

				Shunting & Terminal S.r.l. (formerly Serfer S.r.l.)	4.50 80.00		
Li-Nea S.p.A.	Scandicci (Florence)	Italy	2,340,000	Mercitalia Rail S.r.l. Non-controlling interests	34.00 66.00	23.80	Equity
METRO 5 S.p.A.	Milan	Italy	55,300,000	Ataf Gestioni S.r.l. Non-controlling interests FS Italiane S.p.A. Non-controlling interests	36.7 63.3	36.70	Equity

Name	Registered office	Country of operation	Share 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 1.00 64.50	4.82	Equity
CeBus Verwaltungsgesellschaft mbH	Celle (Germany)	Germany	25,000	Kraftverkehr Celle Stadt und Land GmbH Celler Straßenbahngesellschaft mbH Non-controlling interests	34.40 1.00 64.60	4.81	Equity
Celler Straßenbahngesellschaft mbH	Celle (Germany)	Germany	571,450	Kraftverkehr Celle Stadt und Land GmbH Non-controlling interests	34.70 65.30	4.85	Equity
EVG Euregio - Verkehrsgesellschaft mbH & Co. KG	Münster (Germany)	Germany	84,000	Verkehrsbetriebe Bils GmbH Non-controlling interests	29.67 70.33	15.13	Equity
EVG Euregio Verwaltungs- und Beteiligungs GmbH	Münster (Germany)	Germany	36,000	Verkehrsbetriebe Bils GmbH Non-controlling interests	29.67 70.33	15.13	Equity
Hafen Lüneburg GmbH	Lüneburg (Germany)	Germany	1,750,000	Osthannoversche Eisenbahnen AG Non-controlling interests	30.00 70.00	13.39	Equity
Logistica SA	Levallois (France)	France	37,000	Mercitalia Rail S.r.l. Non-controlling interests	50.00 50.00	50.00	Equity

Operating segment: Infrastructure

Name	Registered office	Country of operation	Share/quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Autostrada Asti - Cuneo S.p.A.	Rome	Italy	200,000,000	Anas S.p.A. Non-controlling interests	35.00 65.00	35.00	Equity
Autostrade del Lazio S.p.A.	Rome	Italy	1,061,886	Anas S.p.A. Non-controlling interests	50.00 50.00	50.00	Equity
Concessioni Autostradali Lombarde - CAL S.p.A.	Milan	Italy	4,000,000	Anas S.p.A. Non-controlling interests	50.00 50.00	50.00	Equity
Concessioni Autostradali Venete - CAV S.p.A.	Venice	Italy	2,000,000	Anas S.p.A. Non-controlling interests	50.00 50.00	50.00	Equity
Consepi S.p.A.	Susa	Italy	3,376,515	Società Italiana Autostradale del Frejus - SITAF S.p.A. Ok-Gol S.r.l. Non-controlling interests	49.13 0.03 50.87	25.11	Equity
Brenner base tunnel – Brenner Basistunnel BBT SE	Bolzano	Italy - Austria	10,240,000	Tunnel Ferroviario del Brennero S.p.A. Non-controlling interests	50.00 50.00	44.10	Equity
Quadrante Europa Terminal Gate S.p.A.	Verona	Italy	16,876,000	Rete Ferroviaria Italiana - RFI S.p.A. Non-controlling interests	50.00 50.00	50.00	Equity
Società Italiana per il Traforo del Monte Bianco S.p.A.	Prè Saint Didier (AO)	Italy	198,749,200	Anas S.p.A. Non-controlling interests	32.12 67.88	32.12	Equity
Transenergia S.r.l.	Turin	Italy	1,022,661	Società Italiana Autostradale del Frejus - SITAF S.p.A. Non-controlling interests	50.00 50.00	25.55	Equity

Name	Registered office	Country of operation	Share capital	Investor	% of voting rights	% of equity ratio	Consolidation method
Abroad							
Tecnositaf Gulf Integrated System WLL	Doha (Qatar)	Qatar	200,000 (1)	Tecnositaf S.p.A. Non-controlling interests	49.00 51.00	25.03	Equity

(1) Figures expressed in local currency

Operating segment: Other services

Name	Registered office	Country of operation	Quota capital	Investor	% of voting rights	% of equity ratio	Consolidation method
In Italy							
Italiacamp S.r.l.	Rome	Italy	10,000	FS Italiane S.p.A. Non-controlling interests	20.00 80.00	20.00	Equity

4. LIST OF OTHER UNCONSOLIDATED EQUITY INVESTMENTS

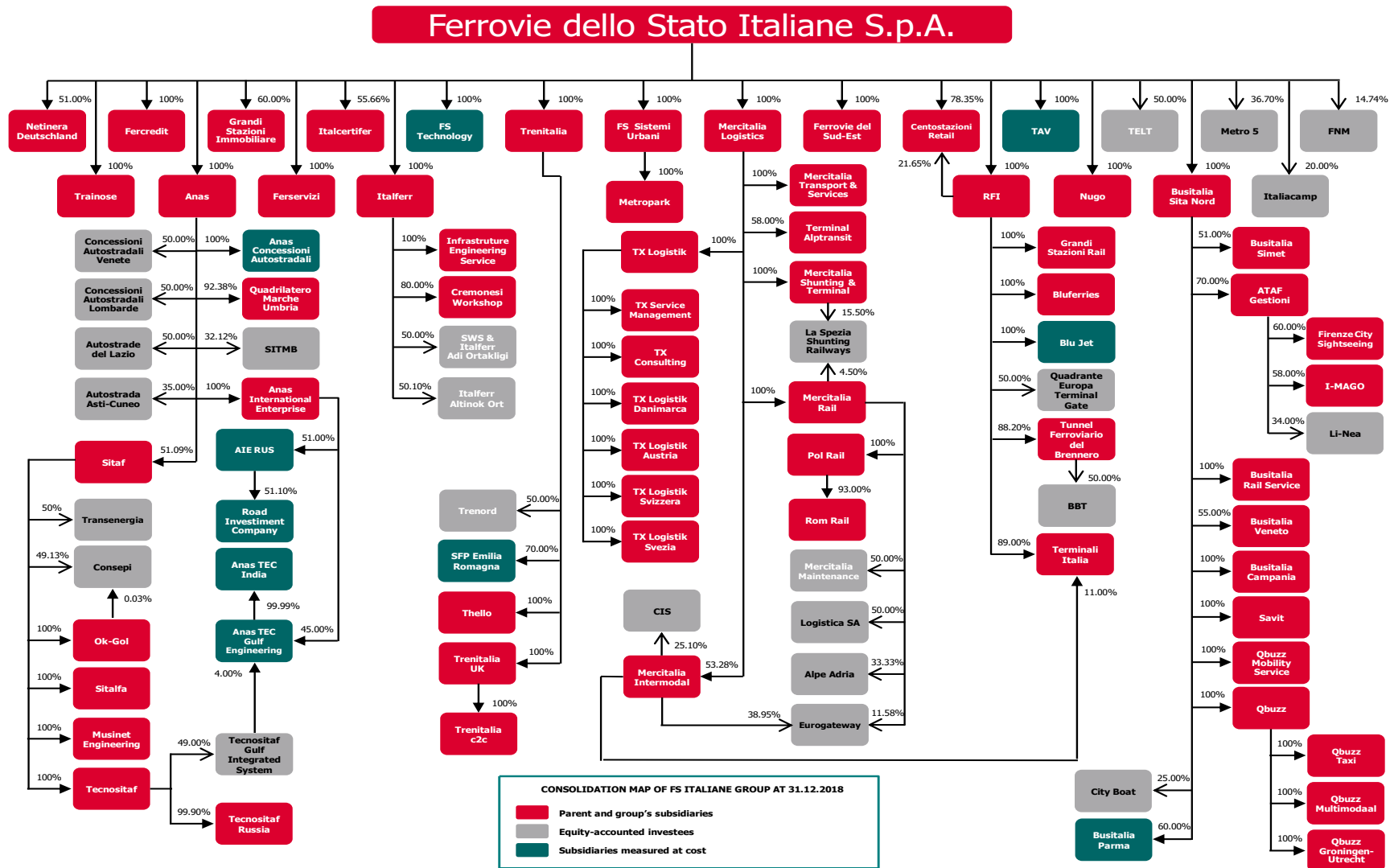
Name	Registered office	Share/quota capital	Investor	% of voting rights
In Italy				
Anas Concessioni Autostradali S.p.A.	Rome	1,000,000	Anas S.p.A.	100.00
Autostrada del Molise S.p.A. in liquidation	Campobasso	3,000,000	Anas S.p.A. Non-controlling interests	50.00 50.00
Blu Jet S.r.l.	Messina	200,000	Rete Ferroviaria Italiana - RFI S.p.A.	100.00
Busitalia Parma Scarl	Parma	50,000	Busitalia - Sita Nord S.r.l. Non-controlling interests	60.00 40.00
FS Technology S.p.A.	Rome	1,000,000	FS Italiane S.p.A.	100.00
Nord Est Terminal - NET S.p.A. in liquidation	Padua	200,000	RFI S.p.A. Non-controlling interests	51.00 49.00
Servizi Ferroviari Portuali – Ferport Genova S.r.l. in liquidation	Genoa	712,000	Mercitalia Shunting & Terminal S.r.l. (formerly Serfer S.r.l.) Non-controlling interests	51.00 49.00
Sita S.p.A. in liquidation	Rome	200,000	FS Italiane S.p.A. Non-controlling interests	55.00 45.00
Stretto di Messina S.p.A. in liquidation	Rome	383,179,794	Anas S.p.A. Rete Ferroviaria Italiana - RFI S.p.A. Non-controlling interests	81.84 13.00 5.16
TAV S.r.l.	Rome	50,000	FS Italiane S.p.A.	100.00
Terminal Tremestieri S.r.l. in liquidation	Messina	900,000	Bluferries S.r.l. Non-controlling interests	33.33 66.67
Società Ferroviaria Provvisoria Emilia Romagna Scarl	Bologna	1,000,000	Trenitalia S.p.A. Non-controlling interests	70.00 30.00

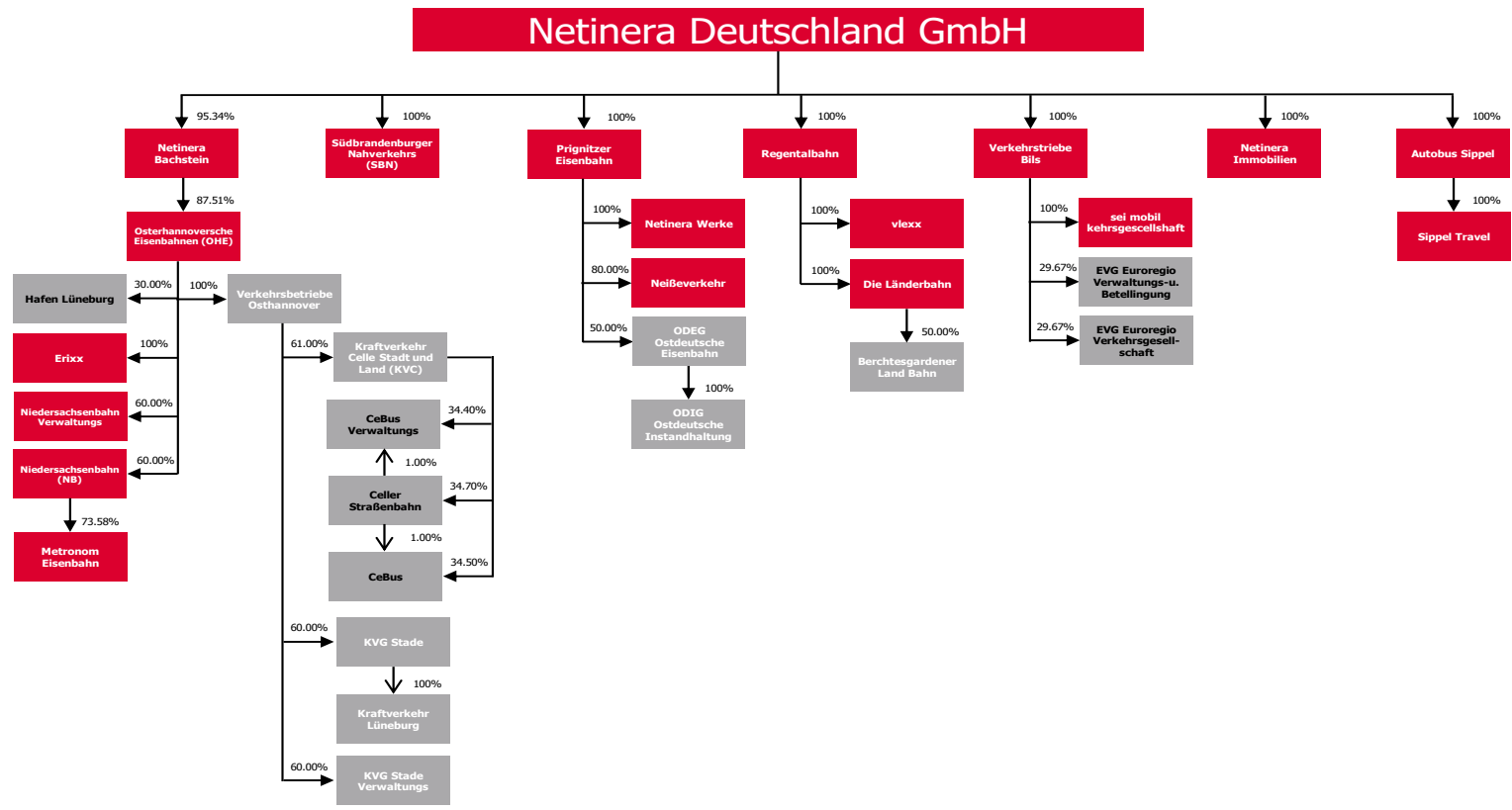
Name	Registered office	Share capital	Investor	% of voting rights
Abroad				
Anas International Enterprise RUS LLC	Moscow (Russia)	63,000 (1)	Anas International Enterprise S.p.A. Non-controlling interests	51.00 49.00
Anas Tec Gulf Engineering LLC	Doha (Qatar)	50,000 (1)	Anas International Enterprise S.p.A. Tecnositaf Gulf Integrated System WLL	45.00 4.00 51.00

			Non-controlling interests	
Anas Tec India Private Limited	Vijaywada, Krishna, State of Andhra Pradesh (India)	235,282,002 (1)	Anas Tec Gulf Engineering LLC	99.99
Cisalpino SA in liquidation	Berne (Switzerland)	100,750(1)	Trenitalia S.p.A. Non-controlling interests	50.00 50.00
Road Investment Company (RIC) LLC	Moscow (Russia)	500,000 (1)	Anas International Enterprise RUS LLC Non-controlling interests	51.10 48.90

(1) Figures expressed in local currency

5. CONSOLIDATION MAP OF FERROVIE DELLO STATO ITALIANE GROUP





CONSOLIDATION MAP OF NETINERA GROUP AT 31.12.2018

- Parent and group's subsidiaries
- Equity-accounted investees

6. DISCLOSURE PURSUANT TO LAW NO. 124/2017

Ferrovie dello Stato Italiane S.p.A.

Beneficiary	Amount in €
Ministry of the Economy and Finance (in favour of TELT)	Chapter 7122 87,772,206

Ferservizi S.p.A.

Provider	Amount in €
Fondimpresa	Loans for training 33,776

Trenitalia S.p.A.

Provider	Amount in €
Province of Bolzano (*)	Grants to purchase rolling stock 5,320,000
Liguria region (*)	Grants to purchase rolling stock 1,937,828
European Union	Chariot research project 141,250
European Union	Sprint project 253,545
European Union	Ersat project 15,728
European Union	Bonvoyage project 400,000
European Union	5G-Eve project 104,738
European Union	GCF4R, ST4RT project 106,056
Cassa Depositi e Prestiti	Grants pursuant to Law no. 166/2002 2,732,764
Fondo Impresa	Grants for training 2,772,140

(*) grants approved in prior years which are disbursed over a number of years

Rete Ferroviaria Italiana S.p.A.

Provider	Amount in €
Local bodies	Grants related to assets 70,202,967
MEF	Grants related to assets 3,393,570,003
Ministry of Infrastructure and Transport	Grants related to assets 162,509,711
EU	Grants related to assets 171,613,881
EU – local bodies	Grants related to assets 2,231,920
Other	Grants related to assets 38,963,211
Ministry of the Economy and Finance	Grant for ordinary maintenance 1,015,556,791
CSEA	Grants 370,276,211
Ministry of Infrastructure and Transport – Chapter 1524 Incentive for freight transport	Grants 4,500,000

Grandi Stazioni Rail S.p.A.

Provider	Amount in €
Ministry of Infrastructure and Transport	Grandi Stazioni programme 34,862,190

Italferr S.p.A.

Provider	Amount in €
Fondimpresa/Fondirigenti	Loan for training 57,000

Metropark S.p.A.

Provider	Amount in €
Municipality of Albano	Lease of spaces 25,000
Municipality of Certaldo	Lease of spaces 20,000
Roma Servizi Mobilità	Lease of spaces 95,000
Municipality of Legnano	Lease of spaces 17,000
Municipality of Abbiategrasso	Lease of spaces 15,000
Poste Italiane	Lease of spaces 28,000
Municipality of Aversa	Lease of spaces 12,000

Mercitalia Logistics S.p.A.

Provider		Amount in €
Electricity Services Operator (GSE)	Photovoltaic grants	223,245
Ministry of Infrastructure and Transport	Incentives to promote intermodality (Ferrobonus)	556,799
Fondimpresa	Loan for training	14,768
Ministry of Infrastructure and Transport	Freight grants	1,299,586

Terminal Alptransit S.r.l.

Provider		Amount in €
Swiss Federal Transport Office	Grants related to assets	8,815,895

MERCITALIA SHUNTING & TERMINAL

Provider		Amount in €
RFI	Grant pursuant to Law no. 190/2014	147,359
Ministry of Infrastructure and Transport	Grants related to assets	12,424

Mercitalia Rail S.r.l.

