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

Trenitalia S.p.A.

Financial statements as at and for the year ended 31 December 2018

(with report of the auditors thereon)

KPMG S.p.A.

20 March 2019

KPMG S.p.A.
Revisione e organizzazione contabile
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Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the sole shareholder of
Trenitalia S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Trenitalia 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 financial statements give a true and fair view of the financial position of Trenitalia 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.

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 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.

Other matters

As required by the law, the company disclosed the key figures from the latest financial statements of the company that manages and coordinates it in the notes to its own financial statements. Our opinion on the financial statements of Trenitalia S.p.A. does not extend to such data.

Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union 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 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The company's directors are responsible for the preparation of a directors' report at 31 December 2018 and for the consistency of such report with the related financial statements and its 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 with the company's financial statements at 31 December 2018 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the company's financial statements at 31 December 2018 and has 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, 20 March 2019

KPMG S.p.A.

(signed on the original)

Benedetto Gamucci
Director of Audit

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

TRENITALIA S.p.A

2018

ANNUAL REPORT

Trenitalia S.p.A.

Company with sole shareholder, managed and coordinated by Ferrovie dello Stato Italiane S.p.A.

Registered office: Piazza della Croce Rossa 1, 00161 Rome

Fully paid-up share capital: €1,417,782,000.00

Rome R.E.A. no. 0883047

Tax code and VAT no. 05403151003

Telephone: 06 44101

Website: www.trenitalia.com

COMPANY MISSION

Trenitalia provides passenger transport services domestically and internationally.

Trenitalia's mission revolves around certain essential conditions, which consist in the safety of its services, quality, the health of its workers and protecting the environment. Trenitalia believes that putting its relationship with customers first is the way to gain a long-term competitive advantage and create value for shareholders.

Trenitalia's entire organisation is committed to meeting customers' needs and market demands. It always guarantees high safety standards and implements development and modernisation plans in accordance with economic, social and environmental sustainability standards.

To achieve its mission, the company has created an organisational structure divided into divisions, and it has assigned each of these the monitoring of the relevant business according to the particular characteristics of the market in which the division operates.

COMPANY OFFICERS AND INDEPENDENT AUDITORS

Board of directors:

Chairman	Tiziano ONESTI
CEO and General Manager	Orazio IACONO
Directors	Daniela CAROSIO (*)
	Antonella D'ANDREA (**)
	Maria Rosaria MAUGERI
	Paolo COLOMBO

(*) in office since 25 January 2018

(**) in office until 15 January 2018

Board of statutory auditors:

Chairman	Maria Laura PRISLEI
Standing statutory auditors	Fabio MASTRANGELO
	Davide FRANCO
Alternate statutory auditors	Guglielmo MARENGO
	Monica PETRELLA

Independent auditors: KPMG S.p.A.

Manager in charge of financial reporting: Francesca SERRA

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Disclaimer

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

GLOSSARY

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 financial statements. Management finds these indicators useful in monitoring the company's performance and believes reflect the results of operations and financial trends of its business segments:

- **Gross operating profit:** this is an indicator of the performance of operations and reflects the company'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, write-downs, impairment losses (impairment gains) and provisions.
- **Net operating working capital**: this is the balance of inventories, non-current and current trade receivables and non-current and current trade payables.
- **Other assets, net:** these consist of receivables and advances from the Ministry of the Economy and Finance for grants, deferred tax assets, other non-current and current assets and other non-current and current liabilities.
- **Working capital:** this is the sum of net operating working capital and other assets, net.
- **Net non-current assets:** these consist of property, plant and equipment, investment property, intangible assets and equity investments.
- **Other provisions:** these comprise post-employment benefits and other employee benefits, the tax provision, the bilateral fund for income assistance, the provision for litigation with employees and third parties, the provision for other sundry risks and deferred tax liabilities.
- **Net invested capital (NIC):** this is the sum of working capital, net non-current assets, other provisions and net assets held for sale.
- **Gross operating profit margin**: this is the percentage given by 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 is the ratio of the net financial position to equity.

- **Equity:** this is calculated as the sum of share capital and reserves, including valuation reserves (hedging and actuarial reserves), retained earnings (losses carried forward), derivative liabilities and the profit (loss) for the year.
- **Net financial debt (NFD):** this is the sum of bonds, non-current bank loans and borrowings and the current portion thereof, current bank loans and borrowings, non-current and current loans and borrowings from other financial backers, cash and cash equivalents and non-current and current financial assets.
- **ROE (return on equity):** this is a profitability indicator for equity and is calculated as the ratio of profit (loss) for the year to average equity (average of the opening and closing balances), net of the profit (loss) for the year.
- **ROI (return on investment):** this is a profitability indicator for invested capital. It is calculated as the ratio of operating profit to average NIC (average of the opening and closing balances).
- **Net asset turnover:** this is the ratio of invested capital to sales. It is calculated as the ratio of operating revenue to average NIC (average of the opening and closing balances).

The terms for operating activities and abbreviations most frequently used in this report are defined below:

- **ART:** Italian Transport Regulator
- **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) system.
- **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** = (passenger-km/train-km) this ratio expresses the number of passenger-km per train-km, i.e., how many people a train can transport on average.
- **Service contracts:** these are contracts between the government (regions or central government) and Trenitalia S.p.A. for transport services.
- **European Rail Traffic Management System (ERTMS):** this is the system that integrates the various railway networks in the EU from a functional and operational standpoint and provides for the European Train Control System.
- **European Train Control System (ETCS):** this is the overall network of the various national automatic train control (ATC) systems. ATC systems consist of traditional and innovative signalling systems and can be based on continuous signal repetition (CSR) or continuous digital signal repetition (CDSR).
- **Global System for Mobile Communication-Railways (GSM-R):** this is the international telephony standard based on GSM technology, mainly for communications between trains and control centres. It transmits on a 900 MHz band reserved for railway operations in Europe. It is part of ERTMS.
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- **Load factor** = (pkm/seat-km): this indicator measures saturation i.e., how much of a train is occupied on average with respect to total available seats.
- **MEF:** Ministry of the Economy and Finance
- **MIT:** Ministry of Infrastructure and Transport
- **TSCS:** this train speed control system is the first functional stage of the ATC system for constant control over train speed, making it possible to activate the emergency brakes if the train exceeds the maximum speed allowed on the line or if it proceeds past stop signals.

- **Terminal:** this is the intermodal transport infrastructure for the transfer of large load units between carriers, with or without warehouses of modest size.
- **Train-km:** this is the sum of kilometres travelled by all trains in the fleet over a specific period of time.
- **Passenger-km:** this is the sum of kilometres actually travelled by all transport service passengers over a given period of time (pkm).
- **IMC:** these are the plants where the Scheduled Maintenance and the Corrective Maintenance of the rolling stock available for commercial use take place.
- **OMC:** these are the workshops where ordinary maintenance activities take place.

Directors' report

MAIN INDICATORS

	Actual 2018	Actual 2017
INCOME STATEMENT HIGHLIGHTS *(millions of Euros)*		
Revenue	5,367.9	5,312.7
Operating costs	(3,884.2)	(3,727.0)
Gross operating profit	1,483.7	1,585.7
Operating profit	386.1	399.1
Profit for the period	256.8	276.2
PERFORMANCE INDICATORS		
ROI	4.3%	4.4%
ROS	7.2%	7.5%
NAT	0.60	0.59
PROFITABILITY INDICATORS		
Employees (FTE)	27,422	27,639
Train-km/Employee (thousands)	9.01	8.79
Revenue/Employee	195,752	192,218
Gross operating profit margin	27.6%	29.8%
FINANCIAL INDICATORS *(millions of Euros)*		
Net financial debt	5,904.8	6,885.4
D/E	2.21	2.85
Cash flows from current operations	1,217	533
Investments	(798)	(940)
Depreciation /Investments	1.3	1.2
Financial requirements	980.5	(158.4)

MAIN EVENTS OF THE YEAR

January

- On 11 January 2018, Trenitalia entered into a new contract governing the provision of regional railway public transport services for the 15-year period from 2018 to 2032 with the Veneto region.
- 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.
- On 24 January 2018, Trenitalia announced its participation, via its subsidiary Trenitalia UK, in a joint venture with First Group, in the tender for the railway franchises on the West Coast, which are expected to be awarded in 2019.
- MIT confirmed the two railway transport licences held by the company at the end of the five-year revision which checked compliance with current legislative requirements.
    - Licence no. 14/N for the provision of domestic passenger transport services.
    - Licence no. 1 for the provision of international passenger and freight transport.
- The #lamusicastacambiando (the music is changing) tour returned: the marketing campaign for the new regional ROCK and POP trains. The journey began at the end of 2017 and continued into 2018 in the main squares of: Genoa, Rome, Verona, Palermo, Reggio Calabria, Bari, Trieste and Ancona and is set to continue in 2019 across Italy's main squares. In the "#lamusicastacambiando village" everyone has the chance to preview models of the trains and to find out about their innovative characteristics, accompanied by entertainment, music and engagement activities. #Lamusicastacambiando aims to relaunch the regional railway system and develop integrated mass mobility, spreading awareness about the enormous effort that the company is committing in terms of its investments, which will result in it replacing most of its rolling stock.

February

- On 9 February 2018, at the end of a consultation process with the stakeholders, with resolution no. 16/2018, the ART approved the regulation deed which establishes the minimum service quality standards for passenger railway transport (national and regional), entailing public service obligations. These standards, set by the ART, apply throughout Italy to all services entailing public service obligations, including the operators known as the former railways, considering the characteristics of supply and demand (e.g., the time slots of the service).
- On 14 February 2018, Trenitalia and the Associazione I Borghi più Belli d'Italia (association of Italy's most beautiful villages) signed an agreement to enhance the artistic, cultural, environmental and traditional heritage of small villages which can be reached by train. To this end, joint tourism and local marketing initiatives will be organised, including advertising on the screens of the self-service machines at the Roma Termini station and the videos broadcast on-board regional trains. Trenitalia was therefore recognised as the official railway carrier of "I Borghi d'Italia".

May

- On 22 May Trenitalia entered into a new contract governing the provision of regional railway public transport services for the period from 2017 to 2026 with the region of Sicily.
- At the end of May, the latest developments since the release of the Trenitalia App were presented. The services that are already available, such as purchasing and changing tickets and push notifications about the status of the trains (before and after boarding), the seating plan and invoices. Live information about the circulation of trains, customised offers to travel at convenient prices and simpler and faster acquisition processes. The latest Trenitalia App confirms the strategy focused on the direct "one2one" relationship with customers, which aims to improve customer experience and to the greatest extent possible, satisfy the needs of those who use the services.

June

- On 12 June Trenitalia entered into a new contract governing the provision of regional railway public transport services for the 15-year period from 2017 to 2032 with the region of Puglia.
- As part of the Rail Supply Industry Expert Group Meeting, the European Commission indicated the European best practices for the acquisition of rolling stock within the regulatory context of Italian railway sector tenders.
- On 22 June 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 region of Lazio.

July

- On 5 July, the second regional transport travel book, Mare (the sea), was presented, following the publishing of that dedicated to Italy's villages, presented with the Associazione I Borghi più Belli d'Italia. The project aims to introduce (all the) regional transport passengers to a number of spectacular destinations that can be discovered and enjoyed sustainably and conveniently by train, , without the stress of travelling by car.
- Starting from the last ten days of July, the Frecce website has been updated to include new entertainment services provided in collaboration with partners RAI and TIM. Digital entertainment on board Trenitalia's high-speed Frecce trains has been enhanced with multimedia content, which focuses in particular on families, appealing to children and adults alike.
- On 27 July 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 region of Umbria.

August

- On 8 August, Trenitalia, the Fruili Venezia Giulia region and Slovenian railways signed an agreement to set up a railway service that connects Ljubljana with Trieste/Venice.
- During the month, Trenitalia and Mytaxi entered into a partnership to guarantee door-to-door integrated mobility. In fact, for the whole month of October, Trenitalia customers who bought train tickets to or from Rome, Milan or Turin, were offered the chance to buy a Mytaxi voucher worth €10 for just €5, saving 50%. Once purchased, the voucher is valid for one taxi ride paid for via the App until 30 June 2019.

October

- On 15 October, Trenitalia C2C, a subsidiary of Trenitalia UK, was named the best Rail Operator in the UK at the National Transport Awards. In the presence of the Secretary of State for Transport, Chris Grayling, the judges of the Rail Operator of the Year highlighted the improvements made to the services offered to customers since Trenitalia completed its acquisition of C2C in February 2017. Specifically, they noted the improvements since the supply of 60 new Bombardier Aventra trains, the introduction of an improved refund system in case of train delays and cancellations and the launch of a free Wi-Fi connection for all passengers.

November

- On 16 November, at Rome Termini station, Europe's first customer care service dedicated exclusively to regional train passengers was unveiled. The initiative involves 520 railways workers who will provide assistance at the main stations across the country and on approximately 100 thousand trains.
- On 27 November, Trenitalia was awarded the railway transport service in the Valle D'Aosta region for five years (which may be extended for an additional five years) for a total of €179 million. At the public hearing at the end of the procedure required for the tender process in order to assess the suitability of offers, Trenitalia's was confirmed as being the best. The offer presented by Trenitalia had already obtained the highest technical and economic score in July 2018 and the autonomous region of Valle d'Aosta was obliged to launch a procedure to assess the sustainability of the offer, the outcome of which was positive.

December

- On 5 December 2018, ART published resolution no. 120/2018 containing methods and criteria to guarantee efficiency in the management of regional railway services. This resolution aims to guarantee the efficiency and effectiveness of regional railway transport by identifying industrial and management KPIs focused on progressive effectiveness and efficiency of management results and it introduces specific obligations for railway companies in terms of regulatory accounts, separate accounting and the related final balance.
- On 18 December, the subsidiary C2C was named the UK's Most Punctual Rail Operator, with approximately 95.7% of trains arriving on time. This is even more impressive when compared with the UK average across all operators of 80.9%.
- The 2019 Budget Act (Law no. 145 of 30 December 2018) approved by parliament towards the end of the year confirmed again for 2019 the possibility for passengers to deduct 19% of the cost of their local, regional and interregional public transport services passes, up to a maximum of €250, from their taxes.

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 per barrel.

Global growth forecasts suggest a further slowdown (+3.3% in 2019), 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%.

International trade data		**2018**	**2017**
		(% change on previous year)	
GDP			
	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
Oil (Brent price per barrel in USD)		72.0	54.9
International trade		4.1	4.8

Source: Prometeia, December 2018

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	2.3
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 (+1.6%) was also impacted by both weak domestic demand and the negative impact of the recent 'Gilets Jaunes' protests. 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.

Italian economy

The expansive impulses of 2017 - global economic growth, low oil prices and expansive monetary policies - diminished in 2018, progressively weakening Italy's economic growth, which suffered in particular due to the slowdown of international trade. 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.

		2018		
GDP and main components	**Q1**	**Q2**	**Q3**	**Q4**
		(% change on previous year)		
GDP	0.3	0.2	-0.1	0.1
Domestic demand	0.3	0.7	-0.2	0.1
Spending by households	0.4	0.0	-0.1	0.1
Spending by public administration and private not-for-profits	0.0	0.2	0.0	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 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 GDP of around 0.5%.

MARKET PERFORMANCE AND 2018 NATIONAL RAILWAY TRAFFIC

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

Specifically, 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 vehicles 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 Budget 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.

Traffic figures of major 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 rail transport. Specifically, demand for mobility grew by just 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 Renfè SA with an approximate 3% increase in traffic volumes, while the French SNCF posted a 5% decrease.

RELATIONSHIPS WITH CUSTOMERS

Passenger transport - Market

The HS market segment was highly competitive in 2018, characterised by a pricing policy introduced by the competitor, which is very aggressive and unimaginable compared to the past, with a price gap on the Venice line (41% on the Rome-Venice backbone line and up to 72% on the Milan-Venice line) and with the increase in the offer of the competitor.

The company continued to pursue a premium price policy for all products in this segment, offering passengers the long-standing fare structure: Standard, Economy and Super Economy, i.e., a combination of flexibility and convenience. In 2018, multilevel pricing was introduced for the Frecciarossa, Frecciargento and Freccabianca tickets, based on the day and saturation; this multilevel pricing already existed for Economy and Supereconomy. Furthermore, the age limit for the CartaFreccia Young increased from 26 to 30, in order to respond to the mobility demands of an even larger range of customers.

In addition to this range, all the other offers remain in place: Two for the price of one every Saturday and holidays; Bimbi Gratis for families, allowing children under 15 years of age to travel for free; the CartaFreccia Special card for loyal customers, who can travel on Frecce trains with a 50% discount on Tuesdays, Wednesdays and Thursdays from 11am to 2pm; and the CartaFreccia Young and Senior cards for travellers under 30 and over 60 who can travel with a 30% or 50% discount, depending on how far ahead they book their journey. In addition, the special same-day and same-weekend roundtrip fares and the ticket books (for 10 or 3 journeys) were also confirmed. In 2018, the "Insieme" offer was launched, aimed at groups of between two and five people, which offers the possibility to travel with a discount of 30%.

With regard to the new routes (new connections between Turin/Milan-Venice) and the increase in Rome-Venice connections and the related commercial launch, two offers were presented in Summer 2018: the Super Venezia and Super Padova fares, offering a 50% discount and ticket books at special prices (ten journeys for the price of five) for passengers on the Milan-Venice line and at all the stations in between (Brescia, Verona, Vicenza and Padua).

In 2018, campaigns were organised to encourage purchases using discount codes attached to certain national holidays/events and campaigns were organised to encourage the purchase of e-credit (gift cards) during the Christmas, Easter and summer seasons, by topping up the e-credit balance (e.g., you spend €100 for a credit of €120).

Ancillary and intermodal services

In 2018, the ancillary and intermodal services available to customers, which add value to the Trenitalia range, continued and increased. The partnerships related to the main customer services, such as hotel-booking services, car rental, luggage transport and car parks at the stations have been confirmed.
The purchase process was integrated to give customers the possibility to select other services when they buy their tickets, such as access to the FRECCIACLUB, use of the FR meeting area and meals on board.
Furthermore, new intermodal partnerships were developed in 2018 through:

- the launch of new white-label (co-branded site) partnerships for other services (e.g.: Frecciatransfer taxi tender, cultural and sporting events and guided visits tailored to children);

- the launch of new white-label (co-branded site) partnerships for other services (e.g.: Frecciatransfer taxi tender, cultural and sporting events, guided visits tailored to children);
- furthermore, the sale of vouchers on the Trenitalia website has been extended to include the integrated cross selling of (-20%) discounted tickets for CitySightSeeing tourist buses in Italy's main cities (to Freccia train ticket and CartaFRECCIA holders).

In general, the company's qualitative performance can be summarised as follows: 96.3% of medium and long-haul trains in the market service segment arrived on time or, in any case, no more than 15 minutes late (compared to 97.9% in 2017). Customer satisfaction data, again in the market service segment, based on surveys by independent parties, show a 94.3% satisfaction with the journey service, consistent with that of the previous year (94.4% in 2017). [1]

- **Frecciarossa trains**

New offers for Frecciarossa trains introduced in 2018 can be categorised as follows:

- strengthening the leadership on the backbone line, increasing frequency mainly at the beginning/end of the day in order to offer customers new travel opportunities, by giving them more time available at their destination (e.g. Milan-Rome/Naples/Salerno at 5:30am, new pair on the Florence-Milan line, arriving in Milan at 7.45am and leaving at 8.50pm, a new Milan-Turin train at 7am, new daily evening departures from Milan and Rome at 9pm, a new Rome-Venice pair and planned extensions to existing Salerno-Turin trains);
- upgrading the Po Plan line, with the use of ETR1000 trains and by increasing the frequency of the connection (e.g. new Milan-Venice pair and new arrivals at Venice S.Lucia for trains which previously by-passed it);
- greater focus on strategic areas, setting up connections to Fiumicino airport and the introduction of direct connections between Perugia-Milan and Genoa-Milan/Venice;
- a more intensive summertime network: thanks to the extension to Sapri of a pair of Frecciarossa trains at the weekend during the summer and the new Milan-Ancona pair of trains, stopping at Rimini, Riccione and Pesaro aimed at the holiday-goers from Milan/Bologna.

Furthermore, with regard to the Frecciarossa fleet, the upgrading of the ETR500 trains was concluded with the installation of higher performance 4G modems capable of working on the new LTE bands, in order to improve the Wi-Fi service. The project for the installation of new routers on all the ETR 1000 trains, which allow for the SIM cards of several national operators to be used at the same time, in order to guarantee the best signal available throughout the whole journey.

Work continued to consolidate the on-board website (FRECCE website) with the launch of new functions including: smart login, multi-device access and the elimination of the login requirement to access entertainment. A beauty contest was held to select the new content provider for the FRECCE website and on-board monitors and it was awarded to RAI and TIM. Subsequent to such contract, a new "Kids'" section was added.

[1] It should be noted, however, that this does not include delays not caused by Trenitalia.

In addition to routine optimisation activities and constantly expanding the programming broadcast on the on-board screens on Frecciarossa and Frecciargento trains, new graphics were added to the travel info section and automatic multilingual options were included. Information about the expected arrival platform has been added to the screen about the next station. Furthermore, georeferenced content has been added, with information about the main connections and the public transport departing from the main railway stations, in addition to short entertainment videos (e.g. cartoons).

97% of Frecciarossa trains arrived on time or, in any case, no more than 15 minutes late, slightly down on the previous year (98.28% in 2017).[2]

Customer satisfaction data based on surveys by independent parties, show 95.4% satisfaction with the journey service, at year end, in line with the previous year (95.4% in 2017).