Provider		Amount in €
Ministry of Infrastructure and Transport	Grants related to income	4,290,312
Ministry of Infrastructure and Transport	Grant for Marco Polo Nestlè	42,635
Ministry of Infrastructure and Transport	Grant related to income	54,437,187

Mercitalia Intermodal S.p.A.

Provider		Amount in €
MIT	Grant pursuant to Law no. 190/2014	3,628,315
Ministry of Infrastructure and Transport	Freight grants	3,399,376
Emilia Romagna region	Grant pursuant to Regional law no. 10/2014	17,414

Busitalia Campania S.p.A.

Provider		Amount in €
Ministry of Labour	2018 contribution for illness costs	271,287

Busitalia Veneto S.p.A.

Provider		Amount in €
Cassa Depositi e Prestiti	Grants related to income	16,526
Cassa Depositi e Prestiti	Grants related to income	9,571
Ministry of Labour	Grants related to income	179,560
Ministry of Labour	Grants related to income	320,525
Ministry of Labour	Grants related to income	248,926
Ministry of Labour	Grants related to income	89,780
Ministry of Labour	Grants related to income	336,429
Province of Rovigo	Grants related to income	280,000
Province of Rovigo	Grants related to income	416,165
Municipality of Padua	Grants related to income	100,000
Municipality of Padua	Grants related to income	1,969,358
Municipality of Padua	Grants related to income	1,504,000
Municipality of Padua	Grants related to income	155,000

ATAF Gestioni S.r.l.

Provider		Amount in €
Ministry of Labour	Grants pursuant to 2018 CCNL (national labour agreement) - first advance payment	2,545,355
Ministry of Labour	Grants pursuant to 2018 CCNL (national labour agreement) - second advance payment	1,527,213
Ministry of Labour	Recovery of 2012 illness costs	52,559
Ministry of Labour	Grants pursuant to 2017 CCNL (balance)	827,688
Ministry of Labour	Grants pursuant to CCNL (national labour agreement) 2018	4,978,703
Ministry of Labour	2018 illness costs	691,810
Ministry of Labour	Illness costs - 2012 recovery	52,559

Busitalia-Sita Nord S.r.l.

Provider		Amount in €
Ministry of Labour (Tuscany region)	Grants pursuant to 2018 CCNL (national labour agreement) - first advance payment	1,289,968
Ministry of Labour (Tuscany region)	Grants pursuant to 2018 CCNL (national labour agreement) - second advance payment	773,981
Ministry of Labour (Tuscany region)	Grants pursuant to 2017 CCNL (national labour agreement) - balance	541,516
Ministry of Labour (Umbria region)	Grants pursuant to 2017 CCNL (national labour agreement) - advance payment	1,222,246
Ministry of Labour (Umbria region)	Grants pursuant to 2018 CCNL (national labour agreement) - advance payment	4,420,821
Ministry of Labour (Umbria region)	Grants CCNL (national labour agreement) for steel 2015/2016	1,369,643
Ministry of Labour (Umbria region)	Grants pursuant to CCNL (national labour agreement) 2016	4,972,118
Ministry of Labour (Umbria region)	Grants pursuant to CCNL (national labour agreement) 2016	561,640
Ministry of Labour (Tuscany region)	Recovery of 2012 illness costs - F24	158,712

Sitaf S.p.A.

Provider		Amount in €
TELT	Grants related to assets	1,054,000
TELT	Grants related to assets	600,000
Anas	Grants related to assets	136,000
Municipality of Avigliana	Grants related to assets	146,000
Ministry of Economic Development	Grants for sustainable mobility	44,000

Quadrilatero Marche Umbria S.p.A.

Provider		Amount in €
Cassa Depositi e Prestiti	Grants pursuant to CIPE 13/04	22,400,000
Marche region	Loans for Pedemontana Marche master agreement	19,700,000
Umbria region	Loans for agreement	3,786,000
Marche and Umbria chamber of commerce	SS3 Flaminia Pontecentesimo-Foligno Grants related to assets	585,000

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 2018 pursuant to article 154-bis, paragraph 5, of Legislative decree no. 58/1998

1. The undersigned Gianfranco Battisti and Roberto Mannozi, as respectively Chief Executive Officer and Manager in charge of the company's accounting documents preparation of Ferrovie dello Stato Italiane SpA, also pursuant to article 154-bis paragraphs 3 and 4 of Legislative decree no. 58 of 24 February 1998, certify:

- the adequacy with regard to the characteristics of Ferrovie dello Stato Italiane Group and
- the effective application

of the administrative and accounting procedures in preparing the consolidated financial statements at 31 December 2018.

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;

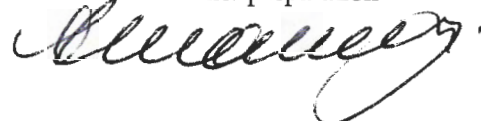
c. give a true and fair view of the financial position and results of operations of Ferrovie dello Stato Italiane SpA and the companies included in the Ferrovie dello Stato Italiane Group's consolidation scope.

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.

26 marzo 2019

Gianfranco Battisti
Chief Executive Officer

Roberto Mannozi
Manager in charge of the company's accounting documents preparation



Piazza della Croce Rossa, 1 - 00161 Roma

Ferrovie dello Stato Italiane S.p.A. – Società con socio unico

Sede legale: Piazza della Croce Rossa, 1 - 00161 Roma

Cap. Soc. Euro 39.204.173.802,00

Iscritta al Registro delle Imprese di Roma

Cod. Fisc. e P. Iva 06359501001 – R.E.A. 962805

(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 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Ferrovie dello Stato Italiane Group as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Ferrovie dello Stato Italiane S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 9 "Property, plant and equipment", note 10 "Investment property" and note 11 "Intangible assets"

Key audit matter	Audit procedures addressing the key audit matter
<p>The consolidated financial statements at 31 December 2018 include assets relating to railway infrastructure and rolling stock under property, plant and equipment, investment property and intangible assets.</p> <p>Calculating the depreciation of these assets entails a complex accounting estimate that is, by its nature, subjective, as it is influenced by a number of factors, including:</p> <ul style="list-style-type: none"> — 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. <p>Calculating depreciation, therefore, requires a significant level of judgement by directors. For the above reasons and due to the materiality of the relevant captions, we believe that the calculation of depreciation of railway infrastructure and rolling stock is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — 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.

Recoverability of Anas S.p.A.'s concession assets

Notes to the consolidated: section "Basis of preparation" – paragraphs "Impairment losses on property, plant and machinery" and "Use of estimates and valuations" and note 11 "Intangible assets"

Key audit matter	Audit procedures addressing the key audit matter
<p>The consolidated financial statements at 31 December 2018 include concession assets of €2,713 million under intangible assets, €1,391 million of which relating to the subsidiary Anas S.p.A..</p> <p>As part of the application for an extension of up to 50 years of the concession agreement between Anas S.p.A. and the Ministry of Infrastructure and Transport (MIT), the subsidiary's directors tested the CGU comprising the concession assets for impairment, by comparing its carrying amount at 31 December 2018 to its recoverable amount. The latter is based on value in use and has been calculated by discounting the expected cash flows using the discounted cash flow model.</p> <p>Impairment testing entails a high level of judgement by the directors, especially in relation to:</p> <ul style="list-style-type: none"> — the expected cash flows, calculated by taking into account the general economic performance and that of group's sector and the actual cash flows generated by the CGU in recent years; — the financial parameters to be used to discount the above cash flows. <p>For the above reasons, we believe that the recoverability of Anas S.p.A.'s concession assets is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — understanding the impairment testing procedure; — understanding the process used to estimate expected cash flows (the "plan"); — analysing the criteria used to identify the CGU; — comparing the cash flows used for impairment testing to the cash flows forecast in the plan and analysing any discrepancies; — analysing the main assumptions used by the directors in drafting the plan for reasonableness; — analysing the most significant discrepancies between past years' estimates and actual figures, in order to check the accuracy of the estimation process; — involving experts of the KPMG network in the assessment of the reasonableness of the impairment testing model and related assumptions, including by means of a comparison with external data and information; — assessing the appropriateness of the disclosures provided in the notes about the recoverability of the concession assets.

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 25 "Provisions for risks and charges"

Key audit matter	Audit procedures addressing the key audit matter
<p>The Ferrovie dello Stato Italiane Group's business is exposed to claims from suppliers for additional consideration.</p> <p>The consolidated financial statements at 31 December 2018 include accruals to other provisions for these claims under "Provisions for risks and charges".</p> <p>Measuring provisions for risks and charges entails directors' estimates about the outcome of claims which are complex and of an uncertain nature and required a high level of judgement by directors.</p> <p>For the above reasons and due to the materiality of the relevant captions, we believe that the measurement of the provisions for risks and charges relating to claims from suppliers for additional consideration is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — 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 parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 4 November 2014, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2014 to 31 December 2022.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2018 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 2018 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 group's consolidated financial statements at 31 December 2018 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, 15 April 2019

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 2018

Financial statements

Statement of financial position

Euros

	Notes	31.12.2018	31.12.2017*
Assets			
Property, plant and equipment	5	47,728,199	46,282,439
Investment property	6	446,432,934	470,311,514
Intangible assets	7	55,381,616	35,856,757
Deferred tax assets	8	190,566,943	180,180,053
Equity investments	9	38,071,710,940	35,273,538,100
Financial assets (including derivatives)	10	5,996,635,139	6,593,786,366
Trade receivables	13	5,797,404	5,310,908
Other assets	11	33,807,518	169,304,672
Total non-current assets		44,848,060,693	42,774,570,809
Inventories	12	390,256,375	408,021,446
Trade receivables	13	104,325,959	141,488,206
Financial assets (including derivatives)	10	2,368,162,896	2,363,461,243
Cash and cash equivalents	14	294,260,996	412,805,816
Tax assets	15	83,929,942	82,933,518
Other assets	11	653,318,313	1,253,256,788
Total current assets		3,894,254,481	4,661,967,017
Assets held for sale and disposal groups	16	22,395,159	
Total assets		48,764,710,333	47,436,537,826
Share capital	17	39,204,173,802	36,340,432,802
Reserves	17	50,353,142	38,807,634
Valuation reserves	17	367,959	256,442
Retained earnings	17	315,334,328	256,834,398
Profit for the year	17	62,397,577	230,910,168
Total equity		39,632,626,808	36,867,241,444
Liabilities			
Loans and borrowings	18	5,771,692,939	6,490,148,566
Post-employment benefits and other employee benefits	19	8,867,650	9,123,252
Provisions for risks and charges	20	159,628,552	153,999,878
Deferred tax liabilities	8	260,220,508	331,073,192
Financial liabilities (including derivatives)	21	1,367,876	
Other liabilities	22	167,317,142	257,085,846
Total non-current liabilities		6,369,094,667	7,241,430,734
Loans and borrowings and current portion of non-current loans and borrowings	18	1,682,393,141	1,609,669,422
Trade payables	23	112,540,074	112,642,012
Financial liabilities (including derivatives)	21	252,473,658	329,421,663
Other liabilities	22	715,581,985	1,276,132,551
Total current liabilities		2,762,988,858	3,327,865,648
Total liabilities		9,132,083,525	10,569,296,382
Total equity and liabilities		48,764,710,333	47,436,537,826

The company applied IFRS 9 and IFRS 15 on 1 January 2018. It did not restate the comparative figures given the transition method(s) elected.

Income statement

		Euros	
	Notes	2018	2017*
Revenue from sales and services	24	164,904,344	168,782,793
Other income	25	15,224,719	13,360,358
Total revenue		180,129,063	182,143,151
Personnel expense	26	(73,568,558)	(53,031,014)
Raw materials, consumables, supplies and goods	27	(29,303,791)	(24,848,271)
Services	28	(104,479,553)	(90,347,086)
Use of third-party assets	29	(4,689,800)	(3,558,144)
Other operating costs	30	(25,214,408)	(28,789,883)
Internal work capitalised	31	238,002	68,851
Total operating costs		(237,018,108)	(200,505,547)
Amortisation and depreciation	32	(24,452,824)	(21,376,666)
Net impairment gains	33	(15,769,858)	(4,889,162)
Operating loss		(97,111,727)	(44,628,224)
Gains on equity investments	34	141,543,879	149,574,755
Other financial income	34	165,026,180	174,663,247
Losses on equity investments	35	(127,404,582)	(175,112)
Other financial expense	35	(148,355,949)	(157,959,122)
Net financial income		30,809,528	166,103,768
Pre-tax profit (loss)		(66,302,199)	121,475,544
Income taxes	36	128,699,776	109,434,624
Profit from continuing operations		62,397,577	230,910,168
Profit for the year		62,397,577	230,910,168

The company applied IFRS 9 and IFRS 15 on 1 January 2018. It did not restate the comparative figures given the transition method(s) elected.

Statement of comprehensive income

Euros

	Notes	2018	2017*
Profit for the year		62,397,577	230,910,168
Items that will not be reclassified to profit or loss:			
Net actuarial gains	17/19	149,455	15,407
Tax effect on actuarial gains	17/19	(37,938)	(10,048)
Other comprehensive income, net of the tax effect		111,517	5,359
Comprehensive income		62,509,094	230,915,527

The company applied IFRS 9 and IFRS 15 on 1 January 2018. It did not restate the comparative figures given the transition method(s) elected.

Statement of changes in equity

Euros

	Equity								
	Share capital	Reserves			Valuation reserve	Total reserves	Retained earnings	Profit for the year	Total equity
		Legal reserve	Extraordinary reserve	Other reserves					
Balance at 1 January 2017	36,340,432,802	6,868,981			251,083	7,120,064		638,773,063	36,986,325,929
Share capital decrease									
Dividend distribution									
Allocation of profit for the previous year		31,938,653	50,000,000			81,938,653	256,834,398	(300,000,012)	(300,000,012)
Demerger to RFI			(50,000,000)			(50,000,000)		(338,773,051)	(50,000,000)
Other changes									
Recognised gains/(losses) of which:									
Profit for the year					5,359	5,359		230,910,168	230,910,168
Profit recognised directly in equity									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
Effects of IFRS 9 FTA, net of the tax effect							(10,864,730)		(10,864,730)
Balance at 1 January 2018	36,340,432,802	38,807,634			256,442	39,064,076	245,969,668	230,910,168	36,856,376,714
Share capital increase	2,863,741,000								2,863,741,000
Dividend distribution								(150,000,000)	(150,000,000)
Allocation of profit for the previous year		11,545,508				11,545,508	69,364,660	(80,910,168)	
Comprehensive income of which:									
Profit for the year					111,517	111,517		62,397,577	62,397,577
Profit recognised directly in equity									111,517
Balance at 31 December 2018	39,204,173,802	50,353,142			367,959	50,721,101	315,334,328	62,397,577	39,632,626,808

The company applied IFRS 9 and IFRS 15 on 1 January 2018. It did not restate the comparative figures given the transition method(s) elected.

STATEMENT OF CASH FLOWS

Euros

	2018	2017*
Profit for the year	62,397,577	230,910,168
Income taxes	(128,699,776)	(109,434,624)
Net financial expense	(16,803,534)	(16,828,273)
Amortisation and depreciation	24,452,824	21,376,666
Accruals to provisions and impairment losses	8,962,670	423,408
Impairment losses	160,133,656	2,696,083
Employee benefits	87,623	103,121
Accruals to provisions and impairment losses	169,183,949	3,222,612
Profits on sales	(48)	
Change in inventories	26,830,524	20,331,535
Change in trade receivables	16,546,184	(15,054,299)
Change in trade payables	(101,937)	33,040,881
Change in other assets	734,917,341	505,058,090
Change in other liabilities	(650,515,628)	(526,948,092)
Utilisation of the provisions for risks and charges	(3,137,641)	(11,696,740)
Payment of employee benefits	(193,770)	(2,124,477)
Financial income collected/financial expense paid	16,803,534	16,828,273
Change in tax assets/liabilities	42,994,872	45,476,576
Net cash flows generated by operating activities	294,674,471	194,158,296
Increases in property, plant and equipment	(1,811,499)	(1,876,376)
Investment property	(4,073,347)	(4,635,099)
Increases in intangible assets	(37,640,316)	(11,520,981)
Increases in equity investments	(140,951,507)	(173,970,327)
Investments, before grants	(184,476,669)	(192,002,783)
Grants for equity investments	87,772,206	31,931,175
Grants	87,772,206	31,931,175
Decreases in property, plant and equipment	15,269	5,240
Decreases in investment property	11,002	
Decreases	26,271	5,240
Net cash flows used in investing activities	(96,678,192)	(160,066,368)
Disbursement and repayment of non-current loans	(675,882,420)	1,423,169,011
Disbursement and repayment of current loans	30,150,511	(1,095,756,520)
Change in financial assets	289,686,958	(701,204,093)
Change in financial liabilities	1,777,462	(932,165)
Dividends	(150,000,000)	(300,000,012)
Net cash flows used in financing activities	(504,267,489)	(674,723,779)
Total cash flows used in the year	(306,271,210)	(640,631,851)
Opening cash and cash equivalents	514,092,267	1,154,724,118
Closing cash and cash equivalents	207,821,057	514,092,267
of which intragroup current account	(86,439,939)	101,286,450

The company applied IFRS 9 and IFRS 15 on 1 January 2018. It did not restate the comparative figures given the transition method(s) elected.

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 €41,698 million and €559 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. Starting from 1 January 2018, it has applied IFRS 9 and IFRS 15, whose effects are described in detail in the relevant notes.

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 2017 balances.

On 26 March 2019, the directors approved the draft separate financial statements at 31 December 2018 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 26 March 2019, 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 subsidiaries, associates and joint arrangements, 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 investee'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 investee 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, joint arrangements 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.

Risk management focuses on the volatility of financial markets and is aimed at minimising potential undesired effects on the company's financial position, performance and cash flows.

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.

With respect to trade receivables and investing activities, the company applies a policy to manage the risk of default also considering the recent application of IFRS 9.

With respect to the derivatives used for hedging purposes and which can potentially generate credit exposure to counterparties, the company applies a specific policy that defines concentration thresholds by counterparty and credit rating.

The table below shows the company's exposure to credit risk:

thousands of Euros

	31.12.2018	31.12.2017
Financial assets (including derivatives)	6,001,222	6,593,786
Loss allowance	(4,587)	
Non-current financial assets (including derivatives)	5,996,635	6,593,786
Trade receivables	6,042	5,457
Loss allowance	(244)	(146)
Non-current trade receivables, net of the loss allowance	5,798	5,311
Other assets	1,255	1,273
Loss allowance	(1,073)	(1,073)
Other non-current assets, net of the loss allowance	182	200
Trade receivables	134,160	161,350
Loss allowance	(29,834)	(19,862)
Current trade receivables, net of the loss allowance	104,326	141,488
Financial assets (including derivatives)	2,369,999	2,363,461
Loss allowance	(1,836)	
Current financial assets (including derivatives)	2,368,163	2,363,461
Cash and cash equivalents	294,557	
Loss allowance	(296)	
Cash and cash equivalents	294,261	412,806
Other assets	648,022	722,912
Loss allowance	(708)	
Other current assets	647,314	722,912
Total exposure, net of the loss allowance (*)	9,416,679	10,239,964

*Tax assets and equity investments are not included

The tables below show the exposure to credit risks by counterparty, in absolute terms and as a percentage.

thousands of Euros

	31.12.2018	31.12.2017
Public administration	594,555	686,384
Third party customers	47,421	53,672
Financial institutions	294,261	412,806
Other debtors		
Group companies	8,480,442	9,087,102
Total exposure, net of the loss allowance	9,416,679	10,239,964

	31.12.2018	31.12.2017
Public administration	6.3%	6.7%
Third party customers	0.5%	0.5%
Financial institutions	3.1%	4%
Group companies	90.1%	88.7%
Total exposure, net of the loss allowance	100%	100%

In the following tables, financial assets at 31 December 2018 and 2017 are broken down by overdue brackets, net of the loss allowance. The 2017 figures have been reclassified for consistency with 2018.

thousands of Euros

31.12.2018

Overdue by

	Not overdue	0-180	180-360	360-720	More than 720 days	Total
Public administration (gross)	596,710	207	236	23	2,106	599,282
Loss allowance	(2,950)	(37)	(48)	(12)	(1,681)	(4,727)
Public administration (net)	593,760	170	188	11	425	594,555
Third party customers (gross)	30,066	14,826	1,835	3,042	18,900	68,667
Loss allowance	(1,739)	(1,120)	(1,185)	(2,459)	(14,745)	(21,246)
Third party customers (net)	28,327	13,706	650	583	4,155	47,421
Financial institutions (gross)	294,557					294,557
Loss allowance	(296)					(296)
Financial institutions	294,261					294,261
Group companies	8,440,298	30,714	3,330	3,609	14,800	8,492,751
Loss allowance	(10,293)	(499)	(145)	(242)	(1,130)	(12,309)
Group companies (net)	8,430,005	30,215	3,185	3,367	13,670	8,480,442
Total exposure, net of the loss allowance	9,344,337	44,590	4,168	4,203	19,380	9,416,679

thousands of Euros

31.12.2017

Overdue by

	Not overdue	0-180	180-360	360-720	More than 720 days	Total
Public administration (gross)	682,725	256	364	1,094	5,953	690,391
Loss allowance	(533)	(41)	(48)	(105)	(3,280)	(4,007)
Public administration (net)	682,192	215	316	989	2,673	686,384
Third party customers (gross)	45,794	3,254	2,031	2,384	17,242	70,705
Loss allowance	(2,840)	(518)	(372)	(704)	(12,598)	(17,033)
Third party customers (net)	42,954	2,736	1,659	1,680	4,644	53,672
Financial institutions	412,806					412,806
Group companies	9,038,150	11,439	7,568	9,312	20,674	9,087,143
Loss allowance	(41)					(41)
Group companies (net)	9,038,109	11,439	7,568	9,312	20,674	9,087,102
Total exposure, net of the loss allowance	10,176,061	14,390	9,543	11,981	27,991	10,239,964

The total exposure and the impairment of each credit category broken down by risk category at 31 December 2018, as determined by the rating agency Fitch, are given below:

	FVTPL	FVOCI		Amortised cost		Loans and receivables
		12-months expected credit losses	12-months expected credit losses	Lifetime - not impaired	Lifetime - impaired	
from AAA to BBB-			9,342,768		14,800	10,181,954
from BB to BB+			46,592		9,734	69,882
from B to CCC			32,197		9,167	9,210
from CC to C						
D						
Gross carrying amounts			9,421,557		33,701	10,261,046
Loss allowance			38,579			21,082
Carrying amount			9,382,978		33,701	10,239,964

Changes in the loss allowance may be analysed as follows:

	2018			Total	2017
	12-months expected credit losses	Lifetime-not impaired	Lifetime-impaired		Loss allowance
Balance at 31 December 2017	21,082			21,082	21,082
Effects of IFRS 9 FTA	13,597			13,597	
Balance at 1 January 2018	34,679			34,679	
Net revaluation of the loss allowance	4,485			4,485	
Transfer to lifetime - impaired					
Transfer to lifetime - not impaired					
Repaid financial assets					
New assets acquired					
Utilisation of the allowance	(585)			(585)	
Balance at 31 December 2018	38,579			38,579	

Liquidity risk

Liquidity risk is the risk that an entity may have difficulties in complying with the obligations associated with financial liabilities to be settled by delivering cash or another financial asset.

The company's financial debt is mainly agreed in order to grant loans to FS Italiane group companies. It adopts asset liability management techniques in collecting debt and granting loans to the subsidiaries. Currently, the loans received and bonds issued have the same technical features as the loans granted to subsidiaries so the cash inflows and outflows deriving from interest and principal repayments coincide.

In order to meet potential and temporary cash requirements, it agreed a three-year revolving and committed backup credit facility in 2018 (€2 billion) for general purposes.

Furthermore, again to meet temporary cash requirements, the company has numerous uncommitted credit lines granted by banks.

The following tables shows the due dates of financial liabilities, including interest to be paid, and trade payables:

thousands of Euros							
31 December 2018	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	After 5 years
Non-derivative financial liabilities							
Bonds	5,344,634	5,704,786	15,757	402,186	977,092	1,789,049	2,520,702
Bank loans and borrowings	1,488,851	1,517,191	734,611	410,867	260,883	110,830	
Loans and borrowings from other financial backers	620,275	650,100	100,000	100,002	350,099	100,000	
Loans and borrowings from group companies	254,168	254,168	254,168				
Total non-derivative financial liabilities	7,707,602	8,125,919	1,104,210	913,055	1,588,074	1,999,879	2,520,702
Trade payables	112,540	112,540	112,540				

thousands of Euros							
31.12.2017	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	After 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				

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 2018	Carrying amount	Within one year	1-5 years	After 5 years
Non-derivative financial liabilities				
Bonds	5,344,634	367,329	2,565,190	2,412,116
Bank loans and borrowings	1,488,851	1,131,849	357,002	
Loans and borrowings from other financial backers	620,275	182,889	437,386	
Loans and borrowings from group companies	254,168	254,168		
Total non-derivative financial liabilities	7,707,928	1,936,235	3,359,578	2,412,116
Trade payables	112,540	112,540		

thousands of Euros

31.12.2017	Carrying amount	Within one year	1-5 years	After 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		

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate following changes in market prices, due to changes in exchange rates, interest rates or prices of equity instruments. The objective of market risk management is to keep the company's exposure to these risks within acceptable levels, while optimising returns on investments.

The company's exposure to interest rate and currency risk is limited.

Interest rate risk

The company is not exposed to any interest rate risk as the variable rate financial liabilities are fully offset by the related financial assets with subsidiaries.

The table below shows the company's variable and fixed rate current and non-current financial liabilities.

thousands of Euros

	Carrying amount	Contractual cash flows	Current portion	1-2 years	2-5 years	After 5 years
Variable rate	3,877,487	3,986,993	1,633,619	414,447	504,824	1,434,102
Fixed rate	3,830,441	4,139,222	383,941	1,173,626	1,495,055	1,086,600
Balance at 31 December 2018	7,707,928	8,126,216	2,017,561	1,588,074	1,999,879	2,520,702
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

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 2018, along with the offsetting deriving from the simultaneous increase or decrease in financial income following the same change in the interest rates.

thousands of Euros

	+ 50 bps	- 50 bps
Interest expense on variable-rate debt	14,642	(11,093)
Interest income from loans	(14,642)	11,093
Total		

Currency risk

The company currently operates in Italy or mainly in Eurozone countries. The positions in non-EU currencies are of a modest amount which is negligible compared to total balances

The company also has loans and borrowings in Swiss francs totalling CHF45 million and an intragroup loan with Trenitalia UK of GBP60 million, in relation to which cross currency swaps were agreed to hedge the currency risk.

Capital management

The company's main objective with respect to capital risk management is to safeguard its ability to continue as a going concern, while ensuring returns for shareholders and benefits for the other stakeholders. The company also intends to maintain an optimal capital structure in order to reduce the cost of debt.

Financial assets and financial liabilities by category

To complete financial risk information, the table below gives a reconciliation between financial assets and financial liabilities as reported in the statement of financial position by categories of financial assets and financial liabilities identified pursuant to IFRS 7.

31 December 2018	Loans and receivables	Loans and borrowings
Non-current financial assets (including derivatives)	5,996,635	
Non-current trade receivables	5,797	
Other non-current assets	33,808	
Current trade receivables	104,326	
Current financial assets (including derivatives)	2,368,163	
Cash and cash equivalents	294,261	
Tax assets	83,930	
Other current assets	653,318	
Non-current loans and borrowings		5,771,693
Non-current financial liabilities (including derivatives)		1,368
Other non-current liabilities		167,317
Current loans and borrowings and current portion of non-current loans and borrowings		1,682,393
Current trade payables		112,540
Current financial liabilities (including derivatives)		252,474
Other current liabilities		715,582

31.12.2017	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
Non-current financial liabilities (including derivatives)		257,086
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

5. 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	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 1.1.2017	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
Investments				1,805	1,805
Roll-outs	410		2,080	(2,490)	
Depreciation	(869)		(714)		(1,583)
Disposals and divestments*			(8)		(8)
Increases in grants					
Other reclassifications *	1,648			(416)	1,232
Total changes	1,189		1,358	(1,101)	1,446
Historical cost	59,299	395	7,111	708	67,513
Depreciation and impairment losses	(15,479)	(395)	(3,872)		(19,746)
Grants			(39)		(39)
Balance at 31.12.2018	43,820		3,200	708	47,728
Historical cost			(523)		(523)
Depreciation			515		515
Total disposals and divestments			(8)		(8)
Historical cost	2,212			(416)	1,796
Depreciation	(564)				(564)
Total reclassifications*	1,648			(416)	1,232

Land and buildings refer to a section of the Villa Patrizi building where the company has its registered office. The remainder is included under investment property. The €1,805 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 (€1,583 thousand).

With respect to reclassifications (€1,232 thousand), in 2018, following the smaller space in Villa Patrizi used by the company (-1% on 31 December 2017), a net €1,648 thousand was reclassified from Investment property. Other reclassifications (€420 thousand) refer to software for sundry investment projects which was duly reclassified to the relevant captions when it became an asset.

6. 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			
	2018		2017	
	Land	Buildings	Land	Buildings
Balance at 1 January				
Cost	398,525	424,456	486,167	429,213
Accumulated depreciation	(38,733)	(207,716)	(36,874)	(205,948)
Loss allowance	(92,943)	(13,277)	(155,848)	(20,129)
Carrying amount	266,849	203,463	293,445	203,136
Changes of the year				
Increase		4,074		4,636
Reclassifications*	(9,384)	(1,334)	(5,075)	4,577
Depreciation		(7,225)	(1,801)	(6,996)
Impairment losses	(8,245)	(1,754)	(2,563)	(133)
Divestments**		(11)		
Non-recurring transactions			(17,157)	(1,757)
Total changes	(17,629)	(6,250)	(26,596)	327
Balance at 31 December				
Cost	385,116	425,119	398,525	424,456
Accumulated depreciation	(38,775)	(213,197)	(38,733)	(207,716)
Loss allowance	(97,122)	(14,709)	(92,943)	(13,277)
Carrying amount	249,219	197,213	266,849	203,463
		197,213		
Reclassifications*				
Cost	(13,407)	(3,400)	(40,791)	(738)
Accumulated depreciation	(42)	1,744	(57)	918
Loss allowance	4,065	322	35,773	4,397
Total	(9,384)	(1,334)	(5,075)	4,577
Divestments**				
Cost	(2)	(11)		(6)
Accumulated depreciation				3
Loss allowance	2			3
Total		(11)		
Non-recurring transactions***				
Cost			(46,851)	(8,649)
Accumulated depreciation			(1)	4,307
Loss allowance			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 €23,879 thousand net decrease for the year is mainly due to the impairment losses recognised during the year in order to align the carrying amount of the assets to their market value, following the regular appraisal and analysis of the company's real estate assets, also considering the economic climate and, in particular, the real estate market downturn (€9,999 thousand). In addition, depreciation and reclassifications amount to €7,225 thousand and €10,718 thousand, respectively. Reclassifications of €9,066 thousand relate to the transfer of buildings

which were included in sales plans during the year to "Inventories", while the residual €1,652 thousand relates to the transfer of the section of the Villa Patrizi building directly used by the company, as described in note 5, to property, plant and equipment.

The increases of the year total €4,074 thousand and mainly refer to the restructuring of the Pietrarsa Museum, used by (leased to) Fondazione FS (€2,797 thousand) and the extraordinary maintenance work on Villa Patrizi (€1,184 thousand).

7. Intangible assets

This caption exclusively comprises costs incurred for software development related mainly to the group's IT systems. Opening and closing balances are shown in the table below. During the year, investments and roll-outs amounted to €37,640 thousand and €45,701 thousand, respectively, mainly related to the acquisition and development of commercial, administrative and management software for the group's information systems, generating an increase in amortisation. Some software was impaired by €1,434 thousand. Disposals and divestments (€1,456 thousand) relate to RFI's sale of the wi-fi network of Italy's main train stations.

thousands of Euros

	Concessions, licences, trademarks and similar rights	Assets under development and payments on account	Total
Historical cost	168,434	4,061	172,494
Amortisation and impairment losses	(125,478)		(125,478)
Grants	(10,448)		(10,448)
Balance at 1.1.2017	32,508	4,061	36,569
Investments		11,521	11,521
Roll-outs	3,768	(3,768)	
Amortisation	(11,371)		(11,371)
Disposals and divestments			
Increases in grants			
Other reclassifications		(861)	(861)
Total changes	(7,603)	6,892	(711)
Historical cost	172,201	10,953	183,154
Amortisation and impairment losses	(136,849)		(136,849)
Grants	(10,448)		(10,448)
Balance at 31.12.2017	24,904	10,953	35,857
Investments		37,640	37,640
Roll-outs	45,701	(45,701)	
Amortisation	(15,645)		(15,645)
Impairment losses	(1,434)		(1,434)
Disposals and divestments	(1,456)		(1,456)
Other reclassifications		420	420
Total changes	27,166	(7,641)	19,525
Historical cost	217,902	3,312	218,731
Amortisation and impairment losses	(155,384)		(152,901)
Grants	(10,448)		(10,448)
Balance at 31.12.2018	52,070	3,312	55,382

8. Deferred tax assets and deferred tax liabilities

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2018 and changes of the year due to the main temporary differences between carrying amounts and the related tax amounts.

thousands of Euros

	31.12.2017	Incr. (decr.) through profit or loss	Other changes	31.12.2018
Deferred tax assets				
Differences related to intangible assets and PPE	66,629	(416)		66,213
Provisions for risks and charges and impairment losses with deferred tax deductibility	48,861	2,965	3,431	55,257
Differences related to buildings held for trading - inventories	64,405	4,402		68,807
Other	285	43	(38)	290
Total deferred tax assets	180,180	6,994	3,393	190,567
Deferred tax liabilities				
Provision for deferred tax liabilities				
Differences related to intangible assets and PPE	59,550	(2,788)		56,762
Differences related to buildings held for trading - inventories	23,885	1,563		25,448
Total provision for deferred tax liabilities	83,435	(1,126)		82,309
- Provision for IRES consolidation scheme	247,638	(69,726)		177,912
Total	331,073	(70,852)		260,221

Deferred tax assets and liabilities mainly relate to the misalignment between the carrying amount and the tax value of property, plant and equipment, investment property and intangible assets on which depreciation and amortisation are calculated, and buildings held for trading, in addition to the deferred deductibility applied to provisions for risks and charges and the effects of IFRS 9 FTA.

The changes in the year refer to the net effect between the increase in deferred tax assets and the decrease in deferred tax liabilities due to the accruals to the provisions for risks and charges, the effects of the differences between the carrying and tax amounts of the impairment losses on trade receivables (€5,868 thousand) and other amounts recognised in equity, which reflect the effects of IFRS 9 FTA (€3,393 thousand).

The provision for the IRES consolidation scheme includes the tax losses transferred by the group companies and used to offset taxes related to the parent and other subsidiaries that participate in the tax consolidation scheme. The provision also reflects the utilisations needed to remunerate the same companies for the tax losses previously transferred and offset against their taxable profit during the year. The company used €69,726 thousand of the provision during the year, mainly for Trenitalia S.p.A. and Mercitalia Logistics S.p.A..