- **Frecciargento trains**

In 2018, the Frecciargento offer was characterised by:

- the improvement of the South Tyrrhenian line increasing the number of connections from two to four per day between Rome and Reggio Calabria (Via Naples Afragola);
- the launch of the commercial service at Trieste Airport station (from 19 March), with the introduction of two connections from Rome-Trieste and vice-versa;
- the roll-out of two new daily connections between Rome-Vicenza and vice-versa;
- the improvement of summertime services with:
    - the addition of Maratea as a stop on one Rome-Reggio di Calabria and vice-versa line at weekends over the summer;
    - the additional of two new stops at Monopoli on the Rome-Lecce line over the summer.

96.4% of Frecciargento trains arrived on time or, in any case, no more than 15 minutes late (98.6% in 2017). [3]

Customer satisfaction data, based on surveys by independent parties, show overall satisfaction with the journey of 91.7% at year end (2017: 92.9%).

- **Frecciabianca trains**

In 2018, the Frecciabianca offer focused on the following lines:

- Adriatic line with 11 pairs of FB 414 trains;
- North Tyrrhenian line with six pairs of ETR 460 trains;
- South Tyrrhenian line with two pairs of ETR 470 trains
- Rome – Ravenna line with one pair of ETR 460 trains

[2] It should be noted, however, that this does not include delays not caused by Trenitalia.

[3] It should be noted, however, that this does not include delays not caused by Trenitalia.

94.2% of Frecciabianca trains arrived on time or, in any case, no more than 15 minutes late, and decreased with respect to 2017 (97.2%). Customer satisfaction data show overall satisfaction with the journey of 91.7% at year end (2017: 91.5%).[4]

- **International service**

A new international destination was added in 2018: Frankfurt can now be reach directly from Milan on the Eurocity train. This connection is managed in collaboration with the SBB and DB railway companies.
The Venice-Zurich Eurocity train, which was already operative in June 2017 as a periodic weekend connection, became a daily route for the whole of 2018.
The European School Group offer was extended to include new German destinations, Freiburg and Frankfurt. Furthermore, for the Italy-Switzerland EC service, the possibility to pre-reserve seats for groups travelling together was introduced.

- **Freccialink**

Trenitalia's intermodal train+bus tickets launched in 2016 were further expanded, focusing on the tourist destinations not directly connected to the HS network.
The periodic mountain connections (Courmayeur, Cortina d'Ampezzo and Madonna di Campiglio) were confirmed, increasing the range with new routes to Val Gardena and Val di Fassa, adding stops aimed at offering greater regional coverage (e.g. Tai and San Vito di Cardore, Pinzolo).
The seaside lines (Sorrento, Gallipoli and Piombino) were confirmed and improved, with new stops in Cecina and Pompei and the creation of new connections to Otranto and Ugento/Santa Maria di Leuca.
The new Catanzaro-Lamezia route was created, in connection with the Frecciargento train to Rome and the Perugia-Florence route now leaves from Assisi.

Universal passenger service

The new service contract for medium and long-haul railway services subject to public service obligations became effective on 1 January 2017. The new service contract provides for the supply of a total of 25.1 million train-km using Intercity brand trains.

In 2018, all offers for intercity trains with dedicated price points were still available.

94.0% of medium and long haul trains falling under the universal service and other services reached their destination on time or less than 15 minutes late, down on the previous year (96.4%). Customer satisfaction data show overall satisfaction with the journey of 85.8% at year end (2017: 87.8%).[5]

[4] It should be noted, however, that this does not include delays not caused by Trenitalia.
[5] It should be noted, however, that this does not include delays not caused by Trenitalia.

Regional transport

A number of service contracts with direct assignment were signed in 2018. In particular, these contracts were signed with the Veneto, Liguria, Puglia, Umbria and Lazio regions, with a duration of 15 years, while the contract with the Sicily region has a duration of ten years. Furthermore, Trenitalia was awarded the regional railway service for 2019-2028 in the Autonomous region of Valle d'Aosta via the public call to tender.

The service contracts with the different regions are shown on the map below:

The 15-year service contracts with direct assignment are being negotiated with the regions of Calabria, Marche, Campania and Tuscany, while negotiations have continued with MIT for the direct assignment of a new service contract related to the services of the so-called undivided services in the north-east area (mainly Verona-Brennero and Trieste-Venice), which has been pending renewal since 2005 and for the recognition of the services provided since 2009 in collaboration with the MIT and the MEF. In fact, the company has continued to provide its services on the basis of instructions that the Ministry has provided each year, which periodically requests the same number of train-km as in 2011 for services to regions still included under the scope of the original contract.

The percentage of regional transport trains that arrived within 0 to 5 minutes of the scheduled time was 97.6%, showing a further improvement on the previous year (97.1%)[6].

Customer satisfaction data have progressed substantially. In particular, overall passenger satisfaction reached 84.5% in 2018, compared to 82.7% in 2017. More specifically, the perceived quality of cleanliness on board regional trains improved considerably, rising from 70.3% in 2017 to 73.5% in 2018.

In the context of improving the travel experience, a number of new initiatives were launched, regarding both the information available and ticket purchases, aimed at phasing out paper tickets and moving to complete digitalisation:

[6] It should be noted, however, that this does not include delays not caused by Trenitalia.

- the model used to calculate tariffs for journeys between two or more regions has been modified following the in-depth work of the Conference of Regions and Autonomous Provinces, which led to a reduction in the price of monthly and yearly passes;
- the types of tickets and passes on sale at the self service and indirect sales network (third-party POS) were extended;
- the use of the single smart card spread to facilitate the integration of the various means of transport, including fares, continued.

The commitment to anti-fare evasion and avoidance also continued with the regional and national pools of travelling anti-evasion officers who, in collaboration with Polfer (the railway police) and Company Security, check tickets on board trains. Since October 2018 these roles have evolved to enhance and develop assistance activities provided to customers, both on board and at the station, setting up the Regional Customer Care (assistance and security) service. The new customer care services were designed keeping in mind the one-million-six-hundred-thousand customers who use the regional services on a daily basis. The first stage focused, on an experimental basis, on commuters in Lazio at the three Roman stations of Tiburtina, Termini and San Pietro and the passengers of the Leonardo express in addition to in Liguria. The service was then rolled out across the whole of Italy.

Furthermore, significant attention was paid to leisure mobility, with different collaborations and activities:

- activities for the signing of commercial agreements and co-marketing also intensified, including that with FIAB Federazione Italiana Amici della Bicicletta (the Italian federation for cyclists) and that with Slow Food, a large international non-profit committed to restoring the value of food for people, the environment and local traditions, with the creation and promotion of a series of pocket-sized brochures with food and wine itineraries tailored to the regional railway lines.
- travel books in the style of travel guides have been published, which group by theme the main tourist destinations and attractions within a 1.5/2 km walk from the regional train stations.

PERFORMANCE

Reclassified income statement

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

The company applied IFRS 9 and IFRS 15 on 1 January 2018. It did not restate the comparative figures given the transition methods selected. However, reclassifications were made where necessary to make the figures comparable.

millions of Euros	2018	2017	Change	Delta %
Revenue	**5,367.9**	**5,312.7**	**55.2**	**1.0%**
- Revenue from sales and services	5,206.5	5,163.2	43.3	0.8%
- Other income	161.4	149.5	11.9	8.0%
Operating costs	**3,884.2**	**3,727.0**	**157.2**	**4.2%**
- Personnel expense	1,687.0	1,677.9	9.1	0.5%
- Other costs, net	2,197.2	2,049.1	148.1	7.2%
GROSS OPERATING PROFIT	**1,483.7**	**1,585.7**	**(102.0)**	**-6.4%**
Depreciation	1,061.0	1,085.7	(24.7)	-2.3%
Net impairment gains	36.6	79.6	(43.0)	-54.0%
Accruals to provisions for risks and charges	0.0	21.3	(21.3)	-100.0%
OPERATING PROFIT	**386.1**	**399.1**	**(13.0)**	**-3.3%**
Financial expense	86.9	73.2	13.7	18.7%
PRE-TAX PROFIT	**299.2**	**325.9**	**(26.7)**	**-8.2%**
Income taxes	42.4	49.7	(7.3)	-14.7%
PROFIT FOR THE YEAR	**256.8**	**276.2**	**(19.4)**	**-7.0%**

The profit for 2018 amounts to €256.8 million down by 7% compared to €276.2 million for 2017.

The gross operating profit decreased by approximately €102.0 million, falling from €1,585.7 million in 2017 to €1,483.7 million in 2017 (-6.4%), while the gross operating profit margin also decreased, falling from 29.9% in 2017 to 27.6% in 2018 (-2.2%).

Gross operating profit was negatively effected by operating costs related to two external factors. The first of which regarded the changes in 2017 to the cost of electrical energy for traction introduced by Law no. 167 of 20 November 2017, applied retroactively, which had a positive impact on 2017 gross operating profit of approximately €78.9 million, while the second factor related to the introduction of a new tariff system which, for the same volumes and mix offered in 2017, increased by approximately €36 million, mainly affecting all the main traffic routes that have no competition. The combination of the above-mentioned factors resulted in a negative impact on operating costs in 2018 of approximately €115 million. Net of the external factors, the performance of operations was substantially in line with the previous year.

With regard to revenue, competition further intensified in 2018 on the HS lines, as a result of the improvements the competitor made to its service scope in 2017 and the introduction of a new Po Plain line. The competitor's increased offer was supported by extremely aggressive and previously unimaginable pricing policies. On the other hand, there has been a significant increase in demand for regional passenger transport and a consequent increase in the traffic revenue.

The gross operating profit was partially absorbed by the amortisation, depreciation and impairment losses, reducing the impact on operating profit, which came to €386.1 million, down on the previous year (€399.1 million) accounting for 7.2% of revenue, which also decreased on 2017 (7.5%).

Revenue

Revenue from sales and services

Revenue from sales and services rose by 0.8% to €5,206.5 million for 2017, compared to €5,163.2 million in the previous year. The changes in each type of revenue are summarised below:

Descrizione	2018	2017	% change
Traffic revenue	2,961.9	2,960.4	0.1%
Revenue from public service contracts	2,040.1	2,003.3	1.8%
Revenue from other transport-related services	204.5	199.5	2.5%
Total	**5,206.5**	**5,163.2**	**0.8%**

Traffic revenue

Traffic revenue remained substantially unchanged (+0.1%) with significant increases mainly in regional passenger traffic (+€36.8, +3.8%), partially offset by the reduction in long-haul passenger traffic (-€34.9 million, equal to -1.7%).

Additional details on the trend in traffic revenue are given in the section providing reporting by division.

Revenue from service contracts

Revenue from service contract fees (the regions and the government) is up by €36.8 million (+1.8%) on 2016. Such change regards both the Medium and Long-Haul Passenger Division (+€13.9 million) and the Regional Transport Passenger Division (+€23.1 million).

The fees from the medium and long-haul service reflect the adjustment of the estimated fee for 2018 of €16.2 million, net of estimated penalties, to offset the increased fees, following the introduction of the new tariff system, in order to ensure a sound financial balance to support the investment plan in the universal service sector, guaranteeing a higher service quality level through the upgrading of rolling stock.

Local public transport fees paid by the government for undivided services are substantially unchanged, while revenue generated by service contracts with the regions (€1,684.5 million) are up by approximately €23.1 million: this increase is due to the higher fees provided for in the new service contracts aimed at guaranteeing a sound financial balance to support the increased offer and the substantial investment plan for the renovation and modernisation of the fleet aimed at meeting customer needs.

Additional details on the trend in revenue from service contracts are given in the section providing reporting by division.

Revenue from other transport-related services

Revenue from other transport-related services increased by a total of €5.0 million on 2017. This increase was mainly due to the fees for the contract signed with the railway infrastructure operator (+€8.7 million) for the provision of an emergency system, which did not exist in the previous year, partially offset by the decrease in the sale of stock (-€3.3 million).

Other income

Other income increased by €11.8 million compared to 2017. The main changes can be broken down as follows:

- increase in travel irregularities for €3.5 million;
- Increase in insurance compensation of €2.4 million;
- non-recurring adjustment of the value of the free travel cards used by group companies of approximately €5.5 million, with a negative impact in the previous year

Operating costs

Operating costs increased slightly on 2017, by €157.2 million (+4.2%).

Personnel expense increased by €9.1 million (+0.5%). The increase is the net effect of certain positive and negative factors, such as:

- €10.0 million increase in costs due to the higher average cost per employee as the raises provided for by the national labour agreement took full effect, the adjustment to cover the estimated charges related to the average increase for 2018 and the rise in personnel services. This increase is in addition to the higher overall costs of €5.1 million, mainly due to the relief on social security contributions received in 2017 but not in 2018. The above-mentioned increases in unit costs were partially absorbed by the reduction in the unit cost of expenses for €9.0 million and by the decrease in expenses for holidays accrued but not taken of €4.4 million. The dynamic related to the components of the unit cost resulted in an overall increase of just €1.7 million;
- €0.9 million increase related to the dynamic of full-time equivalents (FTE), which despite decreasing by 217 resources, increased in terms of cost, following the different turnover mix related to the different business processes;
- €5.4 million increase, of which €5.7 million for temporary workers and new uniforms, partially offset by the decrease in other costs of €0.3 million.
- €1.2 million increase in accruals for labour litigation.

Other costs, net of the capitalisation of routine maintenance and other revamping operations performed on rolling stock, increased by €148.1 million (+7.2%). This caption was negatively affected by two external factors, the first of which regarded 2017, which benefited from a positive impact pertaining to prior years, for approximately €78.9 million, following the significant decrease in the unit cost of electrical energy for traction

(IMU) as per the new legislative measures introduced at the end of 2017. The second external impact, on the other hand, was due to the introduction of the new special rate regime for costs to access infrastructure which, for the same volumes as 2017, resulted in an increase in toll costs of approximately €36 million in 2018. Therefore, net of these external factors, the increase in other costs amounted to €27.4 million.

This increase is mainly due to the higher costs to support the increase in the HS long-haul services offered and to the public transport service contracts stipulated with the Italian regions.

The increase in services offered resulted in a total cost increase of €40.5 million, of which €24.3 million for costs to access infrastructure, €6.5 million for cleaning, €6 million for maintenance and €3.7 million for on-board customer care services.

In order to support turnover and to keep up with the competition, external communication costs also increased (advertising, marketing and entertainment) by €7.7 million, in addition to those related to incentivising external sales channels for €3.9 million.

The following increases were also recognised:

- unit cost of electrical energy for traction of €18.7 million;
- shunting costs of €8.3 million, following the outsourcing of resourcing and performance of maintenance and operations;
- costs of IT services of €5.9 million due to the increase in volumes and maintenance activities to upgrade existing systems.

Against these increases, the main decreases were as follows:

- costs to move materials as part of the maintenance network for €4.8 million;
- costs to scrap inventory and accruals to the loss allowance of €16 million;
- ferry costs for €4 million, following the new tariff regime for ferry trips;
- costs for night security escort services for €3.1 million, following the roll-out of the new contract;
- costs for the lease of rolling stock and property lease payments for €5 million;
- insurance costs for €3.4 million;
- losses related to the demolition and disposal of rolling stock and spare parts for €9.7 million;
- non-recurring charges of €8.3 million mainly related to risk provisions accrued during the previous year.

Amortisation and depreciation

Amortisation and depreciation decreased by €24.7 million on the previous year due to the lower impact of assets rolled out and those that reached the end of their useful lives during the year. There was an increase of approximately €27.2 million due to the accelerated depreciation to adjust the economic and technical useful lives of certain types of rolling stock, which are expected to be taken out of production in the next five years as part of the progressive replacement of said stock.

Impairment losses

They amount to €36.6 million, showing a decrease of €42.9 million. They mainly relate to impairment losses on rolling stock following the continuation of the disposal of technically and commercially obsolete rolling stock.

Provisions

Provisions amount to zero and decreased by €21.3 million due to the recognition in the previous year of the accrual to a restructuring provision to activate projects to access the extraordinary benefits under the income assistance fund for FS group employees.

Financial income and expense

Net financial income decreased by €13.7 million compared to the previous year. This decrease is mainly due to the combined effect of the decrease in financial income of €17.7 million, partially offset by the decrease in financial expense of approximately €4 million.

The decrease in financial income is due to the recognition of gains on the sale of equity investments in 2017 for €7.3 million following the sale of the subsidiary Serfer S.r.l. (subsequently renamed Mercitalia Shunting & Terminal) and the lower interest income related to VAT asset (-€4.2 million) which was a direct consequence of the decrease in tax assets due to reimbursements received. Furthermore, it should also be noted that in 2017 interest income from the Liguria region pertaining to previous years was recognised (approximately €3.5 million) for the payment plan of the grants related to assets of €50 million over 24 years. Lastly, Trenord distributed lower dividends, resulting in a further €0.4 million decrease.

The decrease in financial expense of approximately €4 million, is mainly due to:

- the decrease in borrowing costs for €2.3 million. This is due to the decrease in current loans (-€5.3 million) partially offset by the increase in non-current loans (+3 million);
- the decrease in the interest cost of post-employment benefits of approximately 2.1 million and the increase in the time value of derivatives (€2.9 million);
- the €2.2 million increase recognised through profit or loss for the impairment losses on the subsidiary Thello S.a.s..
- the increase in exchange losses of €1.1 million;

Income taxes

The tax charge for the year decreased by €7.3 million, due to the following factors:

- the €8.1 million decrease includes the €5.3 million decrease in IRES and €2.8 million decrease in IRAP. The latter is attributable to the lower pre-tax profit, while the decrease in IRES relates to the benefits of super-amortisation (Law no. 2018 of 28 December 2015) and hyper-amortisation and super-amortisation 4.0 (Law no. 232/2016).
- the net decrease in deferred tax assets and liabilities came to €2.5 million and is mainly due to the adjustment of deferred tax assets of the year (€2.5 million).
- lastly, the €1.5 million increase related to the adjustment of the 2017 tax balance.

Reclassified statement of financial position

millions of Euros	31.12.2018	31.12.2017	Change
ASSETS			
Net working capital	563.1	964.6	(401.5)
Other assets, net	(321.7)	(236.1)	(85.6)
Working capital	**241.4**	**728.5**	**(487.0)**
Non-current assets	9,136.8	9,447.6	(310.9)
Non-current equity investments	57.5	57.5	(0.0)
Net non-current assets	**9,194.2**	**9,505.1**	**(310.9)**
Post-employment benefits	(624.8)	(708.1)	83.3
Other provisions	(238.2)	(222.3)	(15.9)
Post-employment benefits and other provisions	**(863.1)**	**(930.5)**	**67.4**
NET INVESTED CAPITAL	**8,572.6**	**9,303.1**	**(730.5)**
COVERAGE			
Current net financial debt	1,429.6	1,660.5	230.9
Non-current net financial debt	4,475.3	5,224.9	749.6
Net financial debt	**5,904.8**	**6,885.4**	**(980.5)**
Equity	**2,667.8**	**2,417.8**	**250.0**
TOTAL COVERAGE	**8,572.6**	**9,303.1**	**(730.5)**

Net invested capital

Net invested capital decreased by €730.5 million on 31 December 2017 due to the €487.1 million drop in working capital and the €310.9 million reduction in net non-current assets, partly offset by the €67.4 million decrease in post-employment benefits and other provisions.

Net operating working capital decreased by €401.5 million, mainly due to:

- the €390.2 million decrease in trade receivables. This decrease is mainly attributable to the receivables received from the MEF for the medium and long-haul service contract fees (-€284 million) related to amounts invoiced for 2017, in addition the payment for services related to the regional transport service contract (-€79.4 million), the latter related to services provided in 2014. In addition to this decrease, amounts due from regions also decreased (-€122 million) for service contracts which decreased from €793.5 million at the end of 2017 to €671.5 at the end of 2018. Furthermore, the overdue portion of amounts due from regions (amounting to approximately €256.46 million) is substantially in line with the previous year (€264.74 million).

- trade payables and inventories are substantially in line with the previous year (-11.3 million compared to 2017).

Other net assets decreased by €85.6 million, mainly due to the following:

- the €104.1 million improvement in the VAT position due to the reimbursements received during the year (€142.2 million) and related to the settlement by the tax authorities of the VAT asset claimed for reimbursement accrued in the fourth quarter of 2016 and the first quarter of 2017, partially offset by:
- the decrease in deferred tax assets of €6.5 million;
- the decrease in other liabilities of approximately €27 million, mainly due to the decrease in the liability due to the parent for the tax consolidation scheme of €11.7 million and amounts due to personnel of €6.9 million related to the bilateral fund for income assistance in connection with projects nearing conclusion.

Net non-current assets decreased by €310.9 million mainly due to the net decrease in amortisation, depreciation and impairment losses of the year (€1,097.4 million) and the investments made during the year (€797.9 million); other decreases (disposals, disinvestments etc.) amount to €11.3 million.

Post-employment benefits and other provisions decreased by €67.4 million on 31 December 2017, due essentially to the following:

- the €83.3 million decrease in post-employment benefits and other benefits following the utilisation of post-employment benefits when employees left the company (including infragroup transfers) and advances were paid, offset by interest of €7 million;
- the €16 million increase in other provisions mainly due to the rise in the provision for risks of €13.6 million.

Net financial position

The company's net financial position amounts to €5,904.8 million, reflecting an improvement of approximately €980.5 million in the year. Continuing operations generated net cash inflows of €1,217.4 million in 2017, absorbed by cash flows used in investing activities (€304.4 million) (excluding scheduled extraordinary maintenance) and €71.3 million for cash flows used in financing activities, while it benefited from VAT repayments by around €150 million (€142.2 million) and grants related to investments (€8 million).

In 2018, the company also incurred outflows for the repayment of roughly €776 million in non-current loans falling due.

Equity

Equity in the reclassified statement of financial position includes derivative liabilities, unlike in the non-reclassified statement. Accordingly, to provide a clear understanding, the following reconciliation of reclassified equity and non-reclassified equity is given below.