9. Equity investments

The tables below show the opening and closing balances of equity investments, broken down by category, and changes therein in 2018 and 2017.

thousands of Euros

	Carrying amount at 31.12.2018	Carrying amount at 31.12.2017	Cumulative loss allowance
Equity investments in:			
Subsidiaries	37,908,451	35,110,278	160,668
Associates	53,392	53,392	
Joint arrangements	95,120	95,120	
Other companies	14,748	14,748	
Total	38,071,711	35,273,538	160,668

Changes in 2018

thousands of
Euros

	Changes of the year					Carrying amount at 31.12.2018	Cumulative loss allowance
	Carrying amount at 31.12.2017	Acquisitions/ Subscriptions	Disposals/ Decreases	Impairment losses/ gains	Reclassifications		
Investments in subsidiaries							
Centostazioni S.p.A.	68,781				(68,781)		
Centostazioni Retail S.p.A.					22,395	(22,395)	
Anas S.p.A.		2,863,741				2,863,741	
Fercredit S.p.A.	31,413					31,413	
Ferservizi S.p.A.	8,378					8,378	
Mercitalia Logistics S.p.A.	347,138			(127,873)		219,265	160,533
FS Sistemi Urbani S.r.l.	534,094					534,094	
Grandi Stazioni Rail S.p.A.	3,145				(3,145)		
Grandi Stazioni Immobiliare S.p.A.	616					616	
Netinera Deutschland GmbH (formerly FS2Move GmbH)	144,355					144,355	
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l.)							135
Italcertifer S.p.A.	738					738	
Italferr S.p.A.	8,047					8,047	
RFI S.p.A.	32,414,368				49,531	32,463,899	
Sita S.p.A. in liquidation							
Trenitalia S.p.A.	1,417,782					1,417,782	
Busitalia - Sita Nord S.r.l.	85,373					85,373	
TrainOSE SA	45,000					45,000	
Nugo S.p.A.	1,000	10,400				11,400	
Tav S.r.l.	50					50	
FS Technology S.p.A.		1,000				1,000	
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.		41,779				31,521	73,300
	35,110,278	2,916,920		(127,873)	9,126	37,908,451	160,668
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	
	53,392					53,392	
Investments in joint arrangements							
T.E.L.T. Sas (formerly L.T.F. Sas)	95,120	87,772				(87,772)	95,120
	95,120	87,772				(87,772)	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	35,273,538	3,004,692		(127,873)	(78,646)	38,071,711	160,668

The changes during the year relate to:

- **Anas S.p.A.** – on 18 January 2018, the Ministry of the Economy and Finance contributed its entire investment in Anas S.p.A..
- **Grandi Stazioni Rail S.p.A.** – on 13 November 2018, the entire investment was contributed to Rete Ferroviaria Italiana S.p.A..
- **Centostazioni Retail S.p.A.** – the sale of this company completes the Centostazioni network’s reorganisation and enhancement process and, more generally, of FS Italiane group’s travel retail activities. The transaction provided for the partial demerger of Centostazioni S.p.A., of which Ferrovie dello Stato Italiane S.p.A. repurchased 100% of the capital in January 2017, while setting up a newco, Centostazioni Retail S.p.A., the additional contribution of Rete Ferroviaria Italiana S.p.A.’s retail business unit and the awarding of the contract for the exclusive economic exploitation of commercial and advertising spaces at five train stations (Milan Porta Garibaldi, Turin Porta Susa, Padua, Rome Ostiense and Naples Afragola). In this respect, the investment was reclassified to “Assets held for sale”.
- **Ferrovie del Sud Est S.p.A.** – on 24 October 2018, based on the financial results for the first half of the year and the forecasts for 2018 year end, Ferrovie dello Stato Italiane S.p.A.’s BoD acknowledged the delay in the collection of the grant from the MIT pursuant to article 1.867 of Law no. 208 of 28 December 2015, and approved both the company’s recapitalisation (€41,779 thousand) and the conversion of part of the previously-disbursed loans into share capital (€31,521 thousand). In addition, the parent company Ferrovie dello Stato Italiane SpA has provided to guarantee financial resources, in the form of a loan payable up to a maximum of 70 million euros, to allow the regular fulfillment of the composition plan approved on 10 July 2018. For further information please refers to the Director’s Report, paragraph Other Information. At December 31, the amount of the company was used for 37 million euros.
- **Nugo S.p.A.** – on 26 October 2018, an injection of €10,400 thousand was approved to cover losses of €3,148 thousand and to reinstate the opening capital and set up a new available reserve for the residual €7,252 thousand.
- **FS Technology S.p.A.** - the company, wholly-owned by Ferrovie dello Stato S.p.A., was set up on 17 December 2018.
- **TELT SaS** - the carrying amount of this investment increased by €87,772 thousand, entirely offset by the increase in the grants related to assets received from the MEF for financial investments as per section 7122.
- **Mercitalia Logistics S.p.A. (MIL)** – the losses incurred by the main operating companies of the hub (Mercitalia Rail S.r.l. and TX Logistic AG, both of which are MIL investees) required, first of all, in respect of management’s operating needs and the applicable reporting standards (IAS 36), an impairment test of the hub’s business, due to the presence of trigger events. The analysis was carried out considering each company and specifically for Mercitalia Logistics S.p.A., Mercitalia Rail S.r.l. and TX Logistic AG. The test identified the need to recognise impairment losses on the investments in MIR and TX in MIL’s financial statements.
With respect to FS’s investment in Mercitalia Logistics, according to the impairment test, cash flows and the expected future returns of overall freight transport operations, discounted using a rate which reflects the risk level of the specific business, are not adequate to support the carrying amount of the investment recognised in Ferrovie dello Stato Italiane S.p.A.’s financial statements. Therefore, the test resulted in an impairment loss on the investment totalling €127,873 thousand.

Changes in 2017

	Changes of the year						Carrying amount at 31.12.2017	Cumulative loss allowance
	Carrying amount at 31.12.2016	Acquisitions/ Subscriptions	Disposals/ Decreases	Impairment losses/ gains	Other changes	Reclassifications		
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 Logistica 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	
Grandi Stazioni Retail S.p.A.								
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.	1,654,464				(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 joint arrangements								
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

In the following table, the carrying amounts of investments in subsidiaries, associates and joint arrangements are compared with the corresponding portions of equity.

thousands of Euros

	Registered office	Share/ quota capital	Profit (loss) for the year	Equity (deficit) at 31.12.2018	% of investment	Attributable equity (a)	Carrying amount at 31.12.2018 (b)	Difference (b) - (a)
Investments in subsidiaries								
Busitalia - Sita Nord S.r.l.	Rome	73,000	585	88,415	100.00%	88,415	85,373	(3,042)
Anas S.p.A.	Rome	2,269,892	2,041	2,685,379	100.00%	2,685,379	2,863,741	178,362
Fercredit S.p.A.	Rome	32,500	3,351	89,805	100.00%	89,805	31,413	(58,392)
Ferservizi S.p.A.	Rome	8,170	19,917	28,679	100.00%	28,679	8,378	(20,301)
Mercitalia Logistics S.p.A.	Rome	379,806	(187,969)	184,309	100.00%	184,309	219,265	34,956
FS Sistemi Urbani S.r.l.	Rome	532,783	4,208	554,412	100.00%	554,412	534,094	(20,318)
Grandi Stazioni Retail S.p.A.	Rome	3,797	706	16,768	78.35%	13,138		(13,138)
Grandi Stazioni Immobiliare S.p.A.	Rome	4,000	(264)	39,170	60.00%	23,502	616	(22,886)
Netinera Deutschland GmbH (formerly FS2Move GmbH)	Berlin	1,025	2,032	242,478	51.00%	123,664	144,355	20,691
Italcertifer S.p.A.	Florence	480	1,383	7,090	55.66%	3,946	738	(3,208)
Italferr S.p.A.	Rome	14,186	8,813	51,928	100.00%	51,928	8,047	(43,881)
RFI S.p.A.	Rome	31,528,425	274,196	33,512,174	100.00%	33,512,174	32,463,899	(1,048,275)
FS Technology S.p.A.	Rome	1,000		1,000	100.00%	1,000	1,000	
Sita S.p.A. in liquidation (*)	Florence	200	148	(16,506)	55.00%	(9,078)		9,078
TrainOSE SA	Athens	34,407	(3,699)	29,532	100.00%	29,532	45,000	15,468
Nugo S.p.A.	Rome	1,000	(3,195)	8,201	100.00%	8,201	11,400	3,199
Trenitalia S.p.A.	Rome	1,417,782	256,763	2,649,015	100.00%	2,649,014	1,417,782	(1,231,232)
TAV S.r.l. (*)	Rome	50	(12)	23	100.00%	23	50	27
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.	Rome	4,683	68,742	4,012	100.00%	4,012	73,300	69,288
Total						40,042,055	37,908,451	(2,133,604)
Investments in associates								
Metro 5 S.p.A.	Milan	53,300	11,108	94,932	36.70%	34,840	30,308	(4,532)
Ferrovie Nord Milano S.p.A. (*)	Milan	230,000	21,212	346,578	14.74%	51,086	23,061	(28,025)
Italiacamp S.r.l. (*)	Rome	10	153	636	20.00%	127	23	(104)
Total						86,053	53,392	(32,661)
Investments in joint arrangements								
T.E.L.T. Sas (**)	Le Bourget du Lac	1,000		867	50.00%	434	95,120	94,687
Total						434	95,120	94,687
TOTAL						40,128,542	38,056,963	(2,071,578)

(*) Figures related to the 2017 financial statements (***) Reclassification of the governments grants disbursed until 2006 and related to assets in accordance with the group's accounting policies (as per IAS 20.27) through the former parent RFI S.p.A.. These grants will be used to finance the studies and preliminary works for the construction of the international section of the Turin-Lyon railway line. They are presented in equity in accordance with French GAAP.

Anas S.p.A., joined FS Italiane group in 2018, confirming the strategic scenario also pictured in the company's economic and financial plan (PEF) which was approved by the board in its meeting of 27 February 2019. The difference between the carrying amount of the investment and the corresponding portion of equity is actually due to IFRS 9 FTA.

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.

Nugo S.p.A. commenced operations in the second half 2018 and is a true start-up. Its results are in line with the plan forecasts. Consequently, based on the prospective performance of the plan, there are no impairment losses.

The carrying amount of the investment in Trainose is the price of the acquisition which took place on 14 September 2017, confirmed by the impairment test and the price allocation process, both carried out in 2018.

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 joint arrangements. Figures are drawn from the 2018 and 2017 financial statements.

thousands of Euros

Investments in associates and joint arrangements	% of investment	Current assets	Non-current assets	Assets held for sale	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit (loss)
31.12.2018											
Investments in associates											
FNM S.p.A (*)	14.74%	190,757	482,858	1,677	675,292	252,355	76,359	328,714	79,568	58,356	21,212
Italiacamp S.r.l. (**)		1,007	150		1,157	487	33	520	2,101	1,948	153
Metro 5 S.p.A.	36.70%	135	643		778	90	593	683	79	68	11
Investments in joint arrangements											
T.E.L.T. Sas (formerly L.T.F. Sas)	50.00%	37,606	1,254,159		1,291,765	61,441	1,229,457	1,290,898	38,367	38,367	

(*) The figures relate to the 2017 financial statements (**) Financial statements drawn up under Italian GAAP

thousands of Euros

Investments in associates and joint arrangements	% of investment	Current assets	Non-current assets	Assets held for sale	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit (loss)
31.12.2017											
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
Metro 5 S.p.A.	36.70%	169	642		811	86	642	728	81	73	8
Investments in joint arrangements											
T.E.L.T. Sas (formerly L.T.F. Sas)	50.00%	53,852	1,063,184		1,117,036	55,164	1,061,005	1,116,169	9,450	9,450	

(*) The figures relate to the 2016 financial statements (**) Financial statements drawn up under Italian GAAP

10. Non-current and current financial assets (including derivatives)

The following table gives a breakdown of financial assets at the 2018 and 2017 year ends:

thousands of Euros

	Carrying amount								
	31.12.2018			31.12.2017			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Hedging derivatives	3,080		3,080	2,714		2,714	366		366
Non-current loans and borrowings	5,991,298	955,840	6,947,138	6,591,072	908,305	7,499,378	(599,774)	47,535	(552,239)
Current loans		1,245,710	1,245,710		1,024,441	1,024,441		221,269	221,269
Other loans	2257	166,613	168,870		430,715	430,715	2,257	(264,102)	(261,845)
Total	5,996,635	2,368,163	8,364,798	6,593,786	2,363,461	8,957,248	(597,151)	4,702	(592,449)

Financial assets decreased by €592,449 thousand overall in 2018.

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.

At 31 December 2018, non-current loans and borrowings mainly relate to the loans granted to the subsidiaries Rete Ferroviaria Italiana S.p.A. and Trenitalia S.p.A. totalling €5,771,528 thousand, of which €3,942,008 thousand relates to the Medium Term Notes Programme; they are shown net of the loss allowance of €4,587 thousand which arises from the FTA of IFRS 9.

The €552,239 thousand decrease on the previous year-end balance is mainly due to the repayment of loans and borrowings by Rete Ferroviaria Italiana S.p.A. and Trenitalia S.p.A. during the year (€880,125 thousand) and Metro 5 S.p.A.'s payment of €7,340 thousand, to partially repay the receivable recognised by Ferrovie dello Stato Italiane S.p.A. upon Astaldi's acquisition of 36.7% of Metro 5 S.p.A. in 2017.

During the year, Ferrovie dello Stato Italiane S.p.A. collected €15,000 thousand from Trenitalia S.p.A. related to the residual Green Bond for an original total amount of €600,000 thousand in respect of the Medium Term Notes Programme which was placed on the market on 30 November 2017. Furthermore, the €36,000 loan granted to Grandi Stazioni Rail S.p.A. was reclassified from the short to medium/long term bracket.

The decrease is offset by the following financial transactions:

- a €200,000 thousand loan granted in March 2018 to Rete Ferroviaria Italiana S.p.A.. The proceeds will be used to finance RFI's HS/HC infrastructure in the form of an intragroup loan between Ferrovie dello Stato Italiane S.p.A. and RFI with the same characteristics and same commitment and constraint terms as the bond issue;
- an intragroup loan granted in April 2018 by Ferrovie dello Stato Italiane S.p.A. to the subsidiary Mercitalia Rail S.r.l., to finance the purchase of 40 new electric trains. The maximum amount of the loan is €114.4 thousand and it will be disbursed in tranches. The loan was approved as part of the resolution of 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 to 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. At 31 December 2018, the loan had been used for €32,599 thousand;
- in November 2018, Ferrovie dello Stato Italiane S.p.A. granted Italferr S.p.A. a €15,000 million intragroup loan for the purchase of 80% of the architectural design and infrastructure engineering firm, Crew - Cremonesi Workshop. The purpose of this acquisition is to bolster the expertise and specialist skills in the integrated design of models using the building information modelling (BIM) approach;
- in December 2018, Ferrovie dello Stato Italiane S.p.A. granted its subsidiary Ferrovie del Sud Est e Servizi Automobilistici a loan of a maximum of €70,000 thousand repayable on the expiry of the deed of arrangement, to cover costs related to the infrastructure segment. At 31 December 2018, the loan had been used for €37,000 thousand.

The €221,269 thousand increase in current loans is mainly due to two intragroup loans totalling €105,000 thousand, as part of the requirements related to the local public transport concession in the DAV area, and greater loans granted to Mercitalia Rail S.r.l. (€82,076 thousand), Trenitalia S.p.A. (€49,766 thousand), Mercitalia Logistics S.p.A. (€37,508 thousand), Trenitalia C2C (€23,488 thousand) and Busitalia Sita Nord SpA (€14,024 thousand). The increase is offset by the reclassification from the short to medium/long-term bracket of the €36,000 thousand loan granted to Grandi Stazioni Rail S.p.A. discussed earlier, the conversion of the loan granted to Ferrovie del Sud Est into share capital for €31,521 thousand, as described in note 9 "Equity investments" and the decrease in loans granted to Rete Ferroviaria Italiana S.p.A. (€29,916 thousand).

The decrease in other loans (€261,845 thousand) is essentially due to lower funds in intragroup joint current accounts with Trenitalia S.p.A..

11. Other non-current and current assets

thousands of Euros

	31.12.2018			31.12.2017			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other receivables from group companies		51,055	51,056		38,139	38,139		12,916	12,916
VAT assets	33,625	5,555	39,180	169,105	530,105	699,210	(135,480)	(524,550)	(660,030)
MEF		21,850	21,850		109,622	109,622		(87,772)	(87,772)
MIT		572,279	572,279		572,279	572,279			
Other government authorities		177	177		11	11		166	166
Sundry receivables and prepayments and accrued income	1,255	3,110	4,365	1,273	3,101	4,374	(18)	9	(9)
Total	34,880	654,026	688,907	170,378	1,253,257	1,423,635	(135,498)	(599,231)	(734,729)
Loss allowance	(1,073)	(708)	(1,781)	(1,073)		(1,073)		708	708
Total net of the loss allowance	33,807	653,318	687,126	169,305	1,253,257	1,422,562	(135,498)	(599,939)	(735,437)

The increase in other receivables from group companies is mainly due to the rise in the group's VAT assets (€11,744 thousand) and in the receivables from the tax consolidation scheme (€509 thousand).

The €660,030 thousand decrease in VAT assets is mainly attributable to the differential due to repayments by the Tax authorities (€530,181 thousand), the settlement of the 2015, 2016 and 2017 VAT assets, offset in the 2018 VAT statement (€135,193 thousand), the recognition of the amount receivable pertaining to the current year (€6,329 thousand) and the decrease in the 2016 VAT asset (€985 thousand) using the previously-accrued risk provision. The repayments received relate to the following years:

- 2011 (VAT asset related to the company's participation, together with Italferr S.p.A., Anas S.p.A., ENAC and ENAV, in the CIITI consortium, which ceased operations on 20 August 2012: €64,779.60 (principal), repaid on 19 October 2018;
- 2016: €438,964 thousand (principal) plus €5,123 thousand (interest), repaid on 19 December 2018;
- intra-annual VAT for the first quarter of 2017: €84,592 thousand (principal) and €1,437 thousand (interest), repaid on 29 March 2018.

The lower receivables from the MEF relate to the transfers to TELT Sas, to build the Turin – Lyon railway line (€87,772 thousand), related to section 7122, as described in note 9 on equity investments. The receivable from the MIT, which relates to the construction of the above railway line (section 7532), is unchanged compared to the previous year.

The loss allowance, which increased by €708 thousand on the previous year-end balance, reflects the adjustment of the impairment losses on other assets following the application of IFRS 9. Of this amount, €172 thousand relates to other assets at 31 December 2018 and €536 thousand is due to the FTA of IFRS 9 (1 January 2018), which resulted in the recognition of a specific equity reserve.

Assets broken down by geographical segment are as follows:

thousands of Euros

	31.12.2018	31.12.2017	Changes
Italy	687,500	1,423,326	(735,826)
Eurozone countries	969	197	772
United Kingdom	248	50	198
Other non-EU European countries	11		11
United States	179	62	117
Total	688,907	1,423,635	(734,728)

12. Inventories

	thousands of Euros		
	31.12.2018	31.12.2017	Changes
Buildings and land held for trading	561,652	569,097	(7,445)
Allowance for inventory write-down	(171,396)	(161,076)	(10,320)
Carrying amount	390,256	408,021	(17,765)
Total inventories	390,256	408,021	(17,765)
Reclassifications			
Cost	14,827	47,058	(32,231)
Allowance for inventory write-down	(5,761)	(41,807)	36,046
Grants		(3,600)	3,600
Total reclassifications	9,066	1,651	7,415

Inventories comprise buildings held for sale. The €17,765 thousand net decrease on the previous year end is mostly due to the disposals of the year (€24,305 thousand), net of utilisation of the related allowance for inventory write-down (€11,862 thousand) and the write-downs recognised (€16,421 thousand), in order to align the carrying amount of the assets to their market value, offset by extraordinary maintenance on buildings (€2,034 thousand). Indeed, the regular appraisal and analysis of the company's real estate assets continue, also considering the economic climate and, in particular, the downturn in real estate market prices.

As already disclosed in note 6 to Investment property, during the year, the company reclassified €9,066 thousand related to buildings covered by sales plans from that caption to inventories.

13. Non-current and current trade receivables

	thousands of Euros								
	31.12.2018			31.12.2017			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Ordinary customers	6,041	51,985	58,026	5,458	58,055	63,513	583	(6,070)	(5,487)
Government authorities and other public authorities		4,941	4,941		8,402	8,402		(3,461)	(3,461)
Receivables from group companies		77,234	77,234		94,894	94,894		(17,660)	(17,660)
Total	6,041	134,160	140,201	5,458	161,351	166,809	583	(27,191)	(26,608)
Loss allowance	(244)	(29,834)	(30,078)	(147)	(19,863)	(20,010)	(97)	(9,971)	(10,068)
Total net of the loss allowance	5,797	104,326	110,123	5,311	141,488	146,799	486	(37,162)	(36,676)

Trade receivables decreased by €36,676 thousand following the actions to recover the outstanding receivables. Consequently, many outstanding receivables were settled during the year.

The receivables from group companies mainly refer to the trade receivables from RFI S.p.A. (€21,506 thousand), Trenitalia S.p.A. (€13,384 thousand), Mercitalia Logistics S.p.A. (€11,536 thousand), Busitalia Sita Nord S.r.l. (€6,157 thousand), GS Rail S.p.A. (€5,729 thousand), Italferr S.p.A. (€4,545 thousand), Mercitalia Rail S.p.A. (€4,929 thousand), Ferservizi S.p.A. (€2,154 thousand) and Nugo S.p.A. (€1,077 thousand). They essentially relate to a services supply and management contract and real estate items.

The loss allowance increased by €10,068 thousand on the previous year-end balance. Of this amount, €9,971 thousand relates to current receivables and €97 thousand to non-current receivables. The increase also reflects the adjustment of

the loss allowance following the application of IFRS 9; specifically, €342 thousand relates to the trade receivables at 31 December 2018 and €5,834 thousand is due to the FTA (1 January 2018) of IFRS 9, which, as already said, resulted in the recognition of an equity reserve. The latter amount mainly comprises impairment losses on receivables from group companies.

The maximum exposure to credit risk, broken down by geographical area, is as follows:

	thousands of Euros		
	31.12.2018	31.12.2017	Changes
Italy	138,000	164,943	(26,943)
Eurozone countries	1,620	1,277	343
United Kingdom	330	589	(259)
Other European countries (EU, non-Euro)	250		250
Other non-EU European countries	1		1
Total	140,201	166,809	(26,608)

14. Cash and cash equivalents

They can be analysed as follows:

	thousands of Euros		
	31.12.2018	31.12.2017	Changes
Bank and postal accounts	213,777	330,113	(116,336)
Cash and cash on hand	25	30	(5)
Cash pooling accounts	80,459	82,663	(2,204)
Total	294,261	412,806	(118,545)

This caption's decrease of €118,545 thousand is mostly attributable to the reduction in bank and postal account balances, principally reflecting the capital injections in Ferrovie del Sud Est e Servizi Automobilistici S.r.l., Nugo and FS Technology by Ferrovie dello Stato Italiane S.p.A. for a total of €53,179 thousand, as their parent, as described in detail in note 9 "Equity investments", and the payment of the 2017 dividends to the MEF of €150,000 thousand. Furthermore, the actions to recover trade receivables which took place during the year, resulted in the collection of past due receivables of approximately €33,000 thousand.

15. Tax assets

Tax assets of €83,930 thousand at 31 December 2018 increased by €996 thousand on the previous year end (€82,934 thousand). They refer to advances paid, net of the taxes of the year.

16. Assets held for sale and disposal groups

This caption includes the reclassification of the entire investment in Centostazioni Retail S.r.l. (wholly owned by Ferrovie dello Stato and amounting to €22,395 thousand) from "investments in subsidiaries" (note 9). The company was set up following the demerger of Centostazioni S.p.A.. The reclassification was made following the decision of Ferrovie dello Stato's board of directors to sell Centostazioni Retail.

17. Equity

Changes in the main equity captions in 2018 and 2017 are shown in the statement of changes in equity.

Share capital

On 18 January 2018, the sole shareholder (the MEF) subscribed a €2,863,741,000 capital increase, granting the company the entire investment held in Anas S.p.A.. At 31 December 2018, the company's fully subscribed and paid up share capital was made up of 39,204,173,802 ordinary shares, with a par value of €1 each, for a total of €39,204,173,802.

Legal reserve

This reserve amounts to €50,353 thousand at the reporting date, up by €11,546 thousand after allocation of part of the 2017 profit pursuant to article 2430 of the Italian Civil Code.

Extraordinary reserve

This reserve had a nil balance at 31 December 2017 as a consequence of the demerger to RFI.

Dividends

On 15 July 2018, dividends of €150,000 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 €368 thousand, net of the tax effect, was recognised in 2018.

Retained earnings

This caption of €315,334 thousand refers to the allocation of part of the 2017 profit and the FTA effects of IFRS 9 starting from 1 January 2018. These effects resulted in a negative reserve totalling €14,296 thousand, adjusted for tax effects of €3,431 thousand.

Profit for the year

2018 ended with a profit of €62,398 thousand.

The origin, availability and distributability of equity captions are shown below.

thousands of Euros

Origin	Balance at 31.12.2018 (a+b)	Unavailable portion (a)	Possibility of use	Available portion (b)
Share capital	39,204,174	39,204,174		
Income-related reserves:				
Legal reserve	50,353	50,353	B	
Valuation reserve				
Actuarial reserve	368		A,B	368
Retained earnings	315,334		A,B,C	315,334
Total	39,570,229	39,254,527		315,702

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		
	31.12.2018	31.12.2017	Changes
Bonds	4,977,305	5,116,266	(138,961)
Bank loans and borrowings	357,002	753,608	(396,606)
Loans and borrowings from other financial backers	437,386	620,275	(182,889)
Total	5,771,693	6,490,149	(718,456)

thousands of Euros

Current loans and borrowings and current portion of non-current loans and borrowings	Carrying amount		
	31.12.2018	31.12.2017	Changes
Bonds (current portion)	367,329	635,999	(268,670)
Bank loans and borrowings (current portion)	1,131,849	797,567	334,282
Loans and borrowings from other financial backers (current portion)	182,889	175,743	7,146
Loans and borrowings from group companies (current portion)	326	360	(34)
Total	1,682,393	1,609,669	72,724
Total loans and borrowings	7,454,086	8,099,818	(645,732)

The caption decreased by €645,732 thousand on the previous year end, mainly due to the repayments of the loan granted by Cassa Depositi e Prestiti (€175,743 thousand), the EIB loan (€92,282 thousand) and the Eurofima bond (€612,100 thousand). The decrease is offset by the subscription of the variable rate bond in March 2018 worth €200,000 thousand and with a 12-year maturity as part of the EMTN Programme listed on the Irish Stock Exchange (Fitch's and S&P's ratings of BBB), covering the group's requirements for 2017 as approved on 21 April 2017 by Ferrovie dello Stato Italiane S.p.A.'s board of directors, the increase in current funding (€30,151 thousand) and in accrued expenses (€4,242 thousand).

The terms and conditions of all non-current loans and borrowings, including the current portion, are summarised in the table below:

Creditor	Currency	Nominal interest rate	Year of maturity	31.12.2018		31.12.2017	
				Nominal amount	Carrying amount	Nominal amount	Carrying amount
EUROFIMA	€	6M Euribor + Spread	2018			400,000	400,008
EUROFIMA	€	6M Euribor + Spread	2018			149,400	149,404
EUROFIMA	€	6M Euribor - Spread	2019	160,000	160,017	160,000	160,019
EUROFIMA	€	6M Euribor - Spread	2019	183,000	183,016	183,000	183,017
EUROFIMA	€	6M Euribor - Spread	2018			62,700	62,702
EUROFIMA	€	6M Euribor - Spread	2020	62,700	62,700	62,700	62,701
EUROFIMA	€	6M Euribor - Spread	2026	190,000	190,045	190,000	190,050
EUROFIMA	€	6M Euribor - Spread	2026	100,000	100,023	100,000	100,026
EUROFIMA	€	6M Euribor - Spread	2027	128,700	128,764	128,700	128,766
EUROFIMA	€	6M Euribor - Spread	2026	116,000	116,026	116,000	116,029
EUROFIMA	€	6M Euribor - Spread	2022	120,000	120,076	120,000	120,077
EUROFIMA	€	6M Euribor - Spread	2024	122,200	122,226	122,200	122,229
EUROFIMA	€	6M Euribor - Spread	2027	65,700	65,731	65,700	65,731
EUROFIMA	€	6M Euribor - Spread	2020	47,400	47,400	47,400	47,401
EUROFIMA	CHF	fixed rate 2.57%	2020	39,933	40,203	38,455	38,716
EUROFIMA	€	6M Euribor + Spread	2025	42,500	42,513	42,500	42,512
EMTN PROGR. TR. 1	€	fixed rate 4.00%	2020	747,749	761,147	746,370	759,767
EMTN PROGR. TR. 2	€	fixed rate 3.50%	2021	598,501	599,594	598,026	599,119
EMTN PROGR. TR. 3	€	6M Euribor + Spread	2025	300,000	300,008	300,000	300,022
EMTN PROGR. TR. 4	€	6M Euribor + Spread	2022	349,387	350,086	349,214	349,907
EMTN PROGR. TR. 5	€	fixed rate 1.65%	2031	49,803	50,165	49,789	50,151
EMTN PROGR. TR. 6	€	fixed rate 1.50%	2025	997,213	1,004,939	996,787	1,004,472
EMTN PROGR. TR. 7	€	fixed rate 0.875%	2023	599,519	599,879	599,424	599,784
EMTN PROGR. TR. 8	€	6M Euribor + Spread	2025	100,000	100,017	100,000	100,015
EMTN PROGR. TR. 9	€	6M Euribor + Spread	2030	200,000	200,385		
				5,320,305	5,344,960	5,728,365	5,752,625
EIB	€	fixed rate 4.685%	2021	303,608	304,240	395,890	396,714
CASSA DD.PP.	€	fixed rate 4.026%	2021	470,275	470,275	646,018	646,018
TLTRO I (RTI)	€	6M Euribor + Spread	2019	300,000	300,000	300,000	300,000
TLTRO II 1 st tranche (CDP)	€	6M Euribor + Spread	2020	150,000	150,000	150,000	150,000
TLTRO II 2 nd tranche (ISP)	€	6M Euribor + Spread	2020	150,000	150,000	150,000	150,000
Total loans and borrowings (*)				6,694,188	6,719,475	7,370,273	7,395,357

(*) The carrying amount of loans and borrowings does not include current borrowings at 31 December 2018 (€734,611 thousand) and 31 December 2017 (€704,461 thousand).

The table below analyses the net financial position, shown in the reclassified statement of financial position, as presented in the 2018 Directors' report compared with 31 December 2017:

thousands of Euros

Net financial debt	31.12.2018	31.12.2017	Change
Current net financial position	(727,557)	(837,176)	109,619
Cash pooling accounts	(80,459)	(82,662)	2,203
Loans and borrowings from other financial backers	182,889	175,743	7,146
Bank loans and borrowings	1,130,377	797,076	333,301
Bonds	365,981	634,807	(268,826)
Intragroup current account	86,440	(101,287)	187,727
Loans with group companies	(2,198,983)	(1,930,710)	(268,273)
Bank and postal accounts	(213,777)	(330,113)	116,336
Other	(25)	(30)	5
Net non-current financial position (debt)	(220,494)	(100,924)	(119,570)
Loans and borrowings from other financial backers	437,386	620,275	(182,889)
Bank loans and borrowings	354,745	753,608	(398,863)
Bonds	4,977,305	5,116,266	(138,961)
Loans with group companies	(5,989,930)	(6,591,073)	601,143
Total	(948,051)	(938,100)	(9,951)

Pursuant to the amendments to IAS 7, the reconciliation between the total changes in financial assets and liabilities broken down by monetary and non-monetary is given below

millions of Euros

	31.12.2017	Monetary items	Non-monetary items			31.12.2018
			New leases	IFRS 9	Other	
Disbursement and repayment of current and non/current loans	8,100	(776)			130	7,454
Change in other financial assets	(8,957)	811		6	(225)	(8,365)
Change in other financial liabilities	329	(80)			5	254
Total	(528)	(45)		6	(90)	(657)

19. Post-employment benefits and other employee benefits

thousands of Euros

	31.12.2018	31.12.2017
Present value of post-employment benefit obligations	8,661	8,918
Present value of Free Travel Card obligations	207	205
Total present value of obligations	8,868	9,123

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

	2018	2017
Defined benefit obligations at 1 January	9,123	11,160
Service costs	3	2
Interest cost (*)	84	100
Actuarial gains recognised in equity (**)	(149)	(15)
Advances, utilisations and other changes	(193)	(2,124)
Total defined benefit obligations	8,868	9,123

(*) through profit or loss

(**) net of the tax effects

The decrease in the provision for post-employment benefits and the Free Travel Card (approximately €256 thousand) mainly refers to:

- the benefits paid to personnel who left the company during the year (€813 thousand) and transfers of employees to and from other group companies (€633 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, which represents the actuarial gains/(losses). This calculation generated an actuarial gain of €149 thousand during the year, compared to the actuarial gain of €15 thousand in 2017.

Actuarial assumptions

The main assumptions for the actuarial estimate process are described below.

	2018	2017
Discount rate (post-employment benefits)	1.13%	0.88%
Discount rate (Free Travel Card)	1.57%	1.67%
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%	8,758	223
Inflation rate -0.25%	8,566	191
Discount rate +0.25%	8,510	201
Discount rate -0.25%	8,817	212
Turnover rate +1%	8,623	
Turnover rate -1%	8,704	
Plan duration	8	13
Payment - first year	1,354	14
Payment - second year	559	14
Payment - third year	428	13
Payment - fourth year	861	13
Payment - fifth year	632	13

20. Provisions for risks and charges

The opening and the closing balances of, and changes in, the provisions for risks and charges for 2018 are given below.

thousands of Euros

	31.12.2017	Accruals	Utilisations	Other changes	Release of excess provisions	31.12.2018
Provision for taxation	292	1	(287)			6
Labour and civil litigation	7,072	268	(862)			6,478
Other minor risks	146,636	8,693	(1,988)	(196)		153,145
Total	154,000	8,962	(3,137)	(196)		159,629

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. €862 thousand of the provision was used in 2018, mainly due to the disputes with personnel and to manage real estate, while €268 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 managers involved in the change management process and contractual costs borne by the former Ferrovie Real Estate S.p.A. connected to specific sales, called "high income and high building package", reclamation costs for certain sites, contractual risks and tax-related items.

The other utilisations for the year (€2,275 thousand) mainly refer to the costs incurred for the contractual obligations pertaining to the former Ferrovie Real Estate S.p.A. and other property management costs (€1,834 thousand), the elimination of interest on the 2016 VAT credits whose claim for reimbursement was definitively rejected by the Tax authorities (€985 thousand) and the final settlement of pending tax disputes (€286 thousand).

Other provisions for the year (€8,694 thousand) substantially refer to costs expected for future organisational restructuring and change management projects.

Other changes relate to the reclassification under other non-current liabilities, 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) related to projects launched during the year.

21. Non-current and current financial liabilities (including derivatives)

thousands of Euros

	Carrying amount								
	31.12.2018			31.12.2017			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Other financial liabilities	1,368	252,474	253,842		329,422	329,422	1,368	(76,948)	(75,580)
Total	1,368	252,474	253,842		329,422	329,422	1,368	(76,948)	(75,580)

The decrease in other financial liabilities is mainly due to the lower liability for the intragroup current accounts, specifically due to Rete Ferroviaria Italiana S.p.A. (€128,654 thousand), FS Sistemi Urbani S.p.A. (€16,661 thousand), Ferservizi S.p.A. (€9,278 thousand), FS Logistica (€1,525 thousand) and Metropark (€1,329 thousand), offset by the increase in the same liability due to Busitalia group (€17,036 thousand), Nugo S.p.A. (€9,648 thousand), Centostazioni Rail S.p.A. (€2,043 thousand), ATAF S.p.A. (€1,583 thousand) and Blufferies S.r.l. (€1,379 thousand).

22. Other non-current and current liabilities

thousands of Euros

	Carrying amount								
	31.12.2018			31.12.2017			Changes		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Advances for grants		594,129	594,129		681,901	681,901		(87,772)	(87,772)
Social security charges payable		5,053	5,053		4,882	4,882		171	171
Other liabilities with group companies	160,881	53,378	214,259	249,486	529,813	779,299	(88,605)	(476,435)	(565,040)
Other liabilities and accrued expenses and deferred income	6,436	63,022	69,458	7,600	59,536	67,136	(1,164)	3,486	2,322
Total	167,317	715,582	882,899	257,086	1,276,132	1,533,218	(89,769)	(560,550)	(650,319)

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 11).