	2018	2017	Change
Reclassified equity	2,667.8	2,417.8	250.0
Derivative liabilities included in equity	(18.8)	(30.4)	11.6
Equity	**2,649.0**	**2,387.4**	**261.6**

Reclassified equity shows a €250 million increase due to the following changes:

- recognition of the profit for the year of €256.7 million;
- decrease in equity of €1.3 million following the first-time adoption of IFRS 9;
- €1.8 million decrease in the actuarial reserve for employee benefits;
- €3.6 million decrease due to the change in the derivative liabilities included in equity (€11.6 million), net of the hedging reserve, including the tax effect (€8 million).

Reporting by division

Trenitalia is organised into separate divisions, each of which generates independent cash flows:

- Long-Haul Passenger Transport
- Regional Passenger Transport

In accordance with the company's control model, the cross-company divisions (Technical Head Office, Industrial Logistics Head Office, Industrial Planning Head Office and Staff) are allocated to the income statements of the various divisions, making it possible to present them on a full-cost basis.

This reporting by division is not in compliance with the reporting by division criteria required by IFRS 8, as the company has no obligation in this respect.

Long-Haul Passenger Transport

The Long-Haul Passenger Transport Division manages domestic and international medium and long-haul passenger transport services, which include both those sold on the market (high speed Frecciarossa and Frecciargento trains, as well as Frecciabianca and international trains) and medium and long-haul Intercity day and Intercity night services pursuant to a service contract with the government.

millions of Euros	2018	2017	Change	%
Revenue	**2,498.5**	**2,505.7**	**-7.2**	-0.3
-Revenue from sales and services	2,319.1	2,337.6	-18.5	-0.8
- Other income	179.4	168.1	11.3	6.7
Operating costs	**(1,765.3)**	**(1,709.8)**	**-55.5**	3.2
Gross operating profit	**733.2**	**795.9**	-62.7	-7.9
Amort.,deprec. and impairment losses	(541.5)	(572.0)	30.5	-5.3
Operating profit	**191.8**	**223.9**	**-32.1**	-14.3

The Long-Haul Passenger Transport Division ended the year with an operating profit of €191.8 million, down on the previous year (-€32.1 million). The gross operating profit also decreased considerably from €795.9 million in 2017 to €733.2 million in 2018. The gross operating profit margin as a percentage of revenue came to 29.3% in 2018, down on the 31.8% of 2017.

The EBITDA's Long-Haul Passenger has been negatively affected by two external factors. The first of which regarded the changes in 2017 to the cost of electrical energy for traction introduced by Law no. 167 of 20 November 2017, applied retroactively, which had a positive impact on 2017 gross operating profit of approximately €78.9 million, while the second factor related to the introduction of a new tariff system which, for the same volumes and mix offered in 2017, increased the related cost by approximately €30 million, mainly affecting all the main traffic routes that have no competition.

The following table reports the main traffic indicators. The indicators are reported separately for market services for which no public grants are awarded, meaning there are no regulations dictated by service obligations and the universal service, which refers to trains under a specific service contract with the government.

	2018	2017	Delta %
Revenue (millions of Euros)	**2,499**	**2,506**	**-0.3%**
Passenger KM (milions):	**20,595**	**20,306**	**1.4%**
- of which market service*	16,828	16,303	3.2%
- of which universal service	3,768	4,003	-5.9%
Train km (thousands)	**90,303**	**87,506**	**3.2%**
- of which market service*	64,933	62,034	4.7%
- of which universal service	25,370	25,472	-0.4%

(*) Excluding Frecciali nk's Passengers-Km and Bus-Km

Medium and long-haul traffic revenue decreased by a total of €7.2 million (-0.3%) on 2017. The fee adjustment in the 2017-2026 service contract ensures a sound financial balance to support the investment plan in the sector, guaranteeing a higher service quality level through the upgrading of rolling stock. The traffic revenue trends in 2018 were affected by the demand for regional passenger transport caused by a gradual worsening of the macroeconomic context, the increase in the competitor's offer (+10 trains on the Milan-Turin line and progressive increase to Venice, resulting in the doubling from 1 April, with eight trains and the new Po Plan line with ten trains in May and 14 since the timetable changed in June) and the competitor's aggressive pricing policy.

The traffic revenue trends in the various service types were as follows:

- the **market segment** shows a 1.3% decrease (-€22.4 million), due to the decrease in revenue (-€22.0 million) from the Freccia trains, in addition to revenue in line with the previous year generated by the international and charter trains;

- the **universal service** shows a 4.5% decrease in total revenue (-€12.5 million) decrease on both services (day -€6.6 million and night -€5.9 million).

Operating costs of the Long-Haul Passenger Transport Division went from €1,709.8 million in 2017 to €1,765.3 million in 2018, up by €55.5 million (+3.2%).

Personnel expense decreased by a total of €2.5 million, almost entirely due to the decrease in personnel (-2.9% compared to 2017) and the rise in unit personnel expense of 2.1%.

As mentioned earlier, other operating costs increased by approximately €58.0 million compared to 2017 mainly for fees of €47.4 million for the first year of application of the new tariff model as per new legislative measures and for the increase in train-km production (+3.2%). Net of such effect, the costs of train-km decreased, absorbing the higher costs of the market services (+4.7%).

The costs to access the infrastructure (fees, electrical energy and related services) rose by €56.5 million, production costs (maintenance, cleaning and crew management) rose by €1.5 million and on-board train services increased by €3.8 million in relation to catering and complimentary drinks, while costs for night security escort services decreased by €3.2 million. Commercial costs also increased by €12.7 million. At the beginning of 2018, the Division launched a process to streamline the production structure, by adopting a new industrial process organisational model which generated synergies and improved efficiency in terms of costs and productivity of production factors.

The decrease in depreciation of €30.5 million related to the completion of the depreciation process of ordinary maintenance on rolling stock in the market segment for approximately €22.6 million, and the decrease in rolling stock in use for universal service of €12.4 million.

This Division’s net invested capital is shown below in comparison with the previous year end:

Millions of Euros	**31.12.2018**	**31.12.2017**	**Change**	**%**
Net working capital	(428.9)	(53.1)	(375.8)	707.7
Net non-current assets	3,998.7	4,311.9	(313.2)	(7.3)
Other provisions	(208.0)	(226.6)	18.6	(8.2)
Net invested capital	**3,361.8**	**4,032.2**	**(670.4)**	**(16.6)**

Net invested capital decreased by approximately €670.4 million on the previous year end, this is mainly attributable to:

- amounts received from the MEF for fees from service contracts related to amounts for medium and long-haul services (€284 million);
- reduction in non-current assets (-€313.2 million) due to the net result of increases for investments and the decrease due to the ordinary amortisation, depreciation, impairment and scrapping of rolling stock.

Regional passenger transport

The Regional Passenger Transport Division is responsible for urban transit and regional and inter-regional transport services in accordance with the regional service contracts, meeting the explicit requirements of the various regions. Organised into 20 regional/provincial departments, this segment promotes, together with local bodies and other transport companies, modal and fare integration schemes to facilitate transit services for residents.

Millions of Euros	2018	2017	Change	%
Revenue	**2,834.9**	**2,768.7**	**66.3**	2.4
- Revenue from sales and services	2,787.5	2,715.5	72.0	2.6
- Other income	47.5	53.2	-5.7	-10.7
Operating costs	**-2,084.5**	**-2,033.9**	**-50.5**	2.5
Gross operating profit	**750.5**	**734.7**	**15.7**	2.1
Amortisation, depreciation and impairment losses	-556.2	-538.0	-18.2	3.4
Operating profit	**194.3**	**196.8**	**-2.5**	-1.2

The Regional Passenger Transport Division ended the year with an operating profit of €194.3 million, slightly down on the previous year (€196.8 million). The gross operating profit showed an increase of approximately 2.1%, rising from €734.7 million in 2017 to €750.5 million in 2018, while the gross operating profit margin as a percentage of revenue is in line with 2017 at 26.5%.

The following table reports the main traffic indicators:

	2018	2017	Delta %
Revenue (€/million)	**2,834.9**	**2,768.7**	**2.39%**
Passenger-km (millions)	18,854	18,704	**0.80%**
Train-km (thousands)	156,888	155,579	**0.84%**

In 2017 regional transport traffic revenue grew on the previous year by €66.3 million (+2.4%). This is due to the rise in passenger traffic revenue, up by approximately €36.2 million (+3.8% on 2017).

This increase was generated by both modest tariff increases and actions to curb recurrent fare evasion through the checks performed by the national and regional fare evasion officers at stations and on trains. In November these activities were upgraded to "assistance and security" for regional transport thanks to aid of over 520 on-site resources.

The positive trend of the tariffs is attributable to the tariff increases (+7.7% on 2017) benefiting the core component. This was thanks to the actions of certain regions, such as Emilia Romagna which made transport in the 13 metropolitan areas free. With regard to passes, the increases recognised are also thanks to the tax incentives making them tax deductible.

With regard to single tickets, the increase is due, on the one hand, to the new supraregional algorithm and the positive performance of leisure products (5Terre - cultural events - musicals - trade fairs where Trenitalia is increasingly the official carrier) and the Leonardo Express (+7.2% on 2017).

Production measured in terms of train-km increased by 0.84%, mainly in Lazio, Tuscany, Calabria, Friuli and Campania.

Local public transport fees paid by the government for undivided services in the Triveneto region are substantially unchanged, while revenue generated by service contracts with the regions (€1,697.6 million) are up by approximately €23.8 million, essentially due to the renegotiation of some of them. In this regard, during 2018, service contracts for the provision of regional railway public transport services were signed with the Veneto, Liguria, Sicily, Puglia and Lazio regions.

As for fees from the government, the public service contract with the MIT for the special-status regions has been pending renewal since 2005. However, the company has continued to provide its services on the basis of specific instructions that the Ministry has provided each year, whichperiodically requests the same number of train-km as in 2011 for services to regions still included under the scope of the original contract. The gap between public funding earmarked for these services and production revenue for the same amounts to roughly €5 million, which the company has prudently measured.

Other income decreased by €5.7 million, mainly due to the lower ticket sales fees despite the increase in the provision for penalties from service contracts.

The operating costs of the Regional Transport Division amount to €2,084.5 million, up by approximately €50.5 million on the previous year (+2.5%). The increase is due to personnel expense (approximately €17.2 million, or +1.9%), due to the increase in personnel expense for employees (+1.6%) which was impacted by the increase in the number of resources (equal to +212 FTEs) and other costs, net of roughly €2.8 million (+0.3%).

The increase in other costs, net of personnel expense, equal to €33.3 million is mainly due to the effect of some factors external to management, including:

- the €4.0 million rise in electrical energy cost due to the combined effect of the increased production and unit cost from €0.33/tkm to €0.36/tkm;
- recognition of the prior year expense related to the adjustment of the unit cost of electrical energy pertaining to 2017 for €4.1 million;
- the increase in fees (+€9.8 million) due to the increase in production and the rise in the average IMU which went up from 2.58€/tkm to 2.62€/tkm;
- higher costs to scrap rolling stock equal to €4.7 million;
- higher costs of approximately €13 million mainly related to cleaning, other contracted services, shunting and fuel consumption.

This Division's net invested capital is shown below in comparison with the previous year end:

Millions of Euros	31/12/2018	31/12/2017	Change	%
Net working capital	423.1	630.7	(207.6)	(32.9)
Net non-current assets	4,436.9	4,621.0	(184.1)	(4.0)
Other provisions	(375.1)	(412.1)	37.0	(9.0)
Net invested capital	**4,484.9**	**4,839.6**	**(354.7)**	**(7.3)**

The decrease in net invested capital (€354.7 million) is essentially due to the €207.6 million decrease in net working capital following the reduction in amounts due from ordinary-status regions (-€122 million) which fell from €793.5 million at the end of 2017 to €671.5 million at the reporting date, in addition to the decrease in amounts due from the MEF for service contract fees (-€53 million) and the decrease in non-current assets (-€184.1 million) as the net result of the increases for investments and the decreases for ordinary depreciation, impairment and scrapping of rolling stock.

HUMAN RESOURCES

The company has 27,469 employees at year end. More detailed information is given the table below:

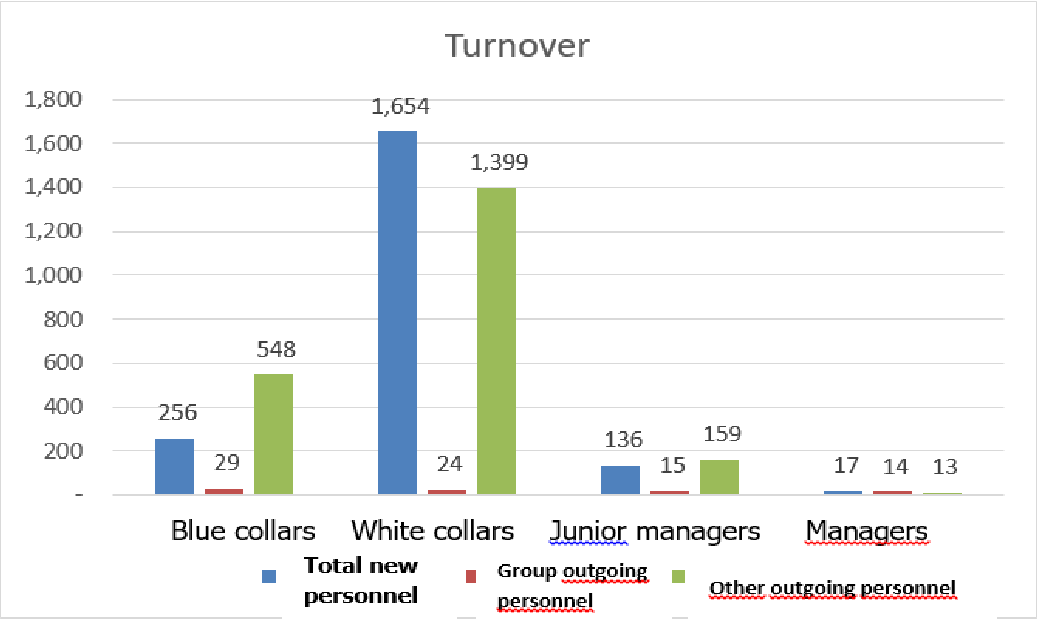
	Employees	Junior managers	Managers	Total
31.12.2017	24,362	3,041	204	27,607
Increase	1,759	135	17	1,911
Decrease	(1,848)	(174)	(27)	(2,049)
31.12.2018	**24,273**	**3,002**	**194**	**27,469**

New hires, not considering transfers between group companies, consisted of personnel assigned to driving rolling stock (35%), on-board checks (36%) and personnel assigned to maintenance of rolling stock (15%). Decreases in the year were due to ordinary employee turnover, promotions and infragroup transfers. New drivers and escorts of rolling stock hired during the year were greater than outgoing personnel due to those reaching the age limit, in order to guarantee the time necessary for the generational change, which will continue in 2019. This aspect is particularly important for the professional group of train drivers, the standard training time for which is equal to 9/10 months before being able to work independently.

Qualitative information about the breakdown of employees by gender, age bracket and turnover is given below.

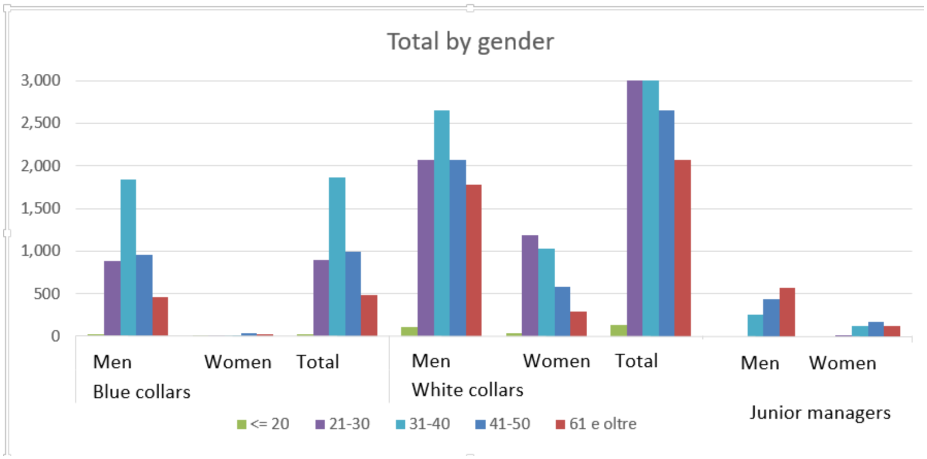
2018 turnover is as follows:

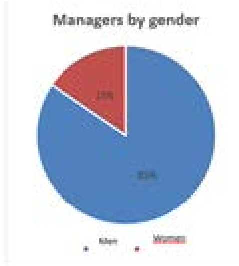
	Blue collars	White collars	Junior managers	Total employees and junior managers	Managers	**Total**
31/12/2017	6,350	18,012	3,041	**27,403**	**204**	**27,607**
Recruitment	248	1,495	7	**1,750**	1	**1,751**
Personnel from other group companies	5	7	3	**15**	3	**18**
Promotions	3	152	126	**281**	13	**294**
Total new personnel	**256**	**1,654**	**136**	**2,046**	**17**	**2,063**
Personnel who left the company	400	1270	142	**1,812**	13	**1,825**
Personnel transferred to other group companies	29	24	15	**68**	14	**82**
Promotions	148	129	17	**294**	-	**294**
Total outgoing personnel	**577**	**1,423**	**174**	**2,174**	**27**	**2,201**
31/12/2018	**6,029**	**18,243**	**3,003**	**27,275**	**194**	**27,469**
Average workforce for 2018	**6,208**	**18,110**	**3,044**	**27,362**	**193**	**27,555**

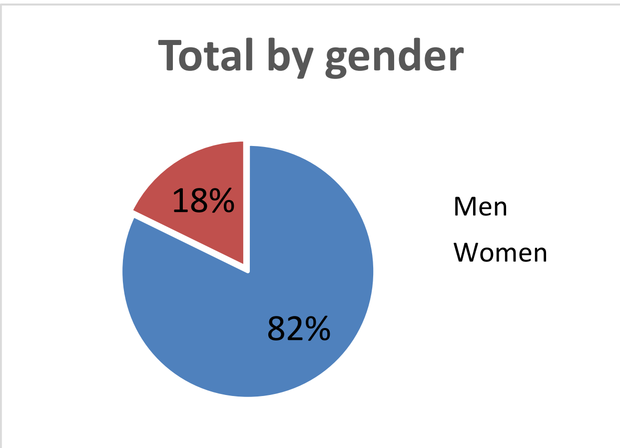


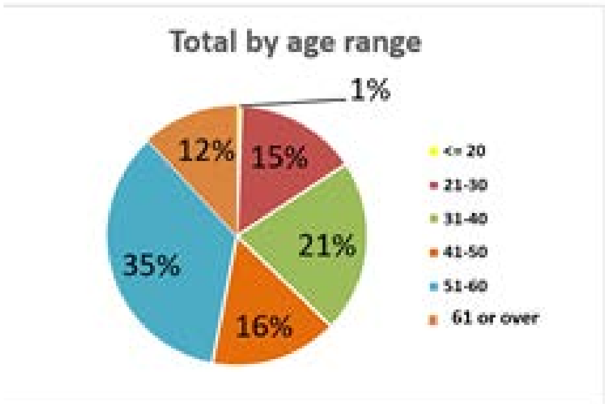
Information about the number of employees and a breakdown by age bracket and gender is given below:

	Blue collars			White collars			Junior managers			Managers			Total by gender		
Age range	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
<= 20	20	1	**21**	106	33	**139**			**0**	0	0	**0**	126	34	**160**
21-30	885	9	**894**	2.066	1.190	**3.256**		1	**1**	0	0	**0**	2.951	1.200	**4.151**
31-40	1.841	18	**1.859**	2.649	1.029	**3.678**	249	118	**367**	7	2	**9**	4.746	1.167	**5.913**
41-50	951	42	**993**	2.067	584	**2.651**	438	173	**611**	73	14	**87**	3.529	813	**4.342**
51-60	1.706	71	**1.777**	5.499	952	**6.451**	1.138	198	**1.336**	66	13	**79**	8.409	1.234	**9.643**
61 e oltre	459	26	**485**	1.780	288	**2.068**	572	116	**688**	18	1	**19**	2.829	431	**3.260**
31/12/2018	**5.862**	**167**	**6.029**	**14.167**	**4.076**	**18.243**	**2.397**	**606**	**3.003**	**164**	**30**	**194**	**22.590**	**4.879**	**27.469**
Average workforce for 2018	**6.037,0**	**170,9**	**6.207,9**	**14.232,6**	**3.877,3**	**18.109,9**	**2.446,3**	**598,2**	**3.044,4**	**164,1**	**28,7**	**192,8**	**22.879,9**	**4.675,1**	**27.555,0**









In application of the agreement signed on 28 July 2016 integrating and amending the regulation of the bilateral fund for income assistance and employment for FS group employees as per Interministerial decree no. 86984 of 9 January 2015, based on the provisions of Legislative decree no. 148 of 14 September 2015, the approach, criteria and procedures were defined for the implementation of generational change to be activated by using such fund's extraordinary benefits. The fund's extraordinary benefits for generational change are granted in the following circumstances:

- technological upgrading of plant, rolling stock and industrial processes that require professionals with specialist expertise matching the requirements of the innovative technologies introduced;
- raising of requirements to qualify for the old age pension for employees during the year.

Therefore, all workers with open-ended contracts holding professional positions used in operations at the date the benefits of the fund are activated, who meet the first (old age or early) pension requirement as per relevant legislation within a period of no more than 36 months from such date qualify for access to the fund's extraordinary benefits.

In accordance with these agreements, the personnel who qualify for access to the fund's extraordinary benefits shall be identified on a voluntary basis for an estimated total of 590 workers for Trenitalia and, in any case, up to the amount that can be covered by the fund's financial resources allocated to benefits for generational change.

The launch of projects planned for 2018 was postponed to 2019, partly due to the uncertainty related to the evolution of the legislative framework, recently reformed with the issuing of Law decree no. 4/2019 and the related impacts thereof on Legislative decree no. 148/2015D). The new projects planned for 2019 will regard the carry-over generated by projects launched in 2017 and will lead to approximately 380 resources being added to the fund for income assistance

Trenitalia training

Trenitalia's training plan for 2018 consisted of a total of 267,613 man-days (189,311 man-days in 2017) with the participation of approximately 127,065 people (125,455 in 2017). Trenitalia's training volumes have increased significantly over the last three years thanks to the increased efficiency in the management of the process, deriving in particular from the introduction of digitalisation and to the resources provided by Fondimpresa of approximately €2.8 million.

The aim of the plan is to support the achievement of business targets by focusing attention on the emerging areas related to the changing market demands and the overall broader scenario. Specifically:

- develop skills like a focus on internal and external customers and an approach driven by the market and competition and industrial and management skills to hone communications and effective listening;
- encourage the widespread awareness of rules and information on safety in the workplace and in operations, develop risk awareness and perception when performing one's duties;
- support workers' technical and professional growth, making the most of each individual's abilities and potential;
- facilitate the innovation and organisational change processes in Trenitalia, through training and by integrating processes and skills.

Specifically, Trenitalia training in 2018 related to the following areas:

- managerial, behavioural and business support training: in addition to training on typical management, behaviour and interpersonal skills for managers and other personnel requiring support for their position or guidance at times of growth or following professional assessments, the company launched initiatives to support the reorganisations and the division growth. Particular attention was paid to the area of Corporate Protection for the development of technical and behavioural skills in order to guarantee the safety of personnel and passengers;

- technical/professional training: to develop practical and theoretical technical/professional skills which are essential for work activities, such as certification and updates for train conductors, inspectors, escorts and train assemblers. In 2018, special attention was dedicated to electrical risks during maintenance activities via traditional classroom training and e-learning;
- training to support these change processes: to meet company needs, training initiatives began for employees affected by new ways of working or new systems implemented in the company: the new billing cycle linked to digitised management of purchases or updates in functionalities of the Rolling Stock Management System, the management system that supports maintenance processes.

Trenitalia's development activities

The company took part in typical development activities such as assessments of potential and performance, the implementation of development plans to support the professional journey of its personnel and all activities related to remuneration (remuneration policies, meritocracy and MBOs).

Furthermore, specific projects aimed at evaluating operating roles were carried out and an analysis was performed for the formalisation of a policy on development actions and remuneration policies to support mobility in Italy. From the second half of the year, in collaboration with the parent, the experimental phase of the group's new talent management was launched.

Occupational health and safety

The group's aim of reducing the number and frequency of accidents in the workplace and improving health and safety conditions has led it to implement a series of measures at central and local level, such as:

- ongoing monitoring of company accidents with the preparation and distribution of reports on accidents, which are classified by seven macro causes and compared with the same period of the previous year;
- increasing awareness, monitoring and analysis of accidents reported by workers who have been involved in several accidents; in 2018, a specific accident-reduction target was set for the first time (target -20%);
- in July, the fourth edition of the UIC accident at work report. 33 railway companies representing 19 countries were surveyed by the "statistics on accidents at work" work group coordinated by Trenitalia, which defined the criteria and methodology for gathering and collating data on accidents at work for European railway companies.
- preparing the note "Training requirements for maintenance personnel to perform activities with electrical risk";
- launching the "Campaign to improve workers' awareness and involvement in the collection/analysis of near misses", introducing the specific company target of increasing the reporting of near misses recorded in the information system (target +17%);
- the innovative "Smart IPD" project: IPDs (Individual protection devices) fitted with sensors which connect to the worker's smartphone/tablet in order to check that the device is being used correctly and which sends an alert if it is not used correctly during (the performance of the) activities for which it is intended;
- defining a specific objective for awareness campaigns aimed at improving the health and well-being of workers (meetings, newsletters, improving the work environment, etc.);

- launching the training campaign for over 2,000 employees (road show project) to foster a sense of personal responsibility for safety in the company culture;
- mystery audits: observing how work activities are carried out at stations by train crew personnel and compiling a database of the most frequent misconduct.

The various activities enabled the company to reach the accident reduction targets (-3%), as shown in the table below.

Type	2018	2017	Change
Number of accidents (> 3 days paid by INAIL (the National Institute for Insurance) or to be defined, excluding accidents in transit)	621	695	-10.65 %
Frequency (Number of accidents x 1000 / average number)	22.54	24.99	-9.80 %
Of which: fatal accidents	1	0	+1

These data confirm the improvement trend in accidents, which resulted in a 56.4% drop in the frequency in 2018 compared to 2010. Unfortunately, in 2018, there was a fatality following a train accident on 23 May, on the Chivasso/Ivrea line (at km 12+413 between Rodallo and Caluso) when the Regional 10027 train 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 lorry escort service died and many other people were injured, including the conductor.

ENVIRONMENTAL AND SAFETY POLICY

Integrated safety and quality system (SIGSQ)

In 2018, the integrated safety and quality system was created (safety meaning: operational, environmental and workplace safety) which allows for the implementation of the new integrated policy issued on 1 March 2018. Trenitalia's organisational, management and control model implements the SIGSQ.

During the year, the SIGSQ's activities were mainly focused on the following:

- renewal and transition of the certificates of compliance with ISO 14001, ISO 9001 and OHSAS 18001 related to the planning and provision of passenger railway transport and integrated mobility services, thanks to the ongoing commitment of the structures involved. The renewal and transition inspection by the new certifying body (RINA) related to seven production units and three central divisions (HR, Purchases and Industrial Logistics) for a total of approximately 53 man-days;
- the performance under the National Agency for Railway Safety's (ANSF) certificate of Trenitalia's railway services on the "FerrovieNord", "Ente Autonomo Volturno S.r.l." and "Ferrovie Emilia Romagna" regional

networks, under MIT decree of 5/8/2016, exclusively for the lines authorised for passenger transport;

- the implementation, roll-out and improvement of the company's SIGSQ, specifically:
  - defining a new integrated policy to pursue an accident rate of zero, continuously improve its services for customers and stakeholders, protect the workers' environment, health and safety, providing all the necessary resources (information, HR, industrial and financial resources);
  - the definition of the general goals for the management system which were subsequently applied to each organisational/process level involved in relation to operational safety, quality, environment, health and safety in the workplace;
  - definition of consistent and integrated procedures for the context analysis, risk assessment, management of audits and registered resources in line with the new principles introduced by regulations 9001 and 14001 of the 2015 edition and in compliance with the information provided by the FS group regarding risk assessments;
  - publication and updating of the operating instructions for the system and environmental and safety in the workplace issues (including, for example, guidelines on train conduction, escorts to the train and for train assemblers, DEIF, PEIF and DPC (operating instructions), guidelines for the issue and management of the environmental analysis and the strategic environmental assessment and VAAS, management of water provisioning, guidelines on the management of special waste and special urban-equivalent waste and those on specific types of waste and dangerous goods, etc.);
  - training for all team leaders, auditors and local system managers (RSGT) on the new regulations introduced by UNI EN ISO 9001 and 14001 issued in 2015 (e.g. analysis of the context and the relevant parties, risk and opportunity assessments, leadership, etc.) and on the new information system for the management of the audits, non-conformities and the related corrective steps, etc.;
  - the development and provision of training programmes for employees involved in the environmental and health and safety in the workplace integrated (management) system with the aim of training experts who can independently manage these issues and the related repercussions of applying specific sector legislation, acquiring the necessary technical and legal knowledge in these fields (e.g. operators or machinery and systems containing fluorinated gases, waste management, dangerous goods, etc.). SIGSQ training during the year was equal to 33,900 man-days;
  - performance of approximately 50 internal audits, involving over 140 registered Trenitalia resources, as auditors and team leaders.

The SIGSQ (for the environment, workplace safety and quality) has specialised resources for the performance of activities and in particular there are: 140 auditors, 185 RSGT/ASGT (system managers or personnel), 243 RSPP and ASPP (Prevention and Protection Representatives and personnel), 32 energy contacts, other resources of the central organisational structures, in addition to hundreds of operating personnel at the production units, which oversee monitoring activities. In 2018, two events were organised, one in March and one in November, about safety (operational, environmental and workplace safety) at Trenitalia, in which the CEOs of the FS Group and Trenitalia, all the managers and employers and the Prevention and Protection Representatives and Operational Safety Management System representatives all participated. Safety is an essential value for

Trenitalia and has been a common theme of the initiative aimed at focusing attention on the importance of this issue, checking the progress of the initiatives already implemented and the new initiatives to be implemented.

The environment

The company believes that protecting the environment is a strategic element for the company's development, therefore during the year, the environmental issues were followed and managed in line with that set out in the environmental section of Ferrovie dello Stato Italiano's governance model. In this respect, as part of both the SIGSQ and the group's broader sustainability management system, specific environmental goals were set (e.g., reducing CO_2 emissions and water consumption, reducing the use of dangerous products in maintenance activities, reducing the consumption of paper and toner, mitigating the risk of soil contamination, increasing the volume of waste recovery, rather than disposal, etc.).

During the year, the following specific activities were performed:

- structural works on old-generation thermal plants in use at the production sites to reduce CO_2 emissions;
- improving the collection of sorted waste;
- completing the process to monitor consumption and the maintenance on the water networks;
- completion and assignment of construction/installation/expansion/efficiency works on certain photovoltaic facilities, LED relamping and solar thermal plant.

Some of the activities performed in respect of specific environmental issues are described below:

- Noise emissions: In 2018, this issue was monitored carefully. Specifically, the emissions of the Milan and Mestre HS IMCs and other parking activities at some railway sites, for example where the Liguria DR (regional office) and the Bolzano and Trento DP (municipal office) operate were subject to in-depth analysis. The Turin Polytechnic Institute sought to provide the relevant authorities with the update of the Noise pollution reclamation plan of the Milan HS IMC, as required by the Ministry of the Environment and Territory and ISPRA (the Italian institute for environmental protection and research).
- Water discharges: this issue covers the discharges of train toilets and was closely monitored by the Central and Divisional structures. The management of wastewater from the emptying of closed-circuit holding tanks was revised and works to transform the temporised-circuit toilets into closed-circuit holding tanks toilets were scheduled and carried out during the year.
- Water resources: the conservation of water resources is one of the company's and Ferrovie dello Stato Italiane Group's priorities. The commitment to reducing water consumption was specified in Trenitalia's SIGSQ policy and specific reduction targets were set, also in line with the group's sustainability system. Furthermore, the "management of water provisioning" procedure was revised in order to refine the control and monitoring of procurement and efficiency actions were performed on the water networks in certain maintenance sites.
- Reclamations: in 2018, the company continued to manage issues related to reclamations and the safety of its contaminated sites. Externally-commissioned project activities were monitored and technical assistance was provided to tenders for the awarding of reclamation/safety works. Furthermore, the company participated in the public administration service conferences and worksite activities were monitored during the operating stages. Specifically, during the year, procedures required by the specific legislation were launched at the Foggia site.
- Greenhouse gas emissions: the 2018 environmental targets were set and assigned to the

divisions/departments to reduce atmospheric emissions (specific CO2 emissions from activities carried out at the rolling stock maintenance workshops and specific CO2 emissions from traction measured by traffic unit). With respect to the company's industrial areas covered by the EU Emission Trading Directive, in 2018, the maintenance systems subject to Legislative decree no. 30/2013 (Bologna OMC and Foligno OMC) left the related application field. Furthermore, the conversion of certain thermal power plants from diesel to natural gas was completed.

- Raw materials: the company set new environmental targets to reduce paper consumption and replace dangerous substances with products with a low environmental impact. By carefully managing campaigns to foster awareness about responsible use of raw materials and monitoring and adopting the progressive dematerialisation of company documents, the company saw a decrease in paper and toner consumption for office use and in the use of some dangerous products in industrial activities (e.g.: lubricants, paints).

Operational safety

The commitment to operational safety continued in 2018 with regard to a number of newly-introduced and existing areas of interest as already mentioned, also in the light of the evolution of the relevant legislative framework:

- extending the Operational Safety Management System procedures to the infrastructure operator's lines and the lines of the networks that fall under the scope of Legislative decree no. 112 of 15 July 2015, identified by the Decree dated 5 August 2016 on which Trenitalia is authorised to operate (so-called regional networks);
- the progressive integration of the Operational Safety Management System with the environmental and health and safety in the workplace integrated management system in order to optimise processes.

In addition to the newly-issued integrated documentation, the Operational Safety Management System was updated to improve the system's fulfilment of internal monitoring and risk management processes.

In this context, the activities performed as part of the maintenance process with regard to relationships with suppliers included audits on the "full service" maintenance processes performed by suppliers on certain specific fleets.

A number of cross-sector macro issues, which underpinned the information and training activities focused on operational safety provided to both operational personnel and other relevant staff, were as follows:

- rescue procedures for trains stopped on the line;
- management of emergencies in tunnels;
- previous experience feedback aimed at preventing wrongful access to prohibited areas;
- previous experience feedback aimed at the prevention of overshooting the stop;
- relationships with suppliers of goods/services with an impact on safety, particularly with regard to the awarding of maintenance activities for safety systems;

- shunting activities: training and awareness building about the correct application of operating instructions and the relevant DEIF and PEIF, in relation to the main causes of accidents and the information provided in the focus groups held in relation to the 2018 safety plan.

Along the same lines as 2018, in 2019 the activities related to the introduction of new types of rolling stock will continue, along with the performance of services on lines not included in the safety certificate.

Sustainability for Trenitalia

Trenitalia considers safety, the quality of services provided, the protection of the environment, the safeguarding of the health and safety of its workers and energy efficiency as strategic elements in all of its activities and, therefore, as areas for the development of its reputation and business.

Trenitalia's commitment to these issues is reflected in the "Policy for operational safety, quality, the environment and health and safety at work", a document which, in line with the policies, guidelines and objectives of the Ferrovie dello Stato Italiane group, underpins all corporate actions and sets out the general direction and guidelines to achieve its mission and gain a permanent competitive edge by leveraging the (specific) advantages of railway transport, which is more environmentally friendly and promotes sustainable mobility.

Energy

The main energy consumption in 2018, compared with the previous year, is as follows:

	Unit of measure	**2018**	**2017**	**Change**
Electricity consumption for uses other than railway traction	MWh	78,562	76,455	2.8%
Natural gas for heating	Sm^3	19,548,891	19,808,634	-1.3%
Diesel for heating	Litres	2,425,814	2,331,334	4.1%
Diesel for railway traction		46,670,538	47,021,206	-0.7%

The above table highlights the substantially stable trend.

The main initiatives carried out during the year were as follows: the installation of photovoltaic facilities at the HS Rome IMC and the Vicenza OMC which will be rolled out in 2019. Furthermore, the photovoltaic systems at the Naples Santa Maria La Bruna OMC and the HS Naples and Milan IMCs are also being installed.

With regard to the photovoltaic facilities at the Foligno, Verona and Florence Osmannora OMCs, the definitive planning is undergoing approval. The solar thermal plant of the HS Rome San Lorenzo IMC was rolled out and the installation at the Rimini OMC and Naples Centrale IMC was completed.

Furthermore, negotiations began for certain important efficiency works such as LEDs and heating tapes for the Florence Osmannoro, Foligno, Verona, Naples S.M. La Bruna and Rimini OMCs and for all the efficiency works planned in the Milan maintenance hub of the Long Haul Passenger Division.

The company continued its energy diagnosis campaign (in accordance with Legislative decree no. 102/14), involving ten additional maintenance plants (Reggio Calabria of the Regional Passenger Division (RPD), Reggio Calabria LHPTD IMC , Novara, Sulmona, Rome shunting site, Trieste, Siena and Florence Romite IMCs) - during which the main energy efficiency opportunities were identified and assessed. Such opportunities will be subject to specific investments over the coming years.

A team of resources from the Technical Department continued the campaign to detect gas leakages in compressed air production in certain maintenance systems. 13 TD (Transport Division), RPD and LHPTD systems were analysed and in some, the necessary overhaul activities were performed.

In 2018, the new Pop and Rock trains were presented in Italy's main squares. Such trains were admitted to the white-certificate incentive system thanks to the high energy efficiency that they will offer once in use. Meanwhile, during the year, Trenitalia was (already) assigned white certificates related to the energy savings made by the regional diesel Swing trains in the second half of 2017 and the first half of 2018.

On certain passenger and regional transport fleets, energy-efficiency works were launched, such as the replacement of lighting systems with LEDs and the adjustment of air conditioning units. Furthermore, with regard to regional transport, the new sleep mode was implemented in the Jazz fleet, which allows for the reduction of noise and energy consumption when the train is parked. Sleep mode was implemented on a total of 103 Jazz trains in 2018 and will continue for a further 13 trains in 2019.

Water

Water consumption during the year, compared with the previous year, is as follows:

	Unit of measure	2018	2017	Change
Water withdrawn - for civil and industrial use	m3	3,426,744	3,486,842	- 1.7 %

Water withdrawal decreased by 1.7% thanks, in particular, to the decrease in volumes withdrawn for industrial use following works to rationalise and contain consumption carried out at production sites and the adoption of management solutions and technological improvements. This decrease is even more significant when considered alongside the fact that in the past three years production, measured in train-km, grew. Furthermore, during the year the company sought to update the survey of the water utilities in its name, implement a quarterly monitoring process for water consumption and revise the existing previsions, providing for the creation of a water balance for the site's production complexes.

Waste

In 2018, the production of special waste decreased by 3.5% compared to the previous year. A summary of the figures is provided below:

	Unit of measure	2018	2017	Change
Hazardous special waste	Tonnes	23,947	24,215	-1.1 %
Non-hazardous special waste		3,749	4,488	-16.5 %

Total waste special		27,696	28,703	-3.5 %

This decrease is even more significant when considered alongside the fact that in the past three years production, measured in train-km, grew. The main initiatives carried out in 2018 involved setting annual objectives, the revision of the reference procedure, the adoption of initiatives to increase sorted waste, the rationalisation and improvement of waste collection areas, in addition increasing awareness among the internal and external workforces.

Green procurement

The implementation of environmental requirements in suppliers' vetting procedures continued. The sustainability criteria (e.g., Ecolabel certification, ISO 14001, etc.) adopted when assessing the offers received during the tenders called in 2018 were assigned percentage weights ranging between 2.8% and 46% in line with the previous year.

Sustainable mobility

In 2018, the main partnerships stipulated in previous years continued, promoting the use of means of urban transport, for the "first and last mile" of train journeys, using means of transport other than private cars. In this regard, for more details about new partnerships, reference should be made to the Customer Relations section.

INVESTMENTS

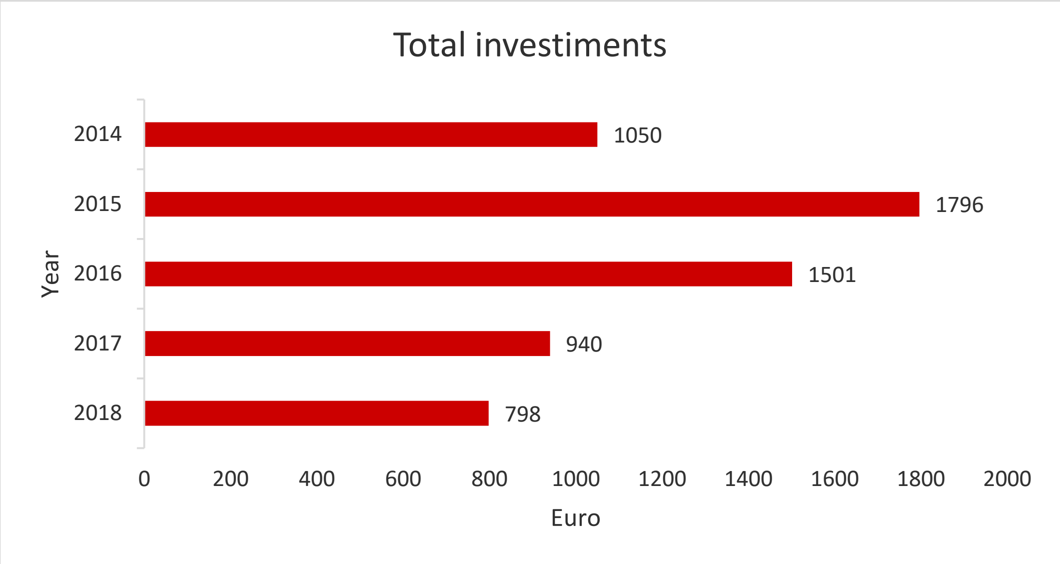
Investments in 2018 amount to approximately €798 million (including around €369 million for value-increasing maintenance on rolling stock) and are detailed below with comparative data for 2017:

(millions of Euros)	**2018**	**2017**	**Changes**	
			Absolute	**%**
Increases	142	361	(219)	-154%
Revamping	126	90	36	29%
Rolling stock	**268**	**451**	**(183)**	**-68%**
On-board technologies	7	11	(4)	-52%
Plant and other	67	60	7	10%
IT	87	76	11	13%
Value-increasing maintenance	369	342	27	7%
TOTAL *	**798**	**940**	**(142)**	**-18%**

(*) "Total" includes contractual advances of €75,9 million and recoveries of advances paid in previous years, amounting to approximately €37,5 million. These are mainly advances paid to purchase new rolling stock and recoveries following the completion of deliveries.

In January 2018, the new ETR 1000 trains of the Long-Haul Passenger Transport Division were delivered, to expand the HS fleet, while with regard to the regional transport fleet, the delivery of electric "Jazz" trains continued, for a total of 11 trains and the purchase of a further 14 diesel "Swing" trains was authorised.