The decrease in Other liabilities with group companies is principally due to the smaller intragroup VAT liabilities (€567,832 thousand), mainly as a result of the transfer of net VAT assets/liabilities during the year by the companies participating in the VAT consolidation scheme (€37,715 thousand) and the amounts credited to Rete Ferroviaria Italiana S.p.A., Trenitalia S.p.A. and Mercitalia Logistics S.p.A. (principal of €523,557 thousand and interest of €6,560 thousand) following VAT reimbursements received during the year, offset by a €2,791 thousand increase in liabilities to subsidiaries, mainly related to the tax consolidation scheme.

The increase in Other liabilities and accrued expenses and deferred income (€2,322 thousand) is mainly due to the adjustment to the bilateral fund for income assistance (€196 thousand) - note 20 (Provision for risks and charges) provides additional information thereon - the impairment losses due to the application of IFRS 9 (€65 thousand), the financial guarantees issued in the interest of group companies (€699 thousand) and liabilities to personnel, mainly comprised of termination benefits formalised during the year, the financial effect of which will be recognised in the subsequent year (€4,465 thousand).

23. Current trade payables

They can be analysed as follows:

	thousands of Euros		
	31.12.2018	31.12.2017	Changes
Suppliers	53,408	46,379	7,029
Payments on account	8,812	7,550	1,262
Group companies	50,320	58,713	(8,393)
Total	112,540	112,642	(102)

Trade payables mainly consist of amounts due to suppliers (€34,375 thousand for invoices to be received) and subsidiaries (of which €43,180 thousand for invoices to be received). The latter relate, in particular, to Ferservizi S.p.A. (€17,704 thousand), Grandi Stazioni Rail S.p.A. (€9,725 thousand), Rete Ferroviaria Italiana S.p.A. (€8,472 thousand), Trenitalia S.p.A. (€6,113 thousand), FS Sistemi Urbani S.r.l. (€2,858 thousand), Italferr (€2,396 thousand) and Fercredit (€2,481 thousand).

Liabilities with related parties are described in note 41 - Related party transactions.

Payments on account amount to €8,812 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

Starting from 1 January 2018 the company has recognised revenue from contracts with customers in accordance with IFRS 15. 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).

The application of the new standard had no significant impacts, but entailed a different presentation of revenue captions, which also applies to 2017 comparative figures. Specifically, revenue from facilities was reclassified (2017: €16,400 thousand) from "other income" to "revenue from sales and services", within revenue from property management. Conversely, "sundry revenue" amounting to €1,655 thousand in 2017 was reclassified as it does not meet the definition of business-specific revenue under the new standard.

The table and comments below give a breakdown of revenue from sales and services.

	thousands of Euros		
	2018	2017	Changes
Revenue from contracts with customers	79,633	83,602	(3,969)
Patent use charges	25,160	25,190	(30)
Services provided by the parent	30,906	31,615	(709)
Communications services	3,484	3,357	127
Sundry services		125	(125)
Sale of buildings and land held for trading	19,820	21,460	(1,640)
Sundry sales	263	1,855	(1,592)
Other revenue from sales and services	85,271	85,181	90
Revenue from property management	83,322	82,745	577
Capitalisation of work on property held for trading	1,949	2,436	(487)
Total	164,904	168,783	(3,879)

Revenue from sales and services decreased by €3,879 thousand on 2017, mainly due to the combined effect of the following:

- the decrease in revenue from the sale of buildings (€1,640 thousand), which reflects the market's response to the property portfolio for sale;
- the decrease in revenue from trading operations (€487 thousand), which is due to lower value-increasing maintenance on the property held for trading based on the action plans defined every year;
- the decrease in sundry sales (€1,592 thousand), which relate to publications and the sale of advertising spaces in Italy's main train stations (Rome Termini, Milan Centrale, Naples Centrale and Turin Porta Nuova);
- the decrease in revenue from Ferrovie dello Stato Italiane S.p.A.'s recharges to group companies (€709 thousand), which mainly relate to the activities of the Finance area (-€1,405 thousand), the people experience service (-€1,077 thousand) and corporate protection (-€1,010 thousand), partly offset by the increase in public relations (+€1,491 thousand), recruitment and development (+€814 thousand) and Institutional affairs (+€579 thousand);

- the increase in revenue from property management, which mainly relates to leases and the commercial exploitation of owned stations (€577 thousand), is principally due to the improved performance revenue from the commercial exploitation of owned stations, net of the facility expenses recharged to the company in charge of said spaces.

The table below gives a breakdown of revenue from contracts with customers by category:

	Real estate		Other services		amounts thousands of Euros	
	2018	2017	2018	2017	2018	Total 2017
Geographical segment						
Italy	19,820	21,460	59,795	62,045	79,615	83,505
Total revenue from contracts with customers	19,820	21,460	59,813	62,142	79,633	83,602
Product lines						
Revenue from contracts with customers						
Other service revenue	19,820	21,460	59,813	62,142	79,633	83,602
Total revenue from contracts with customers	19,820	21,460	59,813	62,142	79,633	83,602
Moment of recognition						
Over time	19,820	21,460	59,813	62,142	79,633	83,602
Total revenue from contracts with customers						
Total other revenue from sales and services	85,240	85,177	31	4	85,271	85,181
Total revenue from sales and services	105,060	106,637	59,844	62,146	164,904	168,783

Information about contract assets and liabilities is given below:

<i>thousands of Euros</i>	<i>31.12.2018</i>	<i>31.12.2017</i>
Contract assets classified under "Current/non-current trade receivables"	25,995	23,891
Contract assets classified under "Other current assets/Non-current assets"		
Other assets not included in the above categories		
Contract assets	12,979	16,851
Contract liabilities		

The table below shows the significant changes in contract assets and liabilities for the year:

<i>thousands of Euros</i>	31.12.2018
	Contract assets
Revenue recognised during the year which was included in the opening balance of "contract liabilities"	
Increases in contract liabilities due to collections, net of the amounts recognised during the year	
Reclassifications from "contract assets" recognised at the beginning of the year	(12,597)
Increases in contract assets due to the provision of services	8,725
Increases in contract assets due to changes in the assessment of the percentage of completion	
Business combinations	
Other changes	

25. Other income

This caption can be analysed as follows:

	thousands of Euros		
	2018	2017	Changes
Surety fee income	7,771	4,928	2,843
Repayments			
Managers' fees as corporate officers at FS Italiane group companies	403	372	31
Other repayments	4,625	4,901	(276)
Total repayments	5,028	5,273	(245)
Other sundry income	2,426	3,159	(733)
Total	15,225	13,360	1,865

The €1,865 thousand increase is mainly due to the combined effect of:

- the increase in surety fee income to group companies, mainly RFI S.p.A. (€1,750 thousand) and Trenitalia S.p.A. (€668 thousand), for the greater guarantees given to them during the year;
- the increase in the fees due to the managers appointed in group companies and other associations (€31 thousand);
- the decrease in sundry income (€733 thousand) mainly related to funded training and AGCM grants charged to group companies, lower legal fees for disputes, penalties, shipping costs and other.

As described in the above paragraph, to which reference should be made, the application of IFRS 15 resulted in the reclassification of the 2017 figures related to the recharging of facilities (costs to manage train station common areas) to Grandi Stazioni Retail S.p.A., under "Revenue from sales and services".

26. Personnel expense

thousands of Euros

	2018	2017	Changes
Wages and salaries	41,795	37,224	4,571
Social security charges	11,649	10,325	1,324
Other expense for employees	4,454	2,938	1,516
Post-employment benefits	2,753	2,370	383
Accruals and releases	8,277	(3,896)	12,173
Employees	68,928	48,961	19,967
Wages and salaries	375	447	(72)
Social security charges	77	71	6
Consultants and freelancers	452	518	(66)
Temporary workers, seconded employees and trainees	1,686	1,764	(78)
Other costs	2,503	1,788	715
Other costs	4,189	3,552	637
Total	73,569	53,031	20,538

Personnel expense, which totals €73,569 thousand, increased by €20,538 thousand on the previous year.

The increase is due to:

- a rise in costs for permanent employees (€19,967 thousand) due to the increase in wages and salaries and social security charges (€5,895 thousand) following the increase in FTE (full time equivalent) employees, the greater costs for leaving incentives paid during the year (€1,824 thousand) and the accruals for managers involved in the change management process (€8,277 thousand), offsetting the prior year releases (€3,896 thousand);
- a decrease in costs for consultants and freelancers (€66 thousand) following the reduction in collaboration agreements;
- an increase in other costs (€637 thousand), mainly due to the rise in training costs (€583 thousand).

The table below gives a breakdown of the company's average number of employees by category:

	2018	2017	Changes
Personnel			
Managers	114	92	22
Junior managers	224	227	(3)
Other	279	207	72
Total	617	526	91

27. Raw materials, consumables, supplies and goods

They can be analysed as follows:

			thousands of Euros
	2018	2017	Changes
Raw materials and consumables	407	510	(103)
Lighting and driving force	33	52	(19)
Change in buildings and land held for trading	28,864	24,286	4,578
Total	29,304	24,848	4,456

The increase in this caption is mainly due to the change in buildings and land held for trading, where the cost of goods sold fell by €8,049 thousand, offset by the increase in the impairment losses recognised during the year (€12,626 thousand). Reference should be made to note 12 (Inventories) for a detailed description of the disposals of the year.

28. Services

This caption can be analysed as follows:

	thousands of Euros		
	2018	2017	Changes
Transport services	14	1	13
Maintenance, cleaning and other contracted services	9,260	9,280	(20)
Contracted services and work	2,426	910	1,516
Cleaning and other contracted services	539	401	138
Maintenance and repair of intangible assets and property, plant and equipment	7,057	8,513	(1,456)
Accruals/releases for maintenance	(762)	(545)	(217)
Property services and utilities	26,785	25,520	1,265
Administrative and IT services	14,391	11,439	2,952
External communications and advertising expense	10,279	6,573	3,706
Other sundry services	43,751	37,534	6,217
Professional services	4,845	3,508	1,337
Insurance	598	949	(351)
Consultancies	11,687	7,317	4,370
Facility management	16,936	18,010	(1,074)
Travel and accommodation	1,345	995	350
Other administrative services	1,547	1,317	230
Other services	6,793	5,438	1,355
Total	104,480	90,347	14,133

For some of the services listed above, there is a balancing entry for the costs borne by Ferrovie dello Stato Italiane S.p.A. under other income for the recharges to group companies, 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 (€1,265 thousand), greater IT services (€2,952 thousand) closely related to the investments of the year, greater external communications and advertising expense (€3,706 thousand), mainly due to the launch of the Nugo trademark and other promotional initiatives, greater professional services (€1,337 thousand) and consultancies (€4,370 thousand), due to the many non-recurring transactions which involved the company during the year. The above increases are offset by lower facility management costs (€1,074 thousand), mainly incurred with Grandi Stazioni Rail S.p.A., which were entirely recharged to Grandi Stazioni Retail S.p.A. for maintenance and to ensure the efficiency of the real estate assets of Italy's main train station, and lower insurance costs (€351 thousand).

29. Use of third-party assets

This caption can be analysed as follows:

	thousands of Euros		
	2018	2017	Changes
Lease payments and condominium expenses	4,688	3,557	1,131
IT services and other	2	1	1
Total	4,690	3,558	1,132

This caption increased on the previous year mainly as a consequence of the rise in the indemnities for using spaces at stations (€1,357 thousand), specifically at Milan Centrale and Genoa Lagaccio, offset by the €242 thousand reduction in spaces leased.

30. Other operating costs

This caption can be analysed as follows:

	thousands of Euros		
	2018	2017	Changes
Membership fees and contributions	8,759	8,438	321
Non-deductible VAT (pro rata)	597	3,565	(2,968)
Taxes and duties	14,278	14,719	(441)
Other sundry expense	2,012	1,732	280
Other costs, accruals/releases	(432)	336	(768)
Total	25,214	28,790	(3,576)

The €3,576 thousand decrease is mainly due to the combined effect of greater membership fees (€321 thousand), smaller non-deductible VAT accrued during the year (€2,968 thousand), greater accruals to the provision for litigation with personnel and third parties (€768 thousand) and lower taxes and duties (€441 thousand), specifically, IMU (municipal property tax). The increase in other sundry expense mainly relates to the contribution paid for the Free Travel Card. The above-mentioned decrease in other costs, accruals/releases (€768 thousand), relates to civil disputes and is due to the releases of the year, offset by the accruals of the prior year.

31. Internal work capitalised

Internal work capitalised, amounting to €238 thousand (2017: €69 thousand), refers to personnel expense attributable to the production and development of software recognised under intangible assets.

31. Amortisation and depreciation

This caption can be analysed as follows:

	2018	2017	Changes
Amortisation	15,645	11,371	4,274
Depreciation	8,808	10,006	(1,198)
Total	24,453	21,377	3,076

The €3,076 thousand increase is mainly due to the greater costs incurred during the year for intangible assets, following investments in software developments and long-term user licenses. The decrease in depreciation is due to the end of the depreciation period of some assets.

33. Impairment losses (gains)

This caption can be analysed as follows:

	2018	2017	Changes
thousands of Euros			
Impairment losses on property, plant and equipment and investment property	10,005	2,696	7,309
Impairment losses on intangible assets	1,434		1,434
Impairment losses and gains on receivables	4,407	2,193	2,214
Impairment losses on cash and cash equivalents	(76)		(76)
Total	15,770	4,889	10,881

This caption rose by €10,881 thousand, following the greater impairment losses on property, plant and equipment and software. Furthermore, impairment losses on assets increased (€2,214 thousand), on the basis of analytical estimates of estimated recovery and the adjustment of the loss allowance in accordance with IFRS 9.

34. Financial income

This caption can be analysed as follows:

	thousands of Euros		
	2018	2017	Changes
Gains on equity investments	141,544	149,575	(8,031)
Total gains on equity investments	141,544	149,575	(8,031)
Financial income from non-current loans and receivables and securities	135,160	128,252	6,908
Other financial income	17,096	40,551	(23,455)
Revaluations of financial assets			
Exchange gains	12,770	5,860	6,910
Total other financial income	165,026	174,663	(9,637)
Total	306,570	324,238	(17,668)

Financial income decreased by €17,668 thousand on 2017, mainly due to:

- the €23,455 thousand decrease in "other financial income", mainly as a consequence of the decrease in VAT interest accrued on the amounts claimed for reimbursement (€15,704 thousand), interest and fees on the backup facility (€3,917 thousand), financial income (€2,348 thousand) related to cross currency swaps hedging cash flows, which were measured using the Bloomberg (SWPM) pricing tool, interest on the short-term loans granted to subsidiaries (€1,101 thousand), mainly related to Trenitalia S.p.A., and surety fee income (€683 thousand). These decreases are offset by greater interest on the Eurofima loans (€509 thousand);
- the decrease in dividends distributed by subsidiaries and associates (€8,031 thousand), mainly due to the lower dividends distributed by Centostazioni S.p.A., which was merged into Rete Ferroviaria Italiana S.p.A. on 16 July 2018 (€7,757 thousand), and by Italferr S.p.A. (€3,447 thousand), offset by the higher dividends received from Netinera Deutschland GmbH (€3,570 thousand);
- the €6,910 thousand increase in exchange gains, mainly due to the current and non-current loans granted to the subsidiaries Trenitalia UK and Trenitalia C2C, as described in note 10 to "Current and non-current financial assets (including derivatives)";
- the €6,908 thousand increase in interest income on non-current loans, mainly due from Trenitalia S.p.A. following the bond issue and related to the EMTN Programme (€12,157 thousand), from Metro 5 S.p.A. (€613 thousand) and Mercitalia Rail S.r.l. for the loan granted by Ferrovie dello Stato Italiane S.p.A. during the year to purchase 40 new electric trains (€483 thousand). These increases are offset by the reduction in interest due from Rete Ferroviaria Italiana S.p.A. (€7,303 thousand) which is the result of lower interest on the EIB and Cassa Depositi e Prestiti loans (€11,006 thousand), due to smaller residual liabilities and the low rates (6M Euribor) applied to loans, and the greater interest (€3,703 thousand) related to the EMTN Programme also following the placements of the year.

35. Financial expense

This caption can be analysed as follows:

thousands of Euros

	2018	2017	Changes
Impairment losses on financial assets	127,404	175	127,229
Accruals for charges on equity investments in group companies		175	(175)
Impairment losses on group equity investments	127,899		127,899
Other expense for impairment losses on financial assets	(495)		(495)
Total other financial expense	148,356	157,959	(9,603)
Interest on financial liabilities	134,927	149,156	(14,229)
Financial expense on employee benefits	108	129	(21)
Exchange loss	13,321	8,674	4,647
Total	275,760	158,134	117,626

Financial expense increased by €117,626 thousand on the previous year, mainly due to:

- the impairment loss on Mercitalia Logistics S.p.A. (€127,873 thousand), TAV S.r.l. (€26 thousand), as already described in note 9 to "Equity investments" and impairment losses of €495 thousand, following the application of IFRS 9;
- the increase in exchange losses (€4,647 thousand) due to the current and non-current loans granted to the subsidiaries Trenitalia UK Ltd and Trenitalia c2c Ltd;
- greater interest on the bonds issued as part of the Euro Medium Term Notes Programme (€13,519 thousand) and greater expense due to Trenitalia S.p.A. on the Eurofima loans (€512 thousand), offset by the decrease in the interest accrued by the subsidiaries on the group VAT credits (€15,708 thousand), the overall decrease in expense on loans from Cassa Depositi e Prestiti, EIB and Eurofima (€10,452 thousand) and lower interest and fees due to non-utilisation of the backup facility (€2,170 thousand).

36. Current and deferred taxes

Income taxes can be analysed as follows:

	thousands of Euros		
	2018	2017	Changes
IRES	1,351	456	895
Income from the tax consolidation scheme	(124,635)	(138,973)	14,338
Deferred taxes	(8,120)	26,192	(34,312)
Adjustments to prior year income taxes	2,986	2,880	106
Accruals/releases	(282)	10	(292)
Total income taxes	(128,700)	(109,435)	(19,265)

Income taxes decreased by €19,265 thousand overall on 2017, mainly due to the combined effect of the following factors:

- increase of €895 thousand in current taxes (IRES), mainly due to temporarily non-deductible accruals and impairment losses;
- decrease in the tax income from the tax consolidation scheme (€124,635 million; 2017: decrease of €14,338 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 €34,312 thousand increase in deferred tax assets and liabilities (see note 8 to Deferred tax assets and deferred tax liabilities).

Reconciliation of the actual tax rate

	2018		2017	
	Euros	%	Euros	%
Profit for the year	62,398		230,910	
Total income taxes	(128,700)		(109,435)	
Pre-tax profit (loss)	(66,302)		121,475	
IRES theoretical tax (national tax rate)		24.0%		24.0%
Lower taxes:				
Dividends from investees	(134,467)		(142,096)	
Utilisation of provisions	(3,713)		(17,636)	
Other decreases	(29,145)		(16,958)	
Higher taxes:				
Accruals	20,644		1,999	
Impairment losses on equity investments	127,900			
Prior year expense	41		126	
Exchange difference	28		6	
Amortisation and depreciation	5,638		8,894	
Non-deductible taxes	14,279		9,999	
Other increases	70,728		36,092	
Total IRES taxable profit	5,631		1,901	
Total current taxes (IRES)	1,351		456	
IRAP				
Difference on prior year estimated taxes	2,704		2,890	
Total deferred taxes	(8,120)		26,192	
Income from the tax consolidation scheme	(124,635)		(138,973)	
TOTAL INCOME TAXES	(128,700)		(109,435)	

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, like in 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 (€249,179 thousand at the exchange rate ruling on 31 December 2018). 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 €1,078 thousand and include the fees paid for services other than the statutory audit (€490 thousand).

40. Directors' and statutory auditors' fees

	2018	2017	Changes
Directors (1) (2)	3,235	1,203	2,032
Statutory auditors	100	100	
Total	3,335	1,303	2,032

(1) Includes the fees of chairman, director and the CEO's fixed and variable remuneration, also as a manager of Ferrovie dello Stato Italiane S.p.A..

(2) Includes the end-of-office fee paid to the former CEO.

Directors' fees include the amounts envisaged for the positions of chairman and CEO, as well as any amounts envisaged for the remaining board members. In addition to the above fees, the external member of the supervisory body received €78 thousand. 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

	2018	2017
Short-term benefits	6,953	5,554
Post-employment benefits	399	347
Termination benefits	6,111	
Total	13,464	5,901

The benefits relate to the sundry remuneration paid to parties indicated.

In addition to short-term benefits of €6,953 thousand paid out in 2018, a variable portion is to be paid in 2019, for an amount not exceeding €1,700 thousand, once checks have been made on whether objectives have been reached.

Key managers did not receive any long-term benefits.

Post-employment benefits paid amount to €6,111 thousand.

During the year, the key managers did not carry out any transactions, directly or through close family members, with the group, group companies or other related parties.

Related party transactions

The main transactions between Ferrovie dello Stato Italiane S.p.A. and its related parties, which were all carried out on an arm's length basis, are described below.

	ASSETS	LIABILITIES
Subsidiaries		
RFI S.p.A.	Area services Finance Tax and financial statements Corporate business Legal/labour office Management administration Corporate development Public and media relations Corporate protection Institutional affairs Strategies Legal Organisation and processes Information systems Communications services People experience Company officers Seconded personnel Insurance reimbursements Recharge of IT services Recharge of condominium expenses Recharge of public relation services Welfare reimbursement Utilisation of trademark Lease of land, offices and workshops Recharge of costs for the Bilateral fund for income assistance	Technical party - property maintenance Recharge of IT services Seconded personnel Health services Training Leases
Ferservizi S.p.A.	Area services Finance Tax and financial statements Institutional affairs Legal/labour office Management administration Corporate protection Company officers Industrial relations Corporate development Public and media relations Institutional affairs Strategies Legal Organisation and processes Information systems Communications services People experience Seconded personnel Recharge of IT services Utilisation of trademark Lease and sub-lease of offices Recharge of condominium expenses Recharge of the Bilateral fund for income assistance	Property management Recharge of condominium expenses for asset protection IT services Seconded personnel Railway hotels Ticket purchase fees Asset enhancement fees Technical administration management services Personnel management Accounting and treasury Facilities and building management Administrative services Training Asset allocation services Station area management Manager in charge of preparing financial information Maintenance, conservation and protection fees Catering services
Fercredit S.p.A.	Area services Finance Tax and financial statements Corporate business Legal/labour office Public and media relations Corporate protection Corporate 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 affairs Communications	
Grandi Stazioni Rail S.p.A.	Area services Finance Tax and financial statements Institutional affairs Legal/labour office People experience Public and media relations Corporate development Strategies Information systems Communication services Institutional affairs Company officers Seconded personnel Repurchase instalment Insurance reimbursements Advertising	<i>Facilities management</i> Property requisition compensation instalments Condominium expenses Management of non-core buildings Seconded personnel Events, exhibitions, trade fairs and meetings

Contributions to AGCM charges incurred

Centostazioni Retail S.p.A.	Area services Finance Corporate business Strategies Institutional affairs Company officers Seconded personnel Insurance reimbursements Recharge of condominium expenses	
FS Sistemi Urbani S.r.l.	Area services Finance Tax and financial statements Institutional affairs Legal/labour office Management administration Industrial relations Public and media relations Corporate development Audit Institutional affairs Strategies Legal Corporate protection 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 IT services	Asset enhancement fees Office rental Training funding
Mercitalia Shunting & Terminal S.r.l.	Finance area services Insurance reimbursements Contributions to AGCM charges incurred	
TX Logistik AG	Finance area services	
Trenitalia S.p.A.	Area services Finance Tax and financial statements Corporate business Legal/labour office Management administration Industrial relations Organisation development Public and media relations Corporate protection Institutional affairs Strategies Legal Organisation and processes Information systems Company officers People experience 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	Seconded personnel IT services Passenger transport costs Training funding Advertising and marketing Welfare reimbursement
Italferr S.p.A.	Area services Finance Tax and financial statements Corporate business Legal/labour office Management administration People experience Organisation development Public and media relations Institutional affairs 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 administration management services Training funding Seconded personnel Welfare

Technical assistance in training projects
Contributions to AGCM charges incurred

Mercitalia Logistics S.p.A.	<p>Area services Finance Tax and financial statements Corporate business Industrial relations Legal/labour office Management administration Organisation development People experience Audit Institutional affairs 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</p>	<p>Transport and shipping Training funding <i>Welfare</i></p>
Busitalia - Sita Nord S.r.l.	<p>Area services Finance Tax and financial statements Corporate business Legal/labour office Management administration Public and media relations Organisation development People experience Audit Institutional affairs Strategies Legal Organisation and processes Information systems Communications services Company officers Seconded personnel Insurance reimbursements Utilisation of trademark Office leases Recharge of condominium expenses Contributions to AGCM charges incurred</p>	<p>Funded training <i>Welfare</i> Events, exhibitions, trade fairs and meetings</p>
Italcertifer S.p.A.	<p>Finance area services Corporate business Management administration People experience Organisation development Legal Institutional affairs Seconded personnel Insurance reimbursements Communications</p>	<p>Seconded personnel <i>Welfare</i></p>
Mercitalia Intermodal S.p.A.	<p>Finance Tax and financial statements Corporate business Audit Public and media relations Organisation development Information systems Communications services Company officers Insurance reimbursements People experience</p>	<p><i>Welfare</i></p>
Metropark S.p.A.	<p>Finance Tax and financial statements Corporate business Legal/labour office Public and media relations Organisation development Corporate protection Legal Information systems Communications services Insurance reimbursements Lease and sub-lease of offices Recharge of condominium expenses Recharge of IT services Leases</p>	
Netinera Deutschland GmbH	<p>Insurance reimbursements Recharge of IT services Finance area services People experience Recharge of IT services</p>	<p>Seconded personnel</p>

Ataf Gestioni S.r.l.	Contributions to AGCM charges incurred Finance area services Strategies Company officers	
Trenord S.r.l.	Company officers Lease and sub-lease of offices and workshops Recharge of condominium expenses	
Terminali Italia S.r.l.	People experience Insurance reimbursements Strategies Office leases Recharge of condominium expenses Finance area services	
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.	Recruitment and development Company officers Seconded personnel Company officers Contributions to AGCM charges incurred Strategies Finance area Recharge of IT services	
Thello Sas	Finance area services	
Busitalia Rail Service S.r.l.	Finance area services	Advertising and marketing Transport services
Busitalia Veneto S.p.A.	Management administration Finance area services Strategies	
Busitalia Campania S.p.A.	Insurance reimbursement Finance area services Strategies	
Bluferries S.r.l.	Strategies Finance area services Corporate business	
T.E.L.T. Sas (formerly L.T.F. Sas)	Seconded personnel Leases Recruitment and development	
Grandi Stazioni Immobiliare S.p.A.	Tax and financial statements services Corporate business	
City Boat	Company officers	
Savit S.r.l.	Finance area	
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 Communications Organisation development Corporate protection 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	Seconded personnel Training funding
Sita S.p.A. in liquidation	Legal	
Mercitalia Transport & Services S.r.l.	Finance area services	Transport and shipping
Trainose	Finance area Company officers Seconded personnel Company officers Recruitment and development	
Anas S.p.A.	Company officers	
NUGO S.p.A.	Seconded personnel Recharge of IT services Recharge of condominium expenses Lease payments	Seconded personnel

Autostrade Asti-Cuneo S.p.A.	Company officers
Qbuzz	Finance area
Trenitalia C2C	Finance area Strategies

Associates

Ferrovie Nord Milano S.p.A.	Insurance reimbursements Company officers
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Associates of subsidiaries

LI-NEA S.p.A.	Company officers
Terminal Tremestieri S.r.l.	Company officers
Eurogateway S.r.l.	Corporate business

Other related parties (*)

CDDPP group	Pedestrian crossings	Loans and borrowings
ENEL group	Land easement instalments Crossing	Electrical energy supply
ENI group	Land easement instalments Pedestrian crossings	Gas supply
POSTE group	Operating buildings lease instalments Land lease instalments	Postal charges
Eurofer	Company officers	Grants
Other pension funds Previdai		Insurance policies Grants
Fondazione FS	Office leases	Membership fees Events, exhibitions, trade fairs
	Insurance reimbursements Recharge of condominium expenses Seconded personnel	
Scarl, associations, EEIG, partnerships	Company officers	Sponsorships Membership fees to the railway recreational association
Leonardo group RAI group		Consultancies Taxes and duties

(*) Companies with the same parent, i.e., the MEF.

OTHER RELATED PARTIES

TAX CONSOLIDATION SCHEME	VAT UNDER THE VAT CONSOLIDATION SCHEME	INTRAGROUP BANK AND POST OFFICE CURRENT ACCOUNTS	LOANS GRANTED	OVERDRAFTS AND LOANS RECEIVED	ISSUE OF SURETIES TO	SUPPLEMENTARY PENSION FUNDS
			Anas S.p.A.			
RFI S.p.A.	RFI S.p.A.	RFI S.p.A.	RFI S.p.A.		RFI S.p.A.	
Fercredit S.p.A.	Fercredit S.p.A.	Fercredit S.p.A.			Fercredit S.p.A.	
Ferservizi S.p.A.	Ferservizi S.p.A.	Ferservizi S.p.A.			Ferservizi S.p.A.	
Trenitalia S.p.A.	Trenitalia S.p.A.	Trenitalia S.p.A.	Trenitalia S.p.A.		Trenitalia S.p.A.	
Italferr S.p.A.	Italferr S.p.A.	Italferr S.p.A.	Italferr S.p.A.		Italferr S.p.A.	
Grandi Stazioni Rail S.p.A.	Grandi Stazioni Rail S.p.A.	Grandi Stazioni Rail S.p.A.	Grandi Stazioni Rail S.p.A.		Grandi Stazioni Rail S.p.A.	
Centostazioni Retail S.p.A.	Centostazioni Retail S.p.A.	Centostazioni Retail S.p.A.				
Bluferries S.r.l.	Bluferries S.r.l.	Bluferries S.r.l.				
Metropark S.p.A.	Metropark S.p.A.	Metropark S.p.A.				
Mercitalia Logistics S.p.A.	Mercitalia Logistics S.p.A.	Mercitalia Logistics S.p.A.	Mercitalia Logistics S.p.A.		Mercitalia Logistics S.p.A.	
FS Sistemi Urbani S.r.l.	FS Sistemi Urbani S.r.l.	FS Sistemi Urbani S.r.l.			FS Sistemi Urbani S.r.l.	
Mercitalia Rail S.r.l.	Mercitalia Rail S.r.l.	Mercitalia Rail S.r.l.	Mercitalia Rail S.r.l.		Mercitalia Rail S.r.l.	
Italcertifer S.p.A.		Italcertifer S.p.A.			Italcertifer S.p.A.	
Mercitalia Intermodal S.p.A.	Mercitalia Intermodal S.p.A.				Mercitalia Intermodal S.p.A.	
Ferport Genova S.r.l. in liquidation						
Busitalia Rail Service S.r.l.	Busitalia Rail Service S.r.l.	Busitalia Rail Service S.r.l.				
Busitalia Veneto S.p.A.		Busitalia Veneto S.p.A.				
Busitalia Campania S.p.A.		Busitalia Campania S.p.A.				
		Simet S.p.A.				
Mercitalia Shunting & Terminal	Mercitalia Shunting & Terminal	Mercitalia Shunting & Terminal	Mercitalia Shunting & Terminal		Mercitalia Shunting & Terminal	
Terminali Italia S.r.l.	Terminali Italia S.r.l.	Terminali Italia S.r.l.				
Tunnel Ferroviario del Brennero S.p.A.					Tunnel Ferroviario del Brennero S.p.A.	
Busitalia Sita Nord S.r.l.	Busitalia Sita Nord S.r.l.	Busitalia Sita Nord S.r.l.	Busitalia Sita Nord S.r.l.		Busitalia Sita Nord S.r.l.	
			TX Logistik AG		TX Logistik AG	
Sita S.p.A. in liquidation					Netinera Deutschland GmbH Sita S.p.A. in liquidation	
Mercitalia Transport & Services S.r.l.	Mercitalia Transport & Services S.r.l.	Mercitalia Transport & Services S.r.l.			Mercitalia Transport & Services S.r.l.	
		ATAF				
TAV S.r.l.		Grandi Stazioni Rail S.p.A. Grandi Stazioni Immobiliare	Grandi Stazioni Rail S.p.A. Grandi Stazioni Immobiliare		Cisalpino AG Thello Sas	
			Trenitalia c2c		Trenitalia c2c	
			Trenitalia UK		Trenitalia UK	
			Ferrovie SudEst		Ferrovie SudEst	
		Qbuzz	Qbuzz		Qbuzz	
			Metro5			
		Nugo				

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
		ATAF Gestioni			Teralp	
					Trainose T.E.L.T. Sas (formerly L.T.F. Sas)	
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.	Terminal Alptransit	Eurofer Previndai

The tables below summarise statement of financial position amounts at 31 December 2018 and the income statement figures for the year then ended.

Trade and other transactions

thousands of Euros

Name	31.12.2018			2018	
	Assets	Liabilities	Guarantees and commitments	Costs	Revenue
Subsidiaries					
Anas	6				21
Ataf Gestioni S.r.l.	62				74
Busitalia Campania S.p.A.	41				41
Busitalia Rail Service S.r.l.	4	3,895		20	3
Busitalia Veneto S.p.A.	103	8		(2)	101
Bluferries S.r.l.	738				31
Busitalia - Sita Nord S.r.l.	6,152	1,867	15,111	(246)	903
Centostazioni S.p.A.			30	(95)	262
Centostazioni Retail S.p.A.	251			(6)	
Cisalpine AG	166		13,674		83
City Boat	1				1
Fercredit S.p.A.	140	3,940	763	(9)	370
Ferport Genova S.r.l. in liquidation		29			
Ferservizi S.p.A.	4,762	20,598	3,693	29,257	4,872
FSE S.r.l.	538		53,580	(713)	283
FS Sistemi Urbani S.r.l.	2,257	2,972	939	2,569	768
Grandi Stazioni Immobiliare S.p.A.	86				9
Grandi Stazioni Rail S.p.A.	6,248	9,725	7,698	18,282	8,177
Italcertifer S.p.A.	993	16	38	17	203
Italferr S.p.A.	6,397	7,890	6,288	1,982	2,186
Mercitalia Intermodal S.p.A.	248	344	24	1	77
Mercitalia Logistics S.p.A.	5,932	4,378	30,870	34	1,142
Mercitalia Rail S.r.l. (formerly FS Telco S.r.l.)	4,960	1,555	11,533	(330)	2,311
Mercitalia Shunting & Terminal	5,796	622	43	(1)	13
Mercitalia Transport & Services S.r.l.	24	1,614	300	16	6
Metropark S.p.A.	172			(5)	374
Netinera Deutschland GmbH	744	126	35,000	(193)	80
Nugo	1,171	181		(990)	54
Qbuzz	251		24,436		133
Rete Ferroviaria Italiana S.p.A.	24,650	172,499	2,220,831	(4,669)	41,797
Sita S.p.A. in liquidation	6,990				(3)
T.E.L.T. Sas (formerly L.T.F. Sas)	569		6,925	(1,379)	75
Terminali Italia S.r.l.	(36)			(10)	43
Terminal Alptransit S.r.l.	10		3,888		6
Thello Sas	9		1,752		6
Trainose	80		3,000	(240)	21
Trenitalia S.p.A.	40,697	32,213	652,040	(6,810)	39,792
Trenitalia C2C	152		92,766		200
Trenord S.r.l.	364	18			197
Tunnel Ferroviario del Brennero S.p.A.		90	28		
TX Logistik AG	431		50		21
Trenitalia UK Ltd	224		127,993		454
Total	122,383	264,580	3,313,293	36,480	105,187
Associates					
Ferrovie Nord Milano S.p.A.	52			(7)	34
Total	52			(7)	34
Associates of subsidiaries					
Autostrade Asti Cuneo	7				7
Eurogateway S.r.l.	17				17
Terminal Tremestieri S.r.l.	4				4
Logistica SA	46				
Total	74				28
TOTAL	122,509	264,580	3,313,293	36,473	105,249
Other related parties					
CDDPP group	257	2		2	32
ENEL group	51			42	13
ENI group	37			272	13
Leonardo group				415	
POSTE group	524			180	12