To strengthen the offer of market services, in the context of regional transport, contracts to purchase a further 144 electric high-capacity “Rock” trains and 109 medium-capacity “Pop” trains were entered into as part of the investment plan set out by the service contracts with the regions.



Investments are analysed by division/department below:

(millions of Euros)	2018	2017	Changes	
			Absolute	%
Long-Haul Passenger Transport Division	132	228	(96)	-73%
Universal Service Passenger Transport Division	62	71	(9)	-15%
Regional Passenger Transport Division	156	218	(62)	-39%
Technical Department	35	28	7	20%
IT Department	14	18	(4)	-33%
Staff	31	36	(5)	-16%
Value-increasing maintenance - LHPTD	134	141	(7)	-5%
Value-increasing maintenance - USPTD	60	47	13	22%
Value-increasing maintenance - RPTD	174	153	21	12%
TOTAL	**798**	**940**	**(142)**	**-18%**

There was a decrease in investments in the Long-Haul Passenger Transport Division (approximately €96 million) compared to 2017, mainly due to the substantial completion of the supply of ETR 100 trains in 2017, except for one train delivered in 2018. The decrease of around €62 million in the Regional Passenger Transport Division is due to the decrease in rolling stock delivered in 2018 with regard to the completion of the contracts carried out in 2017.

Long Haul Passenger Transport Division

In 2018, the last ETR 1000 train was delivered. Therefore, there are now 50 ETR Frecciarossa 1000 trains in operation (of which, one used for experimentation).

Revamping projects mainly regarded works aimed at improving on-board comfort and the installation of an automatic fire detection and sprinkler system on the ETR500 fleet for a total cost of approximately €26 million.

Investments in plant of approximately €20.6 million, mainly comprised upgrading, streamlining and projects to increase the energy efficiency of the maintenance plants. Specifically, works related to the sites in Rome, Naples, Milan Matesana and Mestre, in addition to the Turin shunting site, with the aim of making the systems more functional in terms of the needs of the maintenance of the fleet and improved efficiency.

With regard to ICT activities, investments of approximately €19.8 million mainly related to sales systems, revenue management and the CRM (*Customer Relationship Management*) platform, in order to align the functions with the demands of the market.

Universal Service Passenger Transport Division

Investments made in this business segment relate to works required as part of the investment plan of the service contract.

Revamping projects resulted in an investment of approximately €54.5 million and regarded the upgrading of E402A locomotives into E401 locomotives, the conversion of Z1 towed carriages into Z1 to semi-automated carriages and the redevelopment of the technology and layout of Intercity carriages.

Furthermore, in 2018, the upgrade of on-board technological systems was launched with the installation of the European Rail Traffic Management System (ERTMS) on E401, E402 and E403 trains and on the semi-automated trains for the commercial services on the direct Florence-Rome line.

Regional Passenger Transport Division

In 2018, 11 Jazz trains were delivered and with regard to the renewal of the regional transport fleet, the purchase of a further 14 Swing trains was authorised.

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 (approximately €45.2 million). This includes the upgrade of the fire-fighting system in the Vivalto and medium-haul carriages.

Works to optimise and improve maintenance plant, including the Bologna IMC, to respond to the particular characteristics and maintenance needs of the fleet continued for €16.8 million.

The investments in ICT of €12.1 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.

Technical Department

Investments in plant (approximately €23.5 million) mainly related to the upgrade of OMCs at Verona and Vicenza and the preparation of new offices in the Romito area of Florence. The main developments in the IT area (€11.4 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.

Transversal investments

The following IT projects related, in particular, to integrated mobility and the digital travel experience, the production and sales platform and systems to support reporting and administrative processes, for a total of €30.1 million, have continued:

- a series of initiatives is underway related to the Infrastructure, Compliance, IT Governance and Security areas, aimed at creating IT governance tools to trace Trenitalia's organisational structure, operating and control processes, IT tools, information flows and the technology used, for the purposes of 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 of €4 million were made, together with the development of new maintenance and production processes, to update, modify and develop management control systems in order to guarantee, with a set of tools, the information to support managerial decisions;
- transversal investments in sales systems, including for foreign markets (€8 million).

Furthermore, works related to the security of information systems and technological and infrastructural developments to support all Trenitalia's IT processes also continued (€13 million).

The number of vehicles purchased and those subject to the main revamping projects are indicated below:

	New rolling stock	**Revamping**
	no. of vehicles	**no. of vehicles**
Locomotives	**-**	**20**
Long-Haul Passenger Transport	-	20
Carriages		**61**
Long-Haul Passenger Transport		
• InterCity IC 270 trains		31
• Semi-automated AZ1 trains		26
Regional		
• Medium-haul trains		4
Trains	**12**	**60**
Long-Haul Passenger Transport		
• Frecciarossa (ETR 1000)	1	
• Frecciarossa (ETR 500)		11
Regional		
• Jazz trains	11	
• TAF trains		49

The Trenitalia fleet

As a result of investments in 2018, the Trenitalia fleet is composed as shown below:

Rolling stock in operation at 31 December 2018

Category		Units
Driving	Electric locomotives	880
Driving	Diesel locomotives	88
Total driving vehicles		**968**
light vehicles	Electric ("ALE" and "LE" models) Diesel ("ALN" and "LN" models)	**513**
Trains	TAF	87
Trains	Minuetto trains	203
Trains	Jazz trains	123
Trains	Flirt trains	10
Trains	Swing trains	32
Trains	Electric trains	157
Total trains		**612**
shunting vehicles	Diesel locomotives/railcars	**178**
Driven	Passenger and special carriages	5,009
Total driven		**5,009**

RISK FACTORS

Business risks

Trenitalia S.p.A.'s main business risks relate to: i) competition as access to its markets has opened up; ii) credit collection and the funding of investments from service contracts with the regions 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 company with a crucial factor for success that helps mitigate some of its business risk. Similarly, developments in sales channels supported by technological innovation, and a greater focus on the customer, will give it additional competitive edge.

In the local public transport (LPT) segment, certain Italian regions have particularly critical financial situations, which could prolong the uncertainty of whether they will meet the contractual payment dates for service contract considerations, although this situation seems to have substantially improved compared to previous periods.

The company mitigates 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 company’s receivables and its groups’ credit rating, it obtains financing for its invested capital, enabling it to cover any delays in collections, although the financial charges are incurred by the company.

The company 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.

The ART has issued resolutions, 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.

With respect to the relevant regulatory context, in recent years, a series of different rules and/or regulations has affected the company’s business operations. In any event, to mitigate these types of risks, the company 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 company and the community.

Operational risks

For the company, one of the main success factors is the quality of the service, particularly in terms of the punctuality and regularity of the service, both of which are constantly monitored. In recent years, the increased offer, both from the company and its competitor, has resulted, particularly in the main urban hubs, in the saturation of the use of infrastructure, which may have repercussions on the service offered, particularly with regard to high-speed services. The company is already in regular discussion with the infrastructure operator in order to identify the necessary actions.

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

The financial crisis has put some suppliers in the maintenance and rolling stock construction sectors to the test, with the prolonged severe credit crunch affecting them significantly due to the intrinsic weakness of their funding structure. The company mitigates this risk by using well-structured vetting procedures for suppliers that must not only meet technical requirements but also pass financial assessments. Furthermore, the company is expanding its potential suppliers in order to limit the risk of depending on a single supplier.

The company's safety standards are consistent with those of the main European railway companies and are the result of extensive prior talks with the trade unions that, after having evaluated safety issues as well, all signed an integrative labour agreement in 2009 and the national labour agreement in 2012 and 2016. Senior management, the departments and relevant structures carefully monitor the potential risks related to safety in the workplace. It is also mitigated since the company has assessed, and constantly assesses, all aspects relating to this risk.

Compliance, legal and contractual risks

The business areas in which the company operates are highly regulated at both national and international level, exposing the company to compliance risk, which it monitors with specific controls. In 2018, to further strengthen its control system, the company constantly monitored 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 company operates, it has begun a process to launch an antitrust compliance programme to improve its ability to prevent and manage antitrust risks, i.e., those related to non-compliance with regulations protecting competition and prohibiting unfair business practices. In 2018, the Regulation (EU) no. 2016/679 (General Data Protection Regulation – "GDPR") was introduced, in line with the way in which data protection was previously managed, the company prepared a computer log of data processing, assessing the risks related to the violation of people's liberties and rights and establishing the position of Data Protection Officer. Legal and contractual risks mainly arise from litigation that the group companies have pending with various parties, such as suppliers, clients and personnel. With respect to these risks, which are currently monitored and mitigated by specific company structures, any necessary accruals are recognised after their probability of occurrence has been respectively assessed, in accordance with the applicable accounting policies. Residual risks, after the appropriate mitigation actions and accruals, fall within the tolerance limits considering business operations.

Reference should be made to the notes to the financial statements for more detailed disclosure on credit, liquidity and market risk, in line with IFRS.

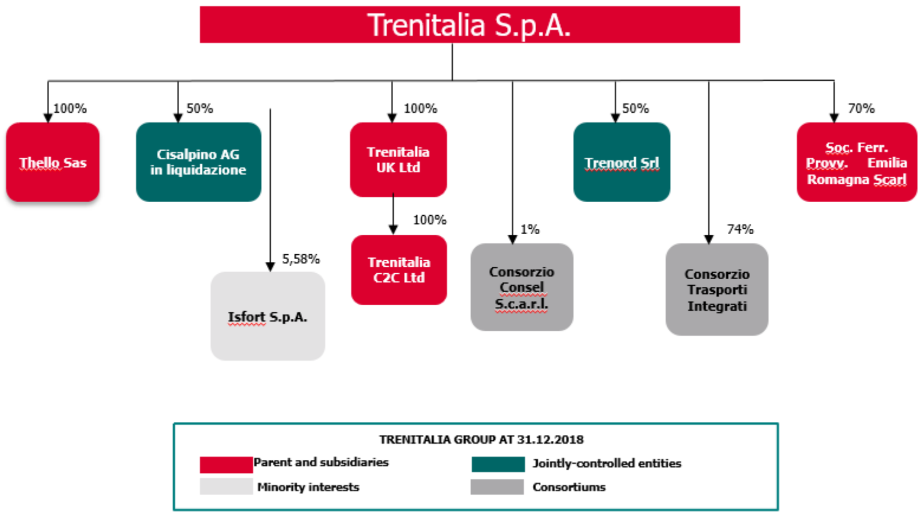
RELATED PARTY TRANSACTIONS

Transactions with the group companies and their transactions with other related parties are carried out to the parties' mutual financial benefit on an arm's length basis.

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

TRENITALIA GROUP

Trenitalia group is composed as follows at 31 December 2018:



PERFORMANCE OF SUBSIDIARIES

The results for 2018 of Trenord S.r.l., Thello S.a.s. and Trenitalia UK Ltd. are presented below.

Trenord S.r.l.

(€'000)

	2018	2017
Revenue	797,287	800,164
Costs	(729,344)	(722,615)
Gross operating loss	**(67,943)**	**(77,548)**
Amortisation, depreciation, impairment losses and provisions	(62,820)	(60,866)
Operating profit	**5,123**	**16,683**
Net financial income (expense)	(744)	1,600
Pre-tax profit	**4,379**	**18,283**
Income taxes	(2,010)	(7,761)
Profit for the year	**2,368**	**10,522**

This company provides passenger transport services mainly in the Lombardy region, i.e., in the various areas established under the service contract signed with the Lombardy regional authorities, which was renewed on 10 April 2015 for the period from 2015 to 2020.

The Pioltello accident had a huge impact on the profit for the year: on 25 January the 10452 train left Cremona at 5.32am and as it travelled to Milan Porta Garibaldi, it derailed at around 6.57am while it was passing through the Pioltello Limito station, on the Milan-Brescia line. This derailment - specifically the third carriage - resulting in three deaths and around 50 injured passengers. Following this accident, circulation was limited for some months and subject to deviations and delays, affecting the eastern part of Lombardy, with repercussions on the suburban lines and, consequently, traffic revenue and management costs.

The overall performance of production during the year was in line with 2017, with 41.8 million train-km (42.0 million in 2017) but with a sharp deterioration in punctuality. Both indicators were affected by the age of most of the fleet (approximately 40%). In this regard, while waiting for the effects of Lombardy's new investment plan (the new trains will arrive in the second half of 2020), Trenitalia made 14 trains available in 2018; a further 20 trains are expected to be provided in 2019 pending the delivery of the first new trains.

In order to respond in a concrete and immediate manner, from the implementation of the new timetable in December, Trenord revised its services, cutting the railway offer by approximately 5% (partially replaced by a bus services), affecting a little under 1% of daily travellers, in order to achieve more suitable regional transport operating performances.

The first implementation period of the plan saw the achievement of the set targets, specifically with a significant decrease in train cancellations (-65%) and improved punctuality (between 78% and 82%).

In 2018, the company reported a profit of €2.4 million for the year, down by €10.5 million on the previous year. Revenue of €797.3 million is more or less in line with 2017. The gross operating profit amounts to €67.9 million, down on 2017 (-€9.6 million), while the operating profit amounts to €5.1 million. At year end, the company counted 4,253 employees, an increase of 144 on year end 2017.

Thello S.a.s.

(€'000)

	2018	2017
Revenue	44,148	40,778
Costs	(50,854)	(47,585)
Gross operating loss	**(6,706)**	**(6,807)**
Amortisation, depreciation, impairment losses and provisions	(2,231)	(1,101)
Operating loss	**(8,937)**	**(7,908)**
Net financial income (expense)	(253)	174
Pre-tax loss	**(9,190)**	**(7,734)**
Income taxes	(367)	(15)
Loss for the year	**(9,557)**	**(7,749)**

In 2018, Thello operated with Venice - Paris night trains and Milan - Marseilles day trains. The company now has four round trip train pairs between France and Italy.

Revenue increased compared to 2017, mainly due to the actions during the year to relaunch night and day railway connections (+€5.6 million) and the new commercial partnerships (+0.4 million agreement with the PACA (Provence-Alpes-Côte d'Azur) region).

This positive result is partly mitigated by the effects of a series of strikes called by the SNCF trade unions, which in 2018, between 3 April and 28 June, resulted in 29 days of non-circulation of night trains, with an impact on revenue of -€3.4 million, due to the effect of the closure of sales and refunds provided to customers.

As a result, the company claimed compensation for damage from the SNCF Réseau, following which, after a long negotiation, compensation of €3.5 million was paid.

With regard to revenue in 2018, there was a substantial increase in refunds/compensation paid to customers of 117% compared to 2017 for approximately €2.7 million, attributable to the punctuality and travel comfort due to the deficiencies in the railway infrastructure.

Operating costs increased on 2017, mainly as a result of replacement buses for approximately €1.5 million for the re-routing of passengers (SNCF strike) and due to the increase in personnel expense due to the hiring and training of escort personnel necessary for the interoperability project planned in 2018 and rolled out in 2019.

The increase in financial expense is due to the increased exposure of the intragroup current account. Lastly, during the year, the €9 million increase in share capital resolved in 2017 was completed.

To provide complete information, it should be noted that from the second half of November, across the whole of France demonstrations organised by the so-called “Gilets jaunes” took place at the weekend on a weekly basis.

These demonstrations had serious repercussions for all French production activities, not least the railway. The economic impact of such demonstrations is still being calculated and their effects are expected to be reflected in 2019.

The company ended the year with a loss of €9.5 million

Lastly, with regard to 2019, a series of actions are planned to boost business efficiency with interoperability and train path optimisation, to improve punctuality through technical panels with RFI and to achieve greater product visibility via marketing campaigns and more commercial partnerships.

In this regard, it should be noted that in the meeting of 30 October 2018, Trenitalia’s board of directors resolved to intervene in Thello S.a.s’s quotaholder meeting on 31 October 2018, voting in favour of continuing company activities, giving the CEO the power to provide for the necessary authorisations during the meeting. At such meeting, it was decided not to proceed with the early liquidation of Thello S.a.s., deciding instead to continue with company activities, noting that the company shall have a maximum term of two years for its recapitalisation pursuant to French regulations (equity of at least 50% of quota capital).

Trenitalia UK Ltd

(€'000)

	2018	2017
Revenue	985	506
Costs	(6,349)	(2,845)
Gross operating loss	**(5,363)**	**(2,339)**
Amortisation, depreciation, impairment losses and provisions	-	-
Operating loss	**(5,363)**	**(2,339)**
Net financial income (expense)	**(2,353)**	2,595
Pre-tax profit (loss)	**(7,716)**	**256**
Income taxes	-	-
Profit (loss) for the year	**(7,716)**	**256**

2018 ended with loss for the year of €7.7 million, mainly due to the cost to prepare offers for the West Coast railway-service tender. Net financial expense came to €2.3 million due to the interest expense on the credit lines and the absence, compared to the previous year, of dividends from the subsidiary C2C.

During the year, the West Coast Partnership tender procedure was completed and the First/Trenitalia joint venture presented their offer in July 2018. Subsequently, the Department for Transport requested a better offer. The outcome is expected to be announced in summer 2019. During the year, the Digital Railway project was launched for the relationships managed by C2C to cope with the increase in the number of passengers expected over the coming years. This system will manage overcrowding via digital signals, thus allowing for an increase in the number of trains circulating during peak hour.

With regard to the difference between the carrying amount of the investment and the corresponding equity of Trenitalia UK Limited, it should be noted that the company does not currently have own operations, as it substantially operates through its investment in Trenitalia C2C, which operates in passenger transport on the UK's medium-haul market. The purchase of such investment was funded by the parent Ferrovie dello Stato Italiane S.p.A.. Trenitalia UK's recoverability is based on Trenitalia C2C's ability to generate cash flows from continuing operations. In this context and considering the approval of Trenitalia C2C's new 2019-2023 plan, the directors tested for impairment on 31 December 2018 and did find any impairment losses. Therefore, the difference between the carrying amount of the equity investment and the amount of equity of Trenitalia UK was deemed recoverable.

TREASURY SHARES

At 31 December 2018, Trenitalia neither owns nor has acquired or sold any treasury shares or shares of its parent during the year, either directly or through trustees or nominees.

OTHER INFORMATION

Introduction

This section details the most significant criminal proceedings and proceedings before the Italian and EU authorities that took place in 2018. To date, except for as otherwise specified, no information arose indicating that the company is exposed to contingent liabilities or material losses and no information is presently known with a material impact on its financial position or results. Accordingly, no accruals have been recognised. Furthermore, where the circumstances require, the company has appeared in civil court proceedings.

In detail:

In 2018, following criminal proceedings initiated by the public prosecutors against former or current company representatives, there were no definitive rulings against senior management (company officers or general managers) for any of the following:

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

Reference should be made to the notes to the financial statements for details on material disputes and proceedings in place with employees, third party suppliers of services and/or contractors, the tax authorities, the regions, etc., and for which, where necessary, accruals were made to specific provisions for risks and charges. Details on contingent assets and liabilities are also provided in the notes.

Investigations and legal proceedings pending at year end are as follows:

- 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 (at km 12+413 between Rodallo and Caluso) when the Regional 10027 train 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 lorry escort service died and many other people were injured, including the conductor. The preliminary investigation is currently underway.
- Criminal proceedings no. 24515/2018 in the general register of crimes with the Public Prosecutor's Office at the Naples Court. The proceedings were brought following the fatality of a maintenance operator at the Naples ETR IMC on 7 August 2016. The preliminary investigation is currently underway and some company managers/employees have been investigated for negligent manslaughter committed in violation of the workplace accident prevention regulations.

Criminal proceedings pursuant to Legislative decree no. 231/2001

- Criminal proceedings no. 6305/2009 in the general register of crimes no. 2135/2013 in the general register at the Lucca court and general register no. 1597/2018 at the Florence Court of Appeal related to the railway accident in Viareggio on 29 June 2009.
  The second-level hearing started on 13 November 2018 before the third criminal section of Florence Court of Appeal. The first two hearings at the end of January were dedicated to presenting the Report of the experts while the other three hearings in February entailed the discussion of the public prosecutor's case. In this regard, on 31 July 2017, the sentence read on 31 January 2017 was lodged. Both the natural persons and the company filed an appeal before the Florence Court of Appeal. The first-level hearing found, inter alia, some directors and former directors of FS group guilty. Accused of administrative violations covered by article 25-septies.2/3 of Legislative decree no. 231/01 in relation to manslaughter and injuries as per articles 589 and 590 of the Criminal Code, the company was found guilty and sentenced to pay a fine of 700 units of €1,000 each and was prohibited from advertising its goods and services for three months as per article 9.2.e) of Legislative decree no. 231/2001. The ruling is not executive pursuant to law until the ruling has been issued. The company has accrued the related amount.
- Criminal proceedings no. 1758/2014 in the general register of crimes with the Milan Court. At the hearing on 22 June 2018, the proceedings resulted in an acquittal, because they did not commit the crime, with regard to both the manager and the company. The proceedings were brought about following alleged violations of the legislative limits established for the drainage of industrial waste water in public sewers and involved a manager and the company.
- Criminal proceedings no. 3566/2015 in the general register of crimes with the Public Prosecutor's Office at the Rimini Court. The proceedings were brought about following 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 (Technical Department - Routine Maintenance Line) as part of the global service contract for the maintenance of buildings and annexed service rooms. The company was charged with the administrative crimes covered by articles 5 and 25-septies.3 of Legislative decree no. 231/2001, as the negligence that led to the injuries was allegedly committed in violation of anti-accident and health protection in the workplace legislation and in the interest and to the benefit of the company (as prevention measures in accordance with the law were allegedly omitted in order to carry out the works more rapidly and less

expensively). A direct legal action was commenced before the Rimini Court, sitting as a sole judge and the next hearing is set for 18 March 2019.