Eurofer	4		136	22
Other pension funds		9	1,390	
Scarl, associations, EEIG, partnerships			33	6
Fondazione FS			4,931	835
Previndai			645	
Total	873	11	8,046	933

Financial transactions

thousands of Euros

Name	31.12.2018		2018		
	Assets and current accounts	Liabilities	Guarantees and commitments	Expense	Income
Subsidiaries					
Anas					41
Ataf Gestioni	1,583				
Bluferries S.r.l.		1,395			
Busitalia Campania		2,347			
Busitalia - Sita Nord S.r.l.	55,015	9,206		12	473
Busitalia Rail Service S.r.l.		782			1
Busitalia Veneto		3,253			
Centostazioni S.p.A.					
Cisalpino AG					
Ferccredit S.p.A.					9,000
Ferservizi S.p.A.		62,945		4	19,353
FSE Trasporto Ferro	51,105			28	378
FS Sistemi Urbani S.r.l.	1	40,923		3	
Grandi Stazioni Rail S.p.A.	40,997	7,309		1	398
Grandi Stazioni Immobiliare S.p.A.	3,300	54		1	32
Italcertifer S.p.A.		151			
Italferr S.p.A.	24,487	169	15,000	15	4,390
Metropark S.p.A.		1,679			
Mercitalia Logistics S.p.A.	123,922	849		127,904	890
Mercitalia Rail S.r.l. (formerly FS Telco)	213,631	15,078	2,048	90	1,541
Mercitalia Shunting & Terminal	3,498	1,314			65
Mercitalia Intermodal					
Netinera Deutschland GmbH			195,294		8,321
Nugo S.p.A.		9,648			
Qbuzz	104,977		10,702	80	120
Rete Ferroviaria Italiana S.p.A.	2,198,493	91,568	150,000	274	179,806
TAV S.r.l.				27	
Thello sas			5,740		3
Terminali Italia S.r.l.		4			
Terminal Alptransit S.r.l.					
Trainose					
Trenitalia S.p.A.	5,391,252	1,833	442,969	3,877	55,263
Trenitalia C2C	23,458			18	344
Trenitalia UK Ltd	79,738				1,918
Trenord S.r.l.					
TX Logistik AG	12,142		6,603		356
Tunnel Ferroviario del Brennero					
Associates					
Metro 5	29,823			(4)	1,739
Italiacamp S.r.l.					
Ferrovie Nord Milano S.p.A.					
Total	29,823			(4)	3,021
Total					
TOTAL	8,358,238	252,585	828,356	132,331	285,714
Other related parties					
CDDPP group		620,275		24,257	
POSTE group					
ENI group					
TOTAL		620,275		24,257	

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.

Issued on behalf of	thousands of Euros	
	Financial	Non-financial
Rete Ferroviaria Italiana S.p.A.	150,000	2,220,861
Trenitalia S.p.A.	442,969	652,040
Netinera Deutschland GmbH	195,294	35,000
Busitalia - Sita Nord S.r.l.		15,111
Grandi Stazioni Rail S.p.A.		7,698
FS Sistemi Urbani S.r.l.		939
Tunnel Ferroviario del Brennero S.p.A.		28
Italferr S.p.A.	15,000	6,288
Ferservizi S.p.A.		3,693
Mercitalia Logistics S.p.A.		30,870
TX Logistik AG	6,603	50
Italcertifer S.p.A.		38
Mercitalia Intermodal S.p.A.		24
Thello Sas	5,740	1,751
Mercitalia Transport & Services S.r.l.		300
Mercitalia Rail S.r.l.	2,048	11,533
Mercitalia Shunting & Terminal S.r.l. (formerly Serfer)		43
Telt Sas		6,925
Ferrovie del Sud Est e Servizi Automobilistici - FSE S.r.l.		53,580
Trenitalia c2c		92,766
Trenitalia UK Ltd		127,993
Qbuzz BV	10,702	24,436
Trainose SA		3,000
Teralp S.r.l.		3,888
Fercredit S.p.A.		763
Cisalpino AG		13,674
Total	828,356	3,313,292

Financial guarantees are mainly comprised of guarantees and counter-guarantees issued to banks for loans. Non-financial guarantees are comprised of bid bonds, performance bonds, commercial guarantees and commitments in favour of the tax authorities.

The main non-financial parent guarantees were issued to the tax authorities (€2,687,641 thousand) to guarantee reimbursements of tax credits to the following subsidiaries: Rete Ferroviaria Italiana S.p.A., Trenitalia S.p.A., Mercitalia Logistics S.p.A., Mercitalia Intermodal S.p.A., Ferservizi S.p.A., Grandi Stazioni Rail S.p.A., Italferr S.p.A., FS Sistemi Urbani S.r.l., Telt Sas, Tunnel Ferroviario del Brennero S.p.A., Thello SA and Ferrovie del Sud Est e Servizi Automobilistici S.r.l.. 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 €150,000 thousand);
- from the EIB to the subsidiary Trenitalia S.p.A. (total bank counter-guarantee of €22,969 thousand);
- from BNP Paribas Fortis and Unicredit AG to TX Logistik AG, on behalf of the subsidiary Mercitalia Logistics S.p.A. (total amount of two guarantees of €6,603 thousand).

Parent guarantees were also issued for the foreign group companies, including Netinera Deutschland GmbH (€230,294 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 Trenitalia c2c Ltd. (€92,766 thousand), Italferr S.p.A. (€5,771 thousand) and, for the remainder, on behalf of Italcertifer S.p.A. (€38 thousand).

Guarantees issued by banks on behalf of the parent include those on behalf of the Brescia municipality (€16,120 thousand) and Alitalia (€17,500 thousand). The guarantees issued as part of foreign projects on behalf of the parent include SAR189,318 thousand (related to the performance bond issued on behalf of Arriyadh Development Authority) and €20 thousand (related to the bid bond issued on behalf of ICE).

43. Information pursuant to Law no. 124/2017

Law no. 124 of 4 August 2017 on the market and competition introduced, inter alia, new reporting requirements on public funds for subsidiaries controlled directly or indirectly by the state. Specifically, articles 1.125-129 provide for the inclusion of some information about the “funds disbursed” and “received from” the specific parties identified in the same articles.

The table below summarises the information required by the above law for 2018 about the funds disbursed:

	Amount
ACCADEMIA NAZIONALE SANTA CECILIA	200,000
AGENS-AGENZIA CONFEDERALE	697,332
ASPEN INSTITUTE ITALIA	35,000
Assindustria Veneto Centro	12,904
ASSOCIAZIONE CIVITA	22,000
ASSOCIAZIONE DEGLI INDUSTRIALI	189,426
ASSOCIAZIONE INDUSTRIALI	14,738
ASSOCIAZIONE INDUSTRIALI BOLZANO	16,834
ASSOCIAZIONE INDUSTRIALI CAGLIARI	27,772
ASSOCIAZIONE INDUSTRIALI CATANIA	26,135
ASSOCIAZIONE INDUSTRIALI CREMONA	11,332
ASSOCIAZIONE INDUSTRIALI DELLE PROVINCE DI AREZZO, GROSSETO E SIENA	32,423
ASSOCIAZIONE INDUSTRIALI DI CAPI-	43,427
ASSOCIAZIONE INDUSTRIALI GENOVA	84,168
ASSOCIAZIONE INDUSTRIALI NOVARA	42,510
ASSOCIAZIONE INDUSTRIALI PAVIA	10,546
ASSOCIAZIONE INDUSTRIALI SALERNO	16,834
Associazione Italiadecide	50,000
ASSOLOMBARDA	239,272
ASSONIME	190,775
CER-CCFE- COM.CHEMINS FER EUROPEENS	209,277
Chalmers Tekniska Högskola Aktiebo	18,000
CONFINDUSTRIA ANCONA	56,789
CONFINDUSTRIA BENEVENTO	11,266
CONFINDUSTRIA CASERTA	13,690
CONFINDUSTRIA CHIETI PESCARA	14,017
CONFINDUSTRIA CUNEO	19,192
CONFINDUSTRIA EMILIA AREA CENTRO	153,729
CONFINDUSTRIA LA SPEZIA	18,602
CONFINDUSTRIA L'AQUILA	13,624
CONFINDUSTRIA LIVORNO E MASSA CARRARA	30,392
CONFINDUSTRIA ROMAGNA	29,213
Confindustria Sicilia	124,450
CONFINDUSTRIA UDINE	28,820
CONFINDUSTRIA UMBRIA	46,636
CONFINDUSTRIA VENEZIA	84,692
CONFINDUSTRIA VENEZIA GIULIA	40,545
CONFINDUSTRIA VERONA	93,338
CONFINDUSTRIA VICENZA	16,572
CONSIGLIO PER LE RELAZIONI	12,500
CONSUMERS' FORUM	21,000
European University Institute	30,000
FEDERTURISMO	50,000
FONDAZIONE FS ITALIANE	3,940,000
Fondazione Ricerca & Imprenditorialità	75,000
I.G.I. - Istituto Grandi Infrastructure	30,000
ISTITUTO PER GLI STUDI	20,000
ITALIACAMP S.r.l.	180,000
KYOTO CLUB	10,000
OBB BUSINESS COMPETENCE CENTER GMBH	19,127
ORGANISMO ITALIANO DI VALUTAZIONE	10,000

PROGETTO OPEN ITALY	19,900
SDA BOCCONI	30,000
TALENT GARDEN S.p.A.	39,000
THE EUROPEAN HOUSE AMBROSETTI S.p.A.	16,150
Trilater Commission	25,000
UIC	318,471
UNINDUSTRIA	248,769
Unindustria Calabria	106,372
UNIONE INDUSTRIALE TORINO	144,690
UNIONE INDUSTRIALI ALESSANDRIA	45,981
UNIONE INDUSTRIALI DI NAPOLI	128,970
UNIONE INDUSTRIALI PISANA	24,759
UNIONE INDUSTRIALI SAVONA	22,663
UPA	11,510
Total	8,566,123

The table below summarises the information required by the above law for 2018 about the funds received:

		Amount
MEF in favour of Telt	Chapter 7122	87,772,206

44. Events after the reporting date

On 13 February 2019, based on Delta Air Lines' confirmed expressions of interest in becoming FS Italiane's business partner in the Alitalia's transaction, Ferrovie dello Stato Italiane's board of directors decided to enter into negotiations with the above airline companies to continue the identification of the basis of the plan for the new Alitalia.

On 22 February 2019, two options for the sale of Rome Tiburtina Lot C1 were put forward, extending the deadline to submit offers from 15 March to 15 April 2019. Separate offers are possible for option A (lot C1 with building rights for 12,000 square metres for hotel purposes and 7,000 square metres for commercial use) and option B (Lot C1 with 12,000 square metres for hotel purposes). The lot on sale, near the entry to Rome Tiburtina station, on the Nomentano west side, is well connected to the train/metro/bus hub, enjoying a strategic position for the construction of a hotel and commercial areas.

Proposed allocation of the profit for the year of Ferrovie dello Stato Italiane S.p.A.

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 €3,119,878.84 to the legal reserve;
- the remaining €59,277,697.95 to retained earnings.

Furthermore, we propose allocating retained earnings as follows:

- €90,000,000.00 to the extraordinary reserve, as a reserve available for subsequent use, including partial, to service possible non-recurring transactions.

Rome, 30 April 2019

The board of directors

The Chairman

The CEO

Certification of the Chief Executive Officer and the Manager in charge of the company's accounting documents preparation of the separate financial statements of Ferrovie dello Stato Italiane SpA at 31 December 2018 pursuant to article 154-bis, paragraph 5, of Legislative Decree no. 58/1998

1. The undersigned Gianfranco Battisti and Roberto Mannozi, as respectively Chief Executive Officer and Manager in charge of the company's accounting documents preparation of Ferrovie dello Stato Italiane 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 2018.

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.

26 marzo 2019

Gianfranco Battisti
Chief Executive Officer



Roberto Mannozi
Manager in charge of the company's
accounting documents preparation



Piazza della Croce Rossa, 1 - 00161 Roma

Ferrovie dello Stato Italiane S.p.A. – Società con socio unico

Sede legale: Piazza della Croce Rossa, 1 - 00161 Roma

Cap. Soc. Euro 39.204.173.802,00

Iscritta al Registro delle Imprese di Roma

Cod. Fisc. e P. Iva 06359501001 – R.E.A. 962805

(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 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Ferrovie dello Stato Italiane S.p.A. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 35 "Financial expense"

Key audit matter	Audit procedures addressing the key audit matter
<p>The separate financial statements at 31 December 2018 include investments in subsidiaries of €37,908,451 thousand recognised at acquisition or incorporation cost and impairment losses on equity investments of €127,899 thousand recognised during the year.</p> <p>At each reporting date, the directors check whether there is evidence that these equity investments may be impaired.</p> <p>If indicators of impairment are identified, the directors check the recoverable amount of the equity investments by comparing their carrying amount to their value in use, calculated using appropriate valuation methods under the circumstances.</p> <p>Based on their analyses, the directors identified indicators of impairment in the investment in the subsidiary Mercitalia Logistics S.p.A., which led to the recognition of an impairment loss of €127,873 thousand.</p> <p>Considering the materiality of the financial statements caption, we believe that the recoverability of the carrying amount of investments in subsidiaries is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none">— understanding the process adopted to measure equity 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 company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 4 November 2014, the company's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2014 to 31 December 2022.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The company's directors are responsible for the preparation of the a directors' report and a report on corporate governance and ownership structure at 31 December 2018 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 2018 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 company's separate financial statements at 31 December 2018 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, 15 April 2019

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 2018 ANNUAL REPORT**

**SEPARATE AND CONSOLIDATED
FINANCIAL STATEMENTS
OF FERROVIE DELLO STATO ITALIANE S.p.A. (SINGLE-MEMBER
COMPANY) AT 31 DECEMBER 2018
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 2018

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 sound administration, particularly with respect to the adequacy of the organisational, administrative and accounting system adopted by FS Italiane S.p.A. and that it is effectively working.

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

The draft separate financial statements of Ferrovie dello Stato Italiane S.p.A. (single member company) (“FS Italiane S.p.A.”), which have been submitted for your approval, were approved by the board of directors in its meeting of 26 March 2019.

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 2018, 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 clearly present and 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 2018.

The independent auditors also issued their audit report on the consolidated financial statements of FS Italiane group at 31 December 2018 expressing an unqualified opinion.

With respect to the supervisory activities concerning the independence of the auditors entrusted with the statutory audit, in our role of Internal control and audit committee, we note that, in the additional communication provided pursuant to article 11 of Regulation (EU) no. 537/2014, KPMG S.p.A. confirmed its independence 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 14 times. The minutes of these meetings are kept in the relevant book.

In addition, we attended:

(i) four shareholder's meetings and 20 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 audit system with respect to financial reporting.

We also monitored the statutory 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.

Finally, during the year, the company implemented the following actions aimed at strengthening governance tools:

- adoption of a new code of conduct;
- update of the Organisational, management and control model pursuant to Legislative decree no. 231/2001.

Information on the sustainability of the FS Italiane group is included in the directors' report (page 102 [da allineare al doc in inglese] 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 26 March 2019; *(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 essentially 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 statutory audit of the separate and consolidated financial statements.

Based on the information received from them, no facts, circumstances or irregularities were noted which should be disclosed in this report.

Based on our supervisory and monitoring activities, we have nothing to report.

However, during the year, actions began in view of the possible acquisition of an equity investment in the newco which will be set up following the sale of the assets owned by AS Alitalia - Società Aerea Alitalia S.p.A. and Alitalia Cityliner S.p.A.. In this respect, considering the impact of the acquisition on FS Italiane S.p.A.'s financial position, financial performance and cash flows, accounting, legal, administrative, organisational and industrial and reputation, we invited the company management to take all actions necessary and appropriate to safeguard FS Italiane group's assets, business continuity and development, in line with the group's business object and industrial strategies, while complying with the by-laws and ruling national and European legislation.

We examined the draft separate financial statements at 31 December 2018 and note the following:

- a.* after checking that the separate financial statements were consistent with the facts and information known to us, we have nothing to report in this respect;
- b.* as our duties do not include analytical checks of the content of the financial statements, we checked their basis of presentation and that their preparation generally complied with the law and the IFRS. We have nothing to report in this respect;
- c.* after checking the directors' report's compliance with the law governing its preparation and its consistency with the information obtained as part of our supervisory activities, we have nothing to report in this respect;
- d.* to the extent of our duties, during the preparation of the separate financial statements, the directors did not apply any of the waivers permitted by article 2423.4 of the Italian Civil Code.

2018 ended with a profit of €62,397,577.00. For additional information, reference should be made to the notes to the separate financial statements.

Finally, having considered the separate financial statements at 31 December 2018, the information provided by the directors and the findings of the independent auditors, to the extent of our duties, we are in favour of your approval of the draft financial statements of FS Italiane S.p.A. at 31 December 2018, as submitted by the board of directors to the sole shareholder.

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Dear Shareholder,

The consolidated financial statements of Ferrovie dello Stato Italiane group (“FS Italiane group”) at 31 December 2018, 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 2018 and 31 December 2017 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, financial performance and cash flows and provided detailed information about the specific operations of consolidated companies and the outlook.

We performed our supervisory activities in compliance with the code of conduct for boards of statutory auditors issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili). In accordance with such code of conduct, we referred to the legislation that regulates the preparation of consolidated financial statements.

We checked that:

a. the methods applied in identifying the consolidation scope were correct and that

- consolidation policies adopted for subsidiaries were in accordance with IFRS;
- f.* legislation governing the preparation and layout of consolidated financial statements and directors' reports was complied with;
 - g.* the organisation of the parent was adequate for the flow of information in consolidation procedures;
 - h.* consolidation policies related to the elimination of intragroup income, expense, assets and liabilities were complied with;
 - i.* 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 2018 consolidated financial statements.

We evaluated the consolidation scope, examined the consolidation policies and checked the adequacy of the 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, financial performance and cash flows as at and for the year ended 31 December 2018.

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 2018 comply with the IFRS, are presented clearly and