- Criminal proceedings no. 20765/2014 in the general register of crimes with the Public Prosecutor's Office at the Florence Court. The proceedings refer to the derailment that occurred on 12 January 2014 during rolling stock shunting operations. One employee working as a signalman at the watchtower at the entrance to where train carriages are kept lost his life in the accident. In addition to the natural persons, the Public Prosecutor holds Trenitalia liable, charging it with a crime covered by articles 5.a)/b) and 25-septies of Legislative decree no. 231/2001 as the employees charged with negligent manslaughter (with violations of anti-accident legislation) were allegedly acting in the company's financial interest.

Proceedings before the EU authorities

As already described in the previous financial statements, 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. certain intragroup asset allocation operations (case SA 32179) and
2. compensation for a public service obligation in the 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 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.

Legislative decree no. 231/2001 **

In 2018, the company's supervisory body monitored the functioning and compliance of the company's organisational, management and control model (the "231 model") by analysing and monitoring the information that the company structures sent and through targeted tests for certain areas that are abstractly considered at risk for the committing of these crimes. The relevant structures readily considered the recommendations that arose following the tests, namely relating to the need to integrate and update the procedures governing the processes analysed.

During the year, the operations launched in 2017 for the distribution of an information leaflet about Legislative decree no. 231/2001 in hard form for workshop personnel and soft form, via company tablets for on-board personnel (drivers and conductors) came to an end. The hard-form leaflets were distributed to more than 5,700 employees throughout Italy, while distribution via company tablets reached approximately 13,000 personnel.

The supervisory body encouraged and monitored the updating of the 231 model, necessary after Trenitalia stopped its freight transport, which, after the demerger of the Freight Division to Mercitalia Rail S.r.l., temporarily continued in Sicily and for border-crossing traffic into France. The update also considered the new regulations introduced by the Legislator related to administrative liability predicate crimes pursuant to Legislative decree no. 231/2001 from the date of the previous update (February 2017), the reissue of the FS Italiane Group's code of ethics and the merging of the two integrated management systems into a single Integrated safety and quality system.

On 30 October 2018, upon the proposal of the Supervisory Body, the board of directors approved the ninth update to Trenitalia's organisational, management and control model.

Disclosure required by article 2497-ter of the Italian Civil Code

During the year, the company did not take any decisions explicitly covered by article 2497-ter of the Italian Civil Code, although it passed resolutions in the spirit of complete agreement with the guidelines of the sole shareholder, Ferrovie dello Stato Italiane S.p.A.

Remuneration of directors that have been assigned powers

The remuneration of the chairwoman of the board of directors and of the CEO are established by the board of directors in compliance with the "Directive 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" dated 24 June 2013.

In the meetings of 15 September 2017, Trenitalia's board of directors set the fees of the chairwoman of the board of directors and of the CEO for their respective positions in the board of directors and for the functions respectively allocated thereto, as set out below:

CHAIRMAN	**Annual fees 2017-2019**
Fixed component: fees for the position	60,000
Fixed component: fees for powers assigned	43,000
Variable component	-

CEO and General Manager	**Annual fees 2017-2019**
CEO fixed annual fees	65,000
General manager fixed annual fees	350,000
General manager variable component	205,000

OUTLOOK

On 24 May 2018, Trenitalia S.p.A.'s board of directors approved the 2019-2023 business plan, which was followed by an update of FS Italiane Group's business plan. This update was approved by Trenitalia's board of directors on 19 February 2019 and the first year of the plan comprises the 2019 budget.

The plan defines the strategic guidelines and the financial objectives of the businesses in which the company operates, within the wider context of a market characterised by increased competition on the domestic market with regard to both long-haul and regional transport which will come to a head in 2020, with the complete liberalisation of the European railway market (IV EU railway package).

The guidelines will consist of four key factors:

- a new business model, aimed at maximising operating efficiency with regard to maintenance, industrial logistics and sales channels;
- digital transformation, focused on all channels, one-to-one interactions with customers and the Internet of Things;
- safety, through the constant surveillance of technologies, governance, culture and training;
- environmental sustainability, i.e. the energy efficiency of traction and industrial plant, the reduction of water consumption and waste production, green procurement, expansion of initiatives promoting integrated multi-modal mobility (e.g. partnerships with operators for the last mile, enhancing the Freccialink service).

The strategy with regard to regional transport aims to respond as much as possible to the needs of passengers, through the expansion of the services offered, tariff flexibility and differentiation, assistance and information, simplifying the travel experience, leaning ever more towards digitalisation, multi-modal integration and the improvement of the environmental sustainability of trains. This strategy will be supported by a substantial investment plan for the radical renewal of the fleet, with the purchase of 594 new trains for a total investment of over €6 billion over the course of the plan. As part of this plan, in the first months of 2019, the company that won the contract, in partnership with Tper, will enter into the service contract for railway transport in Emilia-Romagna.

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 and the development of multi-modality which facilitate the use of trains, using an end-to-end approach.

In compliance with the objectives of the 2017-2016 service contract, the long-haul universal service strategy aims to improve quality and comfort on board, by upgrading rolling stock.

The strategic plan also provides for the development of international business through the strengthening of the markets in which the company is already present and other developments in areas considered profitable.

The above strategies will be accompanied by initiatives to recover efficiency and effectiveness through the review of the maintenance model, supply chain, optimisation of the production network and of physical sales channels. Furthermore, the digital transformation will be boosted in all company segments, specifically focusing on customers and on production, maintenance and back-office activities.

The adoption of this business plan will allow for the development and strengthening of the company’s financial basis in the context of full financial sustainability aimed at creating value for the shareholder.

Financial statements: Financial Schedules and notes

Statement of financial position

Euros	Notes	31.12.2018	31.12.2017*
Assets			
Property, plant and equipment	*(6)*	8,958,135,585	9,296,758,637
Intangible assets	*(7)*	178,640,390	150,888,779
Deferred tax assets	*(8)*	86,098,125	92,602,188
Equity investments	*(9)*	57,468,542	57,468,542
Non-current financial assets (including derivatives)	*(10)*	2,796,795	1,356,258
Other non-current assets	*(11)*	83,297,865	74,179,168
Total non-current assets		**9,366,437,301**	**9,673,253,572**
Inventories	*(12)*	555,735,663	559,258,465
Current trade receivables	*(13)*	1,220,602,801	1,610,829,254
Current financial assets (including derivatives)	*(10)*	22,671,505	19,324,570
Cash and cash equivalents	*(14)*	35,765,873	39,871,039
Tax assets	*(15)*	2,494,813	179,290
Other current assets	*(11)*	38,503,920	146,814,643
Total current assets		**1,875,774,576**	**2,376,277,261**
Total assets		**11,242,211,877**	**12,049,530,833**
Equity			
Share capital	*(16)*	1,417,782,000	1,417,782,000
Reserves	*(16)*	243,064,251	229,252,169
Valuation reserves	*(16)*	(149,668,020)	(155,818,812)
Retained earnings	*(16)*	881,072,809	619,941,141
Profit for the year	*(16)*	256,763,283	276,241,638
Total equity		**2,649,014,323**	**2,387,398,136**
Liabilities			
Non-current loans and borrowings	*(17)*	4,478,057,228	5,226,225,390
Post-employment benefits and other employee benefits	*(18)*	624,848,123	708,129,875
Provisions for risks and charges	*(19)*	145,875,585	126,272,770
Trade payables	*(22)*	4,230,000	126,141
Deferred tax liabilities	*(8)*	91,971,048	91,681,178
Non-current financial liabilities (including derivatives)	*(20)*	18,362,481	17,482,623
Other non-current liabilities	*(21)*	46,757	1,067,305
Total non-current liabilities		**5,363,391,223**	**6,170,985,283**
Current loans and borrowings and current portion of non-current loans and borrowings	*(17)*	1,334,795,181	1,294,695,897
Current portion of provisions for risks and charges	*(19)*	388,264	4,460,745
Current trade payables	*(22)*	1,210,318,873	1,206,486,716
Tax liabilities	*(23)*	-	9,829,957
Current financial liabilities (including derivatives)	*(20)*	154,555,893	439,659,615
Other current liabilities	*(21)*	529,748,120	536,014,485
Total current liabilities		**3,229,806,332**	**3,491,147,415**
Total liabilities		**8,593,197,554**	**9,662,132,697**
Total equity and liabilities		**11,242,211,877**	**12,049,530,833**

*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. However, reclassifications were made where necessary to make the figures comparable.

Income statement

Euros	Notes	2018	2017*
Revenue			
Revenue from sales and services	(24)	5,206,605,995	5,163,269,122
Other income	(25)	161,308,262	149,530,813
Total revenue		**5,367,914,257**	**5,312,799,935**
Operating costs			
Personnel expense	(26)	1,686,992,639	1,677,885,146
Raw materials, consumables, supplies and goods	(27)	412,047,522	315,361,267
Services	(28)	2,028,076,930	1,938,305,430
Use of third-party assets	(29)	92,285,290	97,291,233
Other operating costs	(30)	45,992,688	54,629,741
Internal work capitalised	(31)	(381,156,413)	(356,328,295)
Total cost		**3,884,238,657**	**3,727,144,522**
Amortisation and depreciation	(32)	1,061,001,019	1,085,749,302
Impairment losses	(33)	36,613,368	79,578,638
Accruals			21,271,512
Operating profit		**386,061,214**	**399,055,961**
Financial income and expense			
Financial income	(34)	8,754,567	26,444,256
Financial expense	(35)	95,663,099	99,661,440
Net financial expense		**(86,908,533)**	**(73,217,184)**
Pre-tax profit		**299,152,681**	**325,838,777**
Income taxes	(36)	42,389,398	49,597,139
Profit for the year		**256,763,283**	**276,241,638**

*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. However, reclassifications were made where necessary to make the figures comparable.

Statement of comprehensive income

Euros	Notes	2018	2017 *
Profit for the year		**256,763,283**	**276,241,638**
Other comprehensive income			
Items that will not be reclassified to profit or loss, gross of the tax effect:			
Actuarial gains (losses)	*(16)*	(725,425)	4,205,676
Tax effect of actuarial losses	*(16)*	(1,089,447)	(2,481,488)
Items that are or may be reclassified to profit or loss when specific conditions are met, gross of the tax effect:			
Cash flow hedges - effective portion of changes in fair value	*(16)*	10,481,137	23,654,963
Cash flow hedges - tax effect of the effective portion of changes in fair value	*(16)*	(2,515,473)	(5,677,191)
Total other comprehensive income, net of the tax effect		**6,150,792**	**19,701,960**
Comprehensive income		**262,914,075**	**295,943,598**

*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. However, reclassifications were made where necessary to make the figures comparable.

Statement of changes in equity

		Equity							
Euros		**Reserves**							
		Reserves		**Valuation reserves**					
	Share capital	*Legal reserve*	*Extraordinary reserve*	*Hedging reserve*	*Actuarial reserve*	**Total reserves**	Retained earnings	Profit for the year	**Total equity**
Balance at 31 December 2016	**1,654,464,000**	**46,326,859**	**177,084,324**	**(39,423,035)**	**(136,097,739)**	**47,890,409**	**508,962,378**	**116,819,751**	**2,328,136,537**
Capital increase									
Freight demerger	(236,682,000)								**(236,682,000)**
Dividend distribution									-
Allocation of profit for the previous year		5,840,988				**5,840,988**	110,978,763	(116,819,751)	-
Comprehensive income, of which:									
Profit for the year								276,241,638	**276,241,638**
Profit recognised directly in equity				17,977,772	1,724,188	**19,701,960**			**19,701,960**
Balance at 31 December 2017	**1,417,782,000**	**52,167,847**	**177,084,324**	**(21,445,263)**	**(134,373,550)**	**73,433,357**	**619,941,141**	**276,241,638**	**2,387,398,136**
Effects of IFRS 9 FTA, net of the tax effect							**(1,297,888)**		**(1,297,888)**
Balance at 1 January 2018*	**1,417,782,000**	**52,167,847**	**177,084,324**	**(21,445,263)**	**(134,373,550)**	**73,433,357**	**618,643,253**	**276,241,638**	**2,386,100,248**
Capital increase									
Dividend distribution									-
Allocation of profit (loss) for the previous year		13,812,082				**13,812,082**	262,429,556	(276,241,638)	-
Comprehensive income, of which:									
Profit for the year								256,763,283	**256,763,283**
Profit/(loss) recognised directly in equity				7,965,664	(1,814,872)	**6,150,792**			**6,150,792**
Balance at 31 December 2018	**1,417,782,000**	**65,979,929**	**177,084,324**	**(13,479,599)**	**(136,188,422)**	**93,396,231**	**881,072,809**	**256,763,283**	**2,649,014,323**

*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. However, reclassifications were made where necessary to make the figures comparable.

Statement of cash flows

Euros	Notes	2018	2017*
Profit for the year	*(16)*	**256,763,283**	**276,241,638**
Amortisation and depreciation	*(6-7)*	1,061,001,019	1,085,749,302
Accruals to provisions for risks	*(19)*	*33,085,550*	*42,514,661*
Impairment losses	*(6-7-10)*	*36,518,737*	*58,672,826*
Accruals for employee benefits	*(18)*	*5,290,841*	*7,471,786*
Accruals and impairment losses		**74,895,128**	**108,659,273**
Profits on sales	*(25-30)*	(1,614,800)	(585,932)
Change in inventories	*(12)*	3,522,802	25,177,730
Change in trade receivables	*(13)*	390,226,453	(237,735,341)
Change in trade payables	*(22)*	7,936,016	(614,875,076)
Change in current and deferred taxes	*(8-15-23)*	(8,956,467)	17,377,137
Change in other liabilities	*(21)*	(7,286,913)	(67,774,932)
Change in other assets	*(11)*	99,192,026	147,575,431
Utilisation of the provision for risks and charges	*(19)*	(8,555,215)	(24,826,196)
Payment of employee benefits	*(18)*	(89,298,017)	(62,900,984)
Net cash flows generated by operating activities		**1,777,825,315**	**652,082,050**
Investments in property, plant and equipment	*(6)*	*(723,944,473)*	*(875,827,564)*
Increase in intangible assets	*(7)*	*(76,737,291)*	*(64,007,864)*
Increase in equity investments	*(9)*	*(9,000,000)*	*(15,097,846)*
Investments, before grants		**(809,681,764)**	**(954,933,274)**
Grants for property, plant and equipment	*(6)*	-	*88,976,343*
Grants		**-**	**88,976,343**
Divestments of property, plant and equipment	*(6)*	*12,507,154*	*15,157,574*
Divestments of intangible assets	*(7)*	*3,141,095*	-
Divestments of equity investments	*(9)*	-	*14,396,803*
Divestments		**15,648,249**	**29,554,377**
Net cash flows used in investing activities		**(794,033,515)**	**(836,402,554)**
Disbursement and repayment of non-current loans	*(17-20)*	(757,834,421)	1,009,148,181
Disbursement and repayment of current loans	*(17-20)*	49,765,543	(999,808,937)
Changes in financial assets	*(10-20)*	(4,787,472)	(15,585,509)
Changes in financial liabilities	*(20)*	(1,979,512)	210,786,020
Dividends	*(16)*	-	-
Decrease in equity	*(16)*	(1,297,889)	-
Net cash flows generated by financing activities		**(716,133,751)**	**204,539,755**
Total cash flows		**267,658,049**	**20,219,250**
Opening cash and cash equivalents		(385,098,179)	(405,317,429)
Closing cash and cash equivalents		(117,440,130)	(385,098,179)
of which intragroup	*(20)*	**(153,206,003)**	**(424,969,218)**
of which cash and cash equivalents	*(14)*	**35,765,873**	**39,871,039**

*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. However, reclassifications were made where necessary to make the figures comparable.

NOTES TO THE FINANCIAL STATEMENTS

1. Introduction

Trenitalia S.p.A. (the "company" or "Trenitalia") is a company incorporated and domiciled in Italy which operates in accordance with the laws of the Italian Republic. The company has its registered office in Rome, at Piazza della Croce Rossa 1.

It is managed and coordinated by the parent Ferrovie dello Stato Italiane S.p.A..

On 5 March 2019, the directors authorised the publication of these financial statements. They will be submitted to the shareholder within the legal deadline. The shareholder is entitled to amend these financial statements.

The company has opted not to prepare consolidated financial statements and availed itself of the exemption permitted by IFRS 10. The consolidated financial statements are prepared by Ferrovie dello Stato Italiane S.p.A. which is Trenitalia S.p.A.'s direct parent. This company has its registered office in Rome, Piazza della Croce Rossa 1, and the consolidated financial statements can be obtained at the above address in accordance with the terms and methods set out in the current regulations.

KPMG S.p.A. has been appointed to perform the statutory audit.

2. Basis of preparation

These financial statements as at and for the year ended 31 December 2018 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 company consistently applies the IFRS to all periods presented in these financial statements.

Furthermore, these financial statements have been prepared on the basis of the best knowledge of IFRS and best practices. Any future interpretation guidelines and updates will be reflected in subsequent years, in accordance with the procedures provided for by the IFRS over time.

The 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.

These financial statements comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and the notes thereto. Specifically:

- the statement of financial position has been prepared by classifying assets and liabilities as "current/non-current", with the specific separation of assets/liabilities held for sale or included in a disposal group;

- the income statement has been prepared by classifying operating costs by nature, recognising profit (loss) from continuing operations separately from profit (loss) from discontinued operations;
- the statement of comprehensive income includes the profit for the year, as well as any other changes in equity captions attributable to transactions other those carried out with equity owners;
- the statement of changes in equity separately presents the profit or loss for the year and any variations not through profit or loss;
- the statement of cash flows has been prepared by reporting cash flows arising from operating activities using the indirect method.

The annual report also includes the directors' report.

These financial statements have been prepared on a going-concern basis, as the directors established that there are no financial, operational 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 12 months. Reference should be made to note 5 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.

"Current" means the 12 months after the reporting date of these financial statements, while "non-current" refers to a period after the 12 months.

These financial statements have been prepared using the same accounting policies applied when drawing up the financial statements at 31 December 2017, except for that set out below.

3. Significant accounting policies

The most significant accounting policies applied to the preparation of these financial statements are described below.

Property, plant and equipment

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 calculated systematically and on a straight-line basis in accordance with rates that are deemed to reflect the estimated economic and technical useful lives of the assets.

The useful lives of property, plant and equipment and their residual value are reviewed and updated, where necessary, at least at each reporting date. Land is not depreciated.

The following depreciation rates and useful lives are used:

Category	Depreciation rate	Useful life
Rolling stock		
- Components to be reconditioned	20%	5 years
- Components subject to wear and tear	20%	5 years
- Restyling/Safety of driving material	8%	12.5 years
- Restyling/Safety of driven material	10%	10 years
/ Full train	3.3% - 4.3%	23-30 years
- Basic component	20%	5 years
- Capitalised second-level maintenance	5.5%	18-5 years
- Value-increasing maintenance (significant revamping)		
Land and buildings		
- Owned land	-	
- Owner-occupied land	-	
- Industrial buildings and light construction	2%	50-5 years
- Value-increasing maintenance - industrial buildings	5%	20-5 years
- Leasehold improvements	20%	5 years
Industrial plants		
- Workshop plants	5%	20-5 years
- Value-increasing maintenance - workshop plants	10%	10 years
Industrial equipment		
- Road and rail vehicles	7.5%	13 years
- Machinery and equipment	10%	10 years
- Loading vehicles	10%	10 years
- Communication systems	25%	4 years
Other assets		
- Motor vehicles	20% - 25%	4-5 years
- Furniture and fittings	12%	8 years
- Ordinary office machines	12%	8 years
- Electronic office machines	20%	5 years
- Mobile phones	20%	5 years
	12%	8 years

- Specific plants	8%	12.5 years
- Generic plants	12%	8 years
- Sundry and small equipment	12.5%	8 years
- Health equipment	20%	5 years
- Leasehold improvements		

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 which are not amortised) 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, the company 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) Research and development expenditure

Research expenditure is recognised in profit or loss when incurred, while development expenditure is recognised under intangible assets when all the following conditions are met:

- the project is clearly identified and any costs referred thereto are identifiable and can be measured reliably;
- the technical feasibility of completing the project can be demonstrated;
- the intention to complete the project and to sell the generated intangible assets can be demonstrated;
- there is a potential market or, in case of internal use, it is demonstrated that the intangible asset is useful for the production of the intangible assets generated by the project;
- technical and financial resources are available which are necessary to complete the project.

The amortisation of development expenditure, if any, recognised under intangible assets begins from the date when the result generated by the project can be used and is carried out in a period of five years.

If the research phase of an identified internal project to create an intangible asset cannot be distinguished from the development phase, the expenditure on that project is fully charged to profit or loss as if it had been incurred in the research phase only.

The gain or loss arising from the derecognition of an intangible asset is equal to the difference between the net disposal proceeds and the carrying amount of the asset. It is recognised in profit or loss when the asset is derecognised.

The amortisation rates applied to intangible assets with a finite useful life are as follows:

Category	Amortisation rate	Useful life
- Development expenditure	20%	5 years
- Software	20%	5 years

Impairment losses on intangible assets and property, plant and equipment

i) Intangible assets and property, plant and equipment with a finite useful life

At each reporting date, a test is carried out to check if there is any evidence that property, plant and equipment and intangible assets may be impaired. For this purpose, account is taken of both external and internal sources of information. With respect to internal sources of information, the following must be considered: the obsolescence of or physical wear and tear of the asset, significant changes, if any, in the use of the asset and the economic performance of the asset with respect to expectations. As regards external sources of information, the following must be considered: the trend in the market prices of the assets, negative changes, if any, in technology, markets or laws, the trend in market interest rates or in the cost of capital used to measure investments.

If any such indication exists, the company estimates the recoverable amount of the asset, recognising the impairment loss in profit or loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use, the latter being the present value of the future cash flows expected to be derived from the asset. In calculating value in use, the expected future cash flows are discounted using a discount rate which reflects the time value of money, compared to the investment period and risks specific to the asset. The recoverable amount of an asset that does not generate largely independent cash flows is calculated in relation to the cash generating unit to which this asset belongs

Impairment losses are recognised in profit or loss when the carrying amount of the asset, or of the related cash generating unit to which the asset is allocated, exceeds its recoverable amount. Impairment losses on cash generating units are first allocated to reduce the carrying amount of the goodwill, if any, allocated to the cash-generating unit and then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit and within the limits of the related recoverable amount. If the reasons for a previously recognised impairment loss no longer apply, the carrying amount of the asset is reversed in profit or loss without exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years and had the related amortisation or depreciation been charged.

Equity investments in subsidiaries, associates and jointly-controlled entities and other investments

Equity investments in subsidiaries, associates and jointly-controlled entities are measured at their cost, adjusted for impairment.

The company's equity investments in companies that are neither subsidiaries nor associates and which are not listed in an active market and for which the use of an appropriate measurement model is not reliable, are in any case measured at cost.

Impairment losses on equity investments measured at cost are recognised in profit or loss. If the reasons for an impairment loss no longer apply, the carrying amount of the equity investment is reversed up to its original cost. Reversals of impairment losses are recognised in profit or loss.

Financial instruments

Starting from 1 January 2018 the company has 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 company assessments, are summarised in the note 4 "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 company:

Classification and measurement – Financial assets	
IFRS 9	**IAS 39**
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). 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	Under IAS 39 financial assets were classified under the following categories: • financial assets at fair value through profit or loss; • loans and receivables; • held-to-maturity financial assets; • available-for-sale financial assets.

asset is an **equity instrument**, a **debt instrument** or a **derivative**. All financial assets representing equity instruments are always recognised at fair value. 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 FVTOCI option. In this case, the 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. 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 hold to collect (HTC) model, whose objective is to hold the financial asset to collect the contractual cash flows; • the hold 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 or "SPPI" 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);	*Financial assets through profit or loss* 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. *Loans and receivables* This category included non-derivative financial assets with fixed 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. If there was objective evidence of impairment, their carrying amount was decreased to reflect the discounted value of future flows: the impairment losses identified by impairment tests were recognised in profit or loss. If, in a subsequent period, the reasons for the impairment loss ceased to exist, the carrying amount of the asset was reversed up to the amount the amortised cost would have been had the impairment not been recognised. *Held-to-maturity financial assets* 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. If there was objective evidence of impairment, their carrying amount was decreased to reflect the discounted value of future flows: the impairment losses identified by impairment tests were recognised in profit or loss. If, in a subsequent period, the reasons for the impairment loss ceased to exist, the carrying amount of the asset was

• 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 company'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 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 company'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	reversed up to the amount the amortised cost would have been had the impairment not been recognised. *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 ("fair value reserve"). 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. If there was objective evidence of impairment, their carrying amount was decreased to reflect the discounted value of future flows: the impairment losses identified by impairment tests were recognised in profit or loss. If, in a subsequent period, the reasons for the impairment loss ceased to exist, the carrying amount of the asset was reversed up to the amount the amortised cost would have been had the impairment not been recognised.

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 assets[7] 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.

[7] 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).

As mentioned earlier, when the General deterioration method applies, financial instruments are classified into three stages based on the deterioration of credit quality between initial recognition and the measurement date:

- *Stage 1*: includes all financial assets under assessment on the date of initial recognition regardless of qualitative indicators (e.g., ratings) and except for situations with objective evidence of impairment. Upon subsequent measurement, all financial instruments whose credit risk has not increased significantly since the date of initial recognition or whose credit risk at the reporting date is low, remain in Stage 1. For these exposures, 12-month ECL are provided for that represent the ECL that result from default events that are possible within the 12 months after the reporting date. Interest on Stage 1 financial instruments is calculated on the gross carrying amount (without deducting the loss allowance);
- *Stage 2*: includes the financial instruments whose credit risk has increased significantly since the date of initial recognition, which, however, do not show objective evidence of impairment. For these assets, only lifetime ECL are provided for, i.e., ECL that result from all possible default events over the expected life of a financial instrument. Interest on Stage 2 financial instruments is calculated on the gross carrying amount (without deducting the loss allowance);
- *Stage 3*: includes financial assets with objective evidence of impairment at the reporting date. For these assets, only lifetime ECL are provided for, i.e., ECL that result from all possible default events over the expected life of a financial instrument.

In order to identify the methodological approach to be applied to the assets that are in scope of the impairment requirements and, specifically, the correct probability of default, the company 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 and trade receivables with subsidiaries;
- Deposits: all deposits with banks;
- Amounts from third parties: loans and receivables other than those above, with non-financial companies, producers and consumers.

Furthermore, the FS Italiane 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.

Therefore, the application of the impairment model entails the following steps:

- <u>Separation between loans and trade receivables</u>: this distinction isolates the scope of the assets subject to the stage allocation criteria, i.e., all loans. Conversely, these criteria do not apply to trade receivables following the application of the simplified approach whereby expected losses are always classified on a lifetime basis;
- <u>Calculation of expected credit losses – Loans</u>: the expected credit loss is calculated for each cluster, once the relevant stage has been identified;
- <u>Calculation of expected credit losses – Trade receivables</u>: for each cluster, trade receivables are broken down by due date (specifically, falling due, past due up to one year, past due up to 2 years, past due by more than 2 years). The expected credit losses are then calculated accordingly.

Derivatives

In accordance with IFRS 9, upon FTA, the company 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 company uses derivatives as part of hedging strategies which mitigate the risk of fair value changes of recognised assets or liabilities or assets or firm commitments (fair value hedges) or changes in cash flows expected from firm commitments or highly probable transactions (cash flow hedges).

The effectiveness of hedges is documented and tested since the inception of the transaction which is periodically (at least at each annual or interim reporting date) measured by comparing the fair value changes of the hedge to those of the hedged item (dollar offset ratio) or, with respect to more complex financial instruments, through statistical analyses based on risk changes.

Fair value hedges

Fair value 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 estimate

The fair value of instruments quoted on an active market is calculated based on the bid price at the reporting date, while that of instruments not quoted on an active market is determined using financial valuation techniques: specifically, the fair value of interest rate swaps is calculated by discounting expected cash flows, while that of currency forwards considers closing rates and the expected differentials of the relevant currencies.

Financial assets and financial liabilities measured at fair value are classified using the following three levels of the fair value hierarchy, based on the relevance of the inputs used to determine fair value. Specifically:

Level 1: financial assets and financial liabilities whose fair value is calculated based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the group can access at the measurement date;

Level 2: financial assets and financial liabilities whose fair value is calculated based on inputs other than quoted prices included within Level 1 that are observable directly or indirectly;

Level 3: financial assets and financial liabilities whose fair value is calculated based on unobservable inputs.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and available bank deposits and any other forms of short-term investment, with an initial maturity of three months or less, net of impairment losses calculated in accordance with IFRS 9. At the reporting date, current account overdrafts are classified in the statement of financial position as loans and borrowings under current liabilities. Cash and cash equivalents are measured at fair value through profit or loss.

Loans, trade payables and other financial liabilities

Loans, trade payables and other financial liabilities are initially recognised at fair value, net of directly-attributable costs, and are subsequently measured at amortised cost, applying the effective interest method. When there is a change in the estimated expected cash flows, the carrying amount of the liabilities is recalculated to reflect this change on the basis of the present value of the new expected cash flows and of the effective internal rate as initially determined. Loans, trade payables and other financial liabilities are classified under current liabilities, except for those with a contractual term of more than twelve months after the reporting date and those for which the company has an unconditional right to defer their settlement for at least twelve months after the reporting date. They are derecognised when repaid and when the company has transferred all risks and charges related to the instrument.

Inventories

Inventories, which mainly comprise spare parts for the maintenance of rolling stock, are recognised at the lower of purchase and/or production cost and net realisable value. Cost is calculated using the weighted average cost method.

The accounting treatment of inventories provides for an increase in inventories following purchases and a decrease therein following use, with direct recognition in profit or loss.

Net realisable value corresponds, for finished goods and property, 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.

Employee benefits

Short-term 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 company has 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, the company pays contributions, either voluntarily or as required by contract, into public and private insurance pension funds. Contributions are recognised as personnel expense on an accruals basis. Advance payments for contributions are recognised as an asset that will be repaid or offset against future payments, if due.

A defined benefit plan is a plan that cannot be classified as a defined contribution plan. Under defined benefit plans, the amount of the benefit to be paid to the employee can be quantified only after the termination of the employment relationship, and is linked to one or more factors, such as age, years of service and remuneration. Therefore, defined benefit obligations are determined by an independent actuary using the projected unit credit method. The present value of defined benefit plans is determined by discounting future cash flows at an interest rate equal to that of (high-quality corporate) bonds issued in the foreign currency in which the liability will be settled and that takes account of the term of the related pension plan. Actuarial gains and losses are fully recognised in equity in the relevant year, taking account of the related deferred tax effect.

Specifically, the company 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-employments benefits at 1 January 2007 are still treated as defined benefit plans. Post-employment benefits also include another special Italian severance pay benefit due to employees for their service up to 31 December 1995.

The company also has a defined benefit pension plan in place, the “Free Travel Card” (*Carta di Libera Circolazione*, CLC) that gives current and retired employees and their families, the right to use - free of charge or, in some cases, for an admission fee - the company’s railway services.

Consequently, in accordance with the above-mentioned actuarial techniques, a provision is recognised which reflects the discounted charge for retired employees entitled to benefits, and the benefits accrued for employees in force to be disbursed at the end of the employment. The same accounting treatment is applied to the Free Travel Card benefits and the effects arising from actuarial gains and losses as for post-employment benefits.

Provisions for risks and charges

Provisions for risks and charges are recognised to cover specific liabilities that are certain or probable, but whose amount or due date is unknown at the reporting date. A provision is recognised when there is a present obligation (legal or constructive), as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation. The provisions are stated as the best estimate of the expenditure required to settle the obligation. The current amount of the liability is measured using a rate which reflects the current market value and considers the risk specific to each liability.

Where the effect of the time value of money is material and the settlement dates of obligations can be estimated reliably, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Risks for which a liability is only possible are disclosed in the specific section on contingent liabilities without accruing any provisions.

Revenue

Starting from 1 January 2018, the company 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 are described in note 4 “Effects of the first-time application of IFRS 9 and IFRS 15”, to which reference should be made.

Since the company has 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. IFRS as applied by the company is	**IFRS 15** **Nature and terms of performance obligations, significant terms of payment**	**IAS 18 and IAS 11** **Nature of the change in accounting policy**

provided below.**Products and services**		
Standard	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. 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. 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	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. 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

	method (cost-to-cost method). Accordingly, revenue is recognised based on the inputs used to satisfy the obligation up to the reporting date, compared to the total inputs assumed to satisfy the entire obligation. When the inputs are distributed consistently over time, the group recognises the corresponding revenue on a straight-line basis. In some circumstances, when the group is unable to reasonably measure the outcome of a performance obligation, revenue is recognised only to the extent of the costs incurred.	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, 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".
Revenue from transport-market services	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. Contracts with customers generally coincide with the ticket which also grants access to a number of services (e.g., transport, lounge, complementary drinks, wi-fi, etc.). However, these services are considered as a single performance obligation which customers may benefit from, except for reward points. Revenue is recognised from the moment the customer starts using the service. In the case of partial services (delays, cancellations, etc.), the current terms and conditions provide for reimbursements and bonuses	The application of IFRS 15 had no significant impacts.

	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. Because of the nature of the business, amounts are collected in advance. However, the timing of this advance does not have a significant impact. Since customers enjoy the benefits at the time of their transfer, revenue is recognised over time.	
Revenue from transport services-Service contracts	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. 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	The application of IFRS 15 had no significant impacts.

	provision to be used when the adjustments are finalised. Since customers enjoy the benefits at the time of their transfer, revenue is recognised over time.	
Other revenue	Other revenue includes residual services performed by the company, such as maintenance of third-party rolling stock, the contribution provided to Trenitalia by group companies for the transport of eligible employees and the sale of goods. Revenue is recognised at the time the service is provided or the goods are delivered.	The application of IFRS 15 had no significant impacts.

Variable consideration

If the consideration promised in a contract includes a variable amount (e.g., because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or because the consideration is contingent on the occurrence or non-occurrence of a future event), an entity shall estimate the amount of consideration to which it is entitled. The company estimates 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 the company is financed by their customer (advance collection) and when it finances it (deferred collection). The existence of a significant financing component is identified when the contract is signed by comparing expected revenue against the payments to be received. It is not recognised if the period between when the entity transfers a promised good or service and when the customer pays for that good or service is one year or less.

Incremental costs of obtaining a contract and costs to fulfil a contract

The incremental costs of obtaining a contract are those costs that the company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, a sales commission), which it expects to recover. Conversely, if no contract is obtained, they are recognised provided that they are explicitly chargeable to the customer. The company recognises the costs incurred to fulfil a contract only when they relate directly to a contract, generate or enhance resources that will be used in satisfying performance obligations in the future and are expected to be recovered.

Government grants

Government grants, when formally assigned and, in any case, when the right to their disbursement is deemed definitive as it is reasonably certain that the company 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 bodies to the company 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 any other public bodies to the company to offset costs and charges incurred. They are recognised under “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 company 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 income and in accordance with ruling tax legislation. Deferred tax assets, related to prior tax losses, are recognised when it is probable that future taxable income will be available against which these losses can be recovered. Deferred tax assets and liabilities are calculated using the tax rates that are expected to be applied in the years in which the differences will be realised or settled.

Current taxes, deferred tax assets and liabilities are recognised in profit or loss, except for those relating to items recognised under other comprehensive income and directly taken to equity. In the latter cases, deferred tax liabilities are recognised under the “Tax effect” caption related to the other comprehensive income or directly in equity, respectively. Deferred tax assets and liabilities are offset when they are levied by the same tax authorities, there is a legally enforceable right to set off the recognised amounts and a settlement on a net basis is expected.

Taxes other than income taxes, such as indirect taxes and duties, are included in profit or loss under “Other operating costs”.

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.

Assets and liabilities held for sale and disposal groups

Non-current assets and liabilities (or disposal groups) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use are classified as held for sale and recognised separately from any other assets and liabilities in the statement of financial position. The corresponding prior year statement of financial position figures are not reclassified. A discontinued operation is a component of the company that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical segment of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical segment of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Profits or losses of discontinued operations – either disposed of or classified as held for sale and being divested – are recognised separately in profit or loss, net of tax effects. Prior year corresponding figures, where present, are reclassified and presented separately in the separate income statement, net of tax effects, for comparative purposes. Non-current assets and liabilities (or disposal groups) classified as held for sale, are firstly recognised in accordance with the specific standard applicable to each asset and liability and, subsequently, are recognised at the lower of carrying amount and fair value, less costs to sell. Subsequent impairment losses are recognised directly as an adjustment to non-current assets (or disposal groups) classified as held for sale through profit or loss.

Impairment losses are reversed for any subsequent increase in fair value less costs to sell of an asset, and may not exceed the cumulative impairment loss that has been previously recognised.

New standards

FIRST-TIME ADOPTION OF STANDARDS, AMENDMENTS AND INTERPRETATIONS

The following new standards are effective for annual periods beginning on or after 1 January 2018.

IFRS 9 Financial instruments

On 24 July 2014, the IASB issued the definitive version of IFRS 9 Financial instruments. This document was endorsed by the EU with Regulation no. 2067 of 22 November 2016. It presents the results of the IASB's project to replace IAS 39 and supersedes all the previous versions of IFRS 9 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 (or 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 interpretation 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 company, which will apply IFRS 16 Leases starting from 1 January 2019, estimated the FTA effects, which are described below, on the financial statements. The actual effects of the application of this standard starting from 1 January 2019 may be considerably different. Indeed:

- as part of the impact analysis in which the company participates, the company has not yet completed the check and assessment of controls over the new information systems;
- 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; and
- the new measurement criteria may change until the presentation of the first financial statements inclusive of the first-time application date;
- the company is still assessing some practical expedients under the standard, also in respect of the above aspects.

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.

<u>Leases in which the company is the lessor</u>

The company 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 company will depreciate the right-of-use assets and the borrowing costs on lease liabilities. Under the previous standard, the company 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 company expects to recognise additional lease liabilities for an amount ranging between €35 and €40 million starting from 1 January 2019.

First-time application

The company 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 amounts due from an associate or a joint venture that form part of the net investment in the associate or joint venture. Furthermore, under the amendments, IFRS 9 also applies to said amounts prior to the adoption of IAS 28, so that the entity does not consider any adjustments to the long-term interests arising from the application of this standard. The 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 Combinations*

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 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 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 standards require the most subjectivity from the directors in the preparation of estimates and would have a significant impact on the financial figures if there were a change in the conditions underlying the assumptions used:

Impairment losses

Property, plant and equipment and intangible assets with a finite life are tested for impairment. Impairment losses are recognised when there is evidence that it will be difficult to recover the related carrying amount through the use of the asset. Impairment tests require the directors to make subjective valuations based on the information available within the company and in the market, as well as from past experience. Furthermore, when a potential impairment loss exists, the company 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.

Amortisation and depreciation

The cost of property, plant and equipment and intangible assets is depreciated and amortised, respectively, over the estimated useful lives of the assets. The directors determine the useful lives of the company's assets when the assets are purchased. They are based on past experience for similar assets, market conditions and forecasts concerning future events that may have an impact on the useful life. Therefore, the actual economic life may differ from the estimated useful life. The company 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. For information on the calculation of the depreciation of rolling stock and the estimate of the related useful life reference should be made to "Significant accounting policies – Property, plant and equipment".

Provisions for risks and charges

Provisions are accrued against legal and tax risks which represent the risk of a negative outcome. The recognised provisions relating to these risks reflect the best estimate made by the directors at the reporting date. This estimate entails the adoption of assumptions that depend on factors which may vary over time and which may have significant effects compared to the current estimates made by the directors for the preparation of the company's financial statements.

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.

Fair value of derivatives

The fair value of derivatives that are not quoted in active markets is measured using valuation techniques. The company 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.

Operating segments

At the date of these financial statements, the company had no debt instruments or shares quoted on a regulated market and was included in the scope of consolidation of Ferrovie dello Stato Italiane group, which provides information on its operating segments in the notes to the consolidated financial statements, in accordance with IFRS 8.2.b.

4. 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 company 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 company 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.

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):

Impairment losses at 31 December 2017 (IAS 39)	**285,324**
Additional impairment at 1 January 2018:	**1,298**
Other non-current and current assets	103
Trade receivables	1,154
Other financial assets	24
Cash and cash equivalents	16
Impairment losses at 1 January 2018 (IFRS 9)	**286,622**

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Transition method

The company 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 company developed new detailed information.

5. Financial risk management

The activities carried out by the company expose it to various types of 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 company's exposure to each of the risks listed above, the objectives, policies and processes for the management of these risks and the methods used to assess them, as well as capital management. These financial statements also include additional quantitative information. The company's risk management focuses on the volatility of financial markets and is aimed at minimising potential undesired effects on its financial position and results of operations.

Credit risk

Credit risk is the risk that a customer or one of the counterparties of a financial instrument may cause a financial loss by not complying with an obligation. It mainly arises from trade receivables, loan assets with the public administration, the company's financial investments and cash and cash equivalents.

The company has issued organisational procedures for credit management in order to define strategies and guidelines for the commercial credit policy, assign credit limits for customers, prevent the concentration of credit risk, monitor customers' solvency and start credit collection operations.

The recoverability of loans and 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, loans and receivables whose recovery is uncertain at the reporting date are impaired.

With respect to the derivatives used for hedging purposes and which can potentially generate credit exposure to counterparties, in agreement with the parent, the company applies a policy that defines concentration thresholds by counterparty and credit rating.

The table below shows the company's exposure to the credit risk:

(€'000)	31.12.2018	31.12.2017
Non-current financial assets (including derivatives)	2,797	1,356
Loss allowance		
Non-current financial assets (including derivatives), net of the loss allowance	**2,797**	**1,356**
Non-current trade receivables		
Loss allowance		
Non-current trade receivables, net of the loss allowance	**-**	**-**
Other non-current assets	81,611	72,456
Loss allowance	(36)	-
Other non-current assets, net of the loss allowance	**81,575**	**72,456**
Current trade receivables	1,524,471	1,895,830
Loss allowance	(303,868)	(285,000)
Current trade receivables, net of the loss allowance	**1,220,603**	**1,610,829**
Current financial assets (including derivatives)	22,696	19,325
Loss allowance	(24)	-
Current financial assets (including derivatives), net of the loss allowance	**22,672**	**19,325**
Cash and cash equivalents, net of the loss allowance	**5,162**	**9,227**
Other current assets	36,201	145,931
Loss allowance	(385)	(323)
Other current assets, net of the loss allowance	**35,816**	**145,608**
Total exposure, net of the loss allowance*	**1,368,625**	**1,858,801**

* Tax assets and equity investments are not included

The tables below show its exposure to credit risks by counterparty, in absolute terms and as a percentage, excluding cash and cash equivalents:

(€'000)	31.12.2018	31.12.2017
Public administration	969,486	1,356,281
Third party customers	141,168	189,830
Financial institutions	5,162	9,227
FS Italiane group companies	252,809	303,463
Total exposure, net of the loss allowance	**1,368,625**	**1,858,801**

	31.12.2018	31.12.2017
Public administration	71%	73%
Third party customers	10%	10%
Financial institutions	0%	0%
FS Italiane group companies	18%	16%
Total exposure, net of the loss allowance	**100%**	**100%**

Because of the nature of its business, the company's loans and receivables include the amounts related to public service contracts entered into with the regions and the government and the amounts due from ordinary customers. Therefore, they are largely attributable to government and public bodies, such as the MEF and the regions. Specific procedures are in place to minimise the risk of creditors' insolvency by assessing their credit standing. In some cases, credit limit can be exceeded only by companies that issue adequate sureties. Therefore, credit risk, which is represented by the company's exposure to potential losses arising from the failure of its own debtors to comply with their obligations is significantly mitigated.

The table below gives a breakdown of financial assets at 31 December 2018 by overdue amounts, net of the loss allowance and excluding cash and cash equivalents:

Thousands di Euros

31.12.2018		Overdue by				
	Not overdue	0-180	180-360	360-720	beyond 720	Total
Public administration	497,382	164,468	85,425	99,094	126,053	972,421
Loss allowance	(210)	(98)	(51)	(59)	(2,516)	(2,935)
Public administration (net)	**497,171**	**164,370**	**85,374**	**99,035**	**123,537**	**969,486**
FS Italiane group companies	166,246	30,170	7,857	45,622	7,803	257,697
Loss allowance	(74)	(14)	(4)	(20)	(4,776)	(4,888)
Group companies (net)	**166,172**	**30,156**	**7,853**	**45,602**	**3,027**	**252,809**
Third party customers	118,607	6,466	1,819	15,655	295,110	437,658
Loss allowance	(14)	(1)	0	(2)	(296,474)	(296,490)
Third party customers (net)	**118,594**	**6,465**	**1,819**	**15,653**	**(1,363)**	**141,168**
Financial institutions	5,162					5,162
Loss allowance						0
Other debtors (net)	**5,162**	**-**	**-**	**-**	**-**	**5,162**
Total exposure, net of the loss allowance	**787,099**	**200,991**	**95,046**	**160,289**	**125,200**	**1,368,625**

31.12.2017		Overdue by				
	Not overdue	0-180	180-360	360-720	beyond 720	Total
Public administration	615,452	416,314	73,720	125,847	149,543	1,380,876
Loss allowance	0	(3,376)	(4,661)	(16,557)	0	(24,594)
Public administration (net)	**615,452**	**412,938**	**69,059**	**109,290**	**149,543**	**1,356,281**
FS Italiane group companies	232,713	35,721	17,201	12,346	10,204	308,185
Loss allowance	0	0	0	0	(4,722)	(4,722)
Group companies (net)	**232,713**	**35,721**	**17,201**	**12,346**	**5,482**	**303,463**
Third party customers	142,446	43,578	17,521	57,033	185,260	445,837
Loss allowance	0	(15,115)	(16,656)	(50,148)	(174,089)	(256,008)
Third party customers (net)	**142,446**	**28,462**	**865**	**6,885**	**11,171**	**189,830**
Financial institutions	9,227					9,227
Loss allowance						0
Other debtors (net)	**9,227**	**-**	**-**	**-**	**-**	**9,227**
Total exposure, net of the loss allowance	**999,838**	**477,121**	**87,126**	**128,521**	**166,196**	**1,858,801**

Amounts due from the public administration total €969 million and mainly refer to amounts due from the regions and the MEF in connection with service contracts. Of this amount, approximately 48% is already overdue. Overdue amounts from Sicily (approximately €79 million), public transport authority of the Piedmont Region (approximately €69 million), the Valle d'Aosta region (approximately €42 million), the Calabria region (roughly €21 million) and the MEF (roughly €144 million) are particularly significant. The breakdown by due date includes the amount for invoices to be issued to the MEF and the regions, since the services have already been provided and reported, but these bodies have yet to implement suitable procedures for the invoicing and payment of such services.

The total exposure and the impairment of each category was classified by risk class at 31 December 2018, as per the Standard & Poor's rating, shown below:

Thousands of Euros

Impairment and stage allocation IFRS 9

	2018						2017	
	FVTPL	FVOCI	Amortised cost			Total	Held to maturity	Total
		12-months expected credit losses	12-months expected credit losses	Lifetime - not impaired	Lifetime - impaired			
from AAA to BBB-			1,291,004			1,291,004	1,772,594	1,772,594
from BB to BB+				74,608	307,326	381,934	371,530	371,530
from B to CCC								
from CC to C								
Gross carrying amounts			**1,291,004**	**74,608**	**307,326**	**1,672,938**	**2,144,125**	**2,144,125**
Loss allowance			(7,641)	(233)	(296,440)	(304,313)	(285,324)	(285,324)
Carrying amount			**1,283,363**	**74,375**	**10,887**	**1,368,625**	**1,858,801**	**1,858,801**

Changes in the loss allowance may be analysed as follows:

Thousands of Euros

Change in loss allowance

	2018				2017
	12-months expected credit losses	Lifetime - not impaired	Lifetime - impaired	Total	Loss allowance
Balance at 31 December 2017	7,641		277,683	285,324	285,324
Effects of IFRS 9 FTA		233	1,065	1,298	
Opening balance	**7,641**	**233**	**278,748**	**286,622**	
Transfer to lifetime - impaired			95	95	
New financial assets acquired			28,932	28,932	
Utilisation of the allowance			(11,335)	(11,335)	
Group adjustments				-	
Closing balance	**7,641**	**233**	**296,440**	**304,313**	

Liquidity risk

Liquidity risk is the risk that an entity may have difficulties in complying with the obligations associated with the 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 managed centrally by the parent's Finance unit within its Central Finance, Control and Assets Department to ensure efficient and effective management of financial resources. The company's objective is the prudent management of the liquidity risk arising from ordinary operations. This requires maintaining adequate cash and cash equivalents, short-term securities and committed and uncommitted credit lines. The parent has agreed uncommitted credit lines with leading banks.

At 31 December 2018, the parent provided the company with committed and uncommitted credit lines to help it meet its cash requirements. In addition, the company participates in Ferrovie dello Stato Italiane group's cash pooling system.

As stated in the directors' report, the company holds considerable amounts due from the government and the regions, which are not settled on time. However, while they present lengthy payment terms, they enable the company to manage its financial requirements.

The following tables show the due dates of financial liabilities at 31 December 2018 and 2017, including interest to be paid:

31/12/2018	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							
Bank loans and borrowings	571,391	578,824	62,015	62,012	124,300	290,098	40,399
Loans and borrowings from shareholders	5,241,461	5,493,446	563,696	678,205	1,000,448	1,264,019	1,987,078
Financial liabilities	153,204	153,204	153,204	0			
Total	**5,966,056**	**6,225,474**	**778,915**	**740,217**	**1,124,748**	**1,554,117**	**2,027,477**
Trade payables	**1,214,549**	**1,214,549**	**1,210,319**	**-**	**4,230**	**-**	**-**
Derivative financial liabilities	**19,714**	**24,175**	**5,120**	**3,750**	**5,966**	**5,418**	**3,921**

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							
Bank loans and borrowings	734,381	748,956	102,598	62,049	124,941	377,900	81,468
Loans and borrowings from shareholders	5,786,540	6,119,639	512,796	646,354	695,139	1,649,684	2,615,666
Financial liabilities	424,969	424,969	424,969	-	-	-	-
Total	**6,945,890**	**7,293,564**	**1,040,363**	**708,403**	**820,080**	**2,027,584**	**2,697,134**
Trade payables	**1,206,613**	**1,206,613**	**1,206,613**	**-**	**-**	**-**	**-**
Derivative financial liabilities	**32,173**	**45,749**	**11,642**	**9,187**	**5,453**	**13,511**	**5,956**

The contractual flows from variable-rate loans have been calculated using the forward rates estimated at the reporting date. The balance of the intragroup current account and current loans disbursed by the parent are classified under the shortest bracket ("6 months or less") in the disclosure table.

The tables below show the repayments of financial liabilities by due date within one year, from 1 to 5 years and after 5 years:

31/12/2018	Carrying amount	Within one year	1-5 years	After 5 years
Non-derivative financial liabilities				
Bank loans and borrowings	571,391	123,360	410,000	38,031
Shareholder loans	5,241,461	1,211,435	2,117,071	1,912,955
Financial liabilities	153,204	153,204	-	-
Total	**5,966,056**	**1,487,999**	**2,527,071**	**1,950,986**
Trade payables	**1,214,549**	**1,210,319**	**4,230**	**-**

31/12/2017	Carrying amount	Within one year	1-5 years	After 5 years
Non-derivative financial liabilities				
Bank loans and borrowings	734,381	163,985	493,333	77,063
Shareholder loans	5,786,540	1,130,711	2,157,913	2,497,916
Financial liabilities	424,969	424,969	-	-
Total	**6,945,890**	**1,719,665**	**2,651,246**	**2,574,979**
Trade payables	**1,206,613**	**1,206,613**	**-**	**-**

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate following changes in market prices, due to changes in exchange rates, interest rates or prices of equity instruments.

As part of its operations, the company is exposed to several market risks, mainly interest rate risk and, to a lesser extent, currency risk. The objective of market risk management is keeping the group companies' exposure to these risks within acceptable levels, while optimising returns on investments. This risk is broken down into interest rate risk and currency risk, detailed below.

Interest rate risk

The company is mainly exposed to the interest rate risk relating to loans.

Following the resolutions made at the board of directors' meeting, an interest rate risk management policy was defined. Updated in 2016, the policy provides for:

- hedging of up to 50% of non-current debt with fixed financial expense or managed via hedging instruments that have a term equal to that of the transaction;
- the possibility to hedge the portion of residual variable-rate (or transformed to variable rate via swaps) debt via derivative financial instruments expiring within five years and in order to ensure the company meet the objectives in the long-term plan and/or annual budget.

The main objective of the strategy is to limit cash flow fluctuations in financing transactions in place in order to ensure the company meet its borrowing cost objectives in the long-term plan and/or annual budget. The company only uses interest rate swaps/plain vanilla collars/plain vanilla caps.
The implementation of the strategy enabled the company to progressively and constantly reduce the cost of non-current debt. In 2018, the all-in cost of the company's non-current debt, including the credit spread, stood at 1.2%.

At 31 December 2018, approximately 50% of non-current debt (€2.6 billion) accrues interest at fixed rates or is hedged until maturity via interest rate derivatives.

The remaining 50% of non-current debt (€2.6 billion) is covered by current hedges. Specifically, they hedge against:

- variable-rate debt for a total of €1.4 billion covered by the interest rate swaps mainly stipulated in 2018 and with a duration of between one and three years;
- variable-rate debt for a total of €1.2 billion covered by the interest rate caps stipulated in 2016 and 2018 due between 2019 and 2021;

- fixed-rate debt transformed into variable-rate debt through the fair value hedge stipulated in 2016 on the fixed-rate, 15-year €50 million loan.

Current debt typically accrues at interest variable rates and is indexed to money market benchmarks.

The tables below show Trenitalia's debt, including current debt, and the related hedges:

The table shows variable rate and fixed rate loans:

	Carrying amount	Contractual cash flows	Current portion	1 and 2 years	2 and 5 years	After 5 years
Variable rate	4,052,918	2,172,558	45,045	584,788	761,525	781,200
Fixed rate	2,172,556	4,052,916	1,474,088	539,960	792,591	1,246,277
31 December 2018	**6,225,474**	**6,225,474**	**1,519,133**	**1,124,748**	**1,554,116**	**2,027,477**
Variable rate	4,963,618	5,092,729	1,703,947	775,229	1,302,578	1,310,975
Fixed rate	1,982,271	2,200,833	44,816	44,852	725,006	1,386,159
31 December 2017	**6,945,889**	**7,293,562**	**1,748,763**	**820,081**	**2,027,584**	**2,697,134**

The table below shows the impact of variable rate and fixed rate loans before and after hedging derivatives, which convert variable rates into fixed rates (and vice versa) or which hedge against rises in variable rates beyond the maximum levels defined.

	31.12.2018	31.12.2017
Before hedging with derivative instruments		
Variable rate	66.47%	71.46%
Fixed rate	33.53%	28.54%
After hedging with derivative instruments		
Variable rate	12.60%	15.44%
Hedged variable rate	32.25%	20.75%
Fixed rate	55.15%	63.81%

The company does not account for fixed rate financial assets or liabilities at fair value through profit or loss. As of 2016, the company uses derivative instruments as hedging instruments according to the fair value hedging model.

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:

	Shift + 50 bps	Shift - 50 bps
Interest expense on variable-rate liabilities (Δ)	13,618	(9,649)
Net cash flows from hedges (Δ)	(7,117)	5,552
Total	**6,501**	**(4,097)**

An increase in interest expense on the variable-rate debt is partially offset by a reduction in net cash flows from hedges (and vice versa).

A sensitivity analysis that shows the effects of a parallel shift of 50 basis points up or down in the swap rate curve recorded at 31 December 2018 on the fair value of hedging derivatives is given below:

	Shift + 50 bps	Shift - 50 bps
Fair value of cash flows hedge transactions (Δ)	18,509	(14,740)
Fair value of fair value hedge transactions (Δ)	(2,829)	3,029
Total	**15,680**	**(11,711)**

Currency risk

The company is mainly active in Italy as well as in countries of the Eurozone. Therefore, the risk arising from the different currencies in which it operates is very limited.

In particular, the company has loans and borrowings in Swiss francs totalling CHF45 million with Eurofima through the parent, following its acquisition of the assets of Cisalpino AG, as shown in the table below:

	31/12/2018		31/12/2017	
	Euro equivalent	CHF	Euro equivalent	CHF
Shareholder loans	39,933	45,000	38,455	45,000
Gross amount in the statement of financial position	**39,933**	**45,000**	**38,455**	**45,000**
Currency forwards	-	-	-	-
Net balance	**39,933**	**45,000**	**38,455**	**45,000**

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 and the categories of financial assets and financial liabilities identified pursuant to IFRS 7.

As already mentioned, loans and borrowings, trade payables and other financial liabilities are initially measured at fair value and subsequently at amortised cost.

31 December 2018	Loans and receivables	Loans and borrowings	of which: hedging derivatives
Non-current financial assets (including derivatives)	2,797		
Other non-current assets	83,298		
Current trade receivables	1,220,603		
Current financial assets (including derivatives)	22,672		
Cash and cash equivalents	35,766		
Tax assets	2,495		
Other current assets	38,504		
Non-current loans and borrowings		4,478,057	
Non-current financial liabilities (including derivatives)		18,362	18,362
Trade payables		4,230	
Other non-current liabilities		47	
Short-term loans and borrowings and current portion of medium/long-term loans and borrowings		1,334,795	
Current trade payables		1,210,319	
Current financial liabilities (including derivatives)		154,556	1,351
Other current liabilities		529,748	
Tax liabilities		-	

31 December 2017	Loans and receivables	Loans and borrowings	of which: hedging derivatives
Non-current financial assets (including derivatives)	1,356		67
Other non-current assets	74,179		
Current trade receivables	1,610,829		
Current financial assets (including derivatives)	19,325		
Cash and cash equivalents	39,871		
Tax assets	179		
Other current assets	146,815		
Non-current loans and borrowings		5,226,225	
Non-current financial liabilities (including derivatives)		17,483	17,483
Trade payables		126	
Other non-current liabilities		1,067	
Short-term loans and borrowings and current portion of medium/long-term loans and borrowings		1,294,696	
Current trade payables		1,206,613	
Current financial liabilities (including derivatives)		439,660	14,690
Other current liabilities		536,014	
Tax liabilities		9,830	

Statement of financial position

6. Property, plant and equipment

Property, plant and equipment at 31 December 2018 and changes therein are shown in the table below.

PROPERTY, PLANT AND EQUIPMENT

	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	2,035,405	18,806,922	178,851	427,739	632,364	22,081,281
Depreciation and impairment losses	(706,896)	(10,685,435)	(151,268)	(369,965)	(27,713)	(11,941,277)
Grants	(1,815)	(444,411)	(2,262)	(224)	(57,880)	(506,591)
Balance at 01.01.2017	**1,326,694**	**7,677,077**	**25,321**	**57,550**	**546,771**	**9,633,413**
Investments	0	0	0	8	875,819	875,827
Roll-outs	33,084	1,016,104	10,601	8,104	(1,069,809)	(1,916)
Depreciation	(26,015)	(987,596)	(6,534)	(21,283)	0	(1,041,428)
Impairment losses	0	(56,852)	0	0	(1,432)	(58,284)
Disposals and divestments*		(15,207)	0	(16)	0	(15,223)
Increases in grants	0	(102,307)	0	0	13,630	(88,677)
Other changes	0	0	0	0	(3,322)	(3,322)
Other reclassifications**	0	(3,631)	0	0	0	(3,631)
Total changes	**7,069**	**(149,489)**	**4,067**	**(13,187)**	**(185,114)**	**(336,654)**
Historical cost	2,071,783	18,788,818	189,158	405,253	434,920	21,889,932
Depreciation and impairment losses	(732,911)	(10,716,366)	(157,508)	(360,666)	(29,145)	(11,996,596)
Grants	(5,109)	(544,865)	(2,262)	(224)	(44,118)	(596,578)
Balance at 31.12.2017	**1,333,763**	**7,527,588**	**29,388**	**44,363**	**361,657**	**9,296,759**
Investments				359	720,727	721,086
Roll-outs	16,020	654,392	8,846	13,105	(702,588)	(10,225)
Depreciation	(26,316)	(957,609)	(6,058)	(18,312)		(1,008,295)
Impairment losses		(35,049)	(1)		(1,010)	(36,060)
Disposals and divestments*		(6,271)	-	(208)		(6,479)
Increases		(317)		(242)	2,563	2,004
Other changes		(438)			(1,130)	(1,568)
Other reclassifications**				913		913
Total changes	**(10,296)**	**(345,292)**	**2,787**	**(4,385)**	**18,562**	**(338,624)**
Historical cost	2,087,803	19,443,210	198,004	418,717	453,059	22,600,793
Depreciation and impairment losses	(759,227)	(11,715,733)	(163,567)	(378,273)	(31,285)	(13,048,085)
Grants	(5,109)	(545,182)	(2,262)	(466)	(41,555)	(594,574)
Balance at 31.12.2018	**1,323,467**	**7,182,295**	**32,175**	**39,978**	**380,219**	**8,958,134**
Disposals and divestments*						
Historical cost		(69,431)		(1,005)		(70,436)
Depreciation		63,160		797		63,957
Grants						
Impairment losses						-
Total disposals and divestments	**-**	**(6,271)**	**0**	**(208)**	**-**	**(6,479)**
Other reclassifications **						
Historical cost				1,440		1,440
Depreciation				(527)		(527)
Grants						0
Impairment losses						-
	-	**0**		**913**	**-**	**913**

The most significant changes of the year are as follows:

- Investments of €721,086 thousand refer to rolling stock for €641,991 thousand (including advances for the purchase of rolling stock) and to other investments in workshop systems and buildings and technical equipment for €79,095 thousand. Specifically, investments in rolling stock particularly relate to the ongoing renewal of both the high speed service fleet (€141,998 thousand), with the completion of the delivery of new ETR 1000 electric trains, and the regional transport fleet, with the delivery of 11 extra electric "Jazz" trains and the authorisation to purchase an additional 14 diesel "Swing" trains. Other investments include value-increasing maintenance (€368,914 thousand) and revamping/restyling projects (€125,916 thousand). The other investments mainly regard the ongoing upgrading, streamlining and projects to increase the energy efficiency of the maintenance plant.
- Roll-outs mainly related to rolling stock (€641,991 thousand), including: new rolling stock for both regional transport, including Jazz (€86,743 thousand) and for high speed transport, with HS ETR 1000 trains (€32,818 million) as well as value-increasing maintenance (€374,747 million) and restyling and revamping projects (€147,681 million);
- Depreciation is recognised in profit or loss in accordance with the rates applicable to property, plant and equipment;
- impairment losses of €35,039 thousand essentially include the impairment of rolling stock following the beginning of the disposal process;
- disposals and divestments mainly refer to the sale of rolling stock (€6,271 thousand) to Mercitalia (€4,341 thousand), Serfer (€142 thousand) and RFI (€1,399 thousand).

the rolling stock guarantees issued in favour of Eurofima for the non-current loans raised through the parent Ferrovie dello Stato Italiane amount to €1,513,181 thousand, updated based on the Amendment Agreement dated 28 March 2017 and the reimbursement at the end of 2018 of €612,100 thousand, which released rolling-stock guarantees of €644,716 thousand.

7. Intangible assets

Intangible assets at 31 December 2018 and changes therein are shown in the table below.

INTANGIBLE ASSETS

	Development expenditure	Concessions, licences, trademarks and similar rights	Assets under development and payments on account	Total
Historical cost	14,354	584,006	13,953	612,313
Amortisation and impairment losses	(10,987)	(467,886)	(1,224)	(480,097)
Grants	(1,959)	(583)	-	(2,542)
Balance at 01.01.2017	**1,408**	**115,537**	**12,729**	**129,674**
Investments			64,008	64,008
Roll-outs		26,106	(24,188)	1,918
Amortisation	(481)	(44,160)		(44,641)
Impairment losses			(70)	(70)
Disposals and divestments				0
Other changes				0
Change in grants				0
Other reclassifications	0	0		0
Total changes	**(481)**	**(18,054)**	**39,750**	**21,215**
Historical cost	12,910	235,537	53,773	302,220
Amortisation and impairment losses	(11,468)	(137,251)	(1,294)	(150,013)
Grants	(515)	(803)		(1,318)
Balance at 31.12.2017	**927**	**97,483**	**52,479**	**150,889**
Investments			76,646	**76,646**
Roll-outs	93	119,703	(109,929)	**9,867**
Amortisation	(428)	(51,867)		**(52,295)**
Impairment losses			(90)	**(90)**
Disposals and divestments*		(1,180)	(2,280)	**(3,460)**
Other changes				**-**
Change in grants		(2,004)		**(2,004)**
Other reclassifications *		(913)		**(913)**
Total changes	**(335)**	**63,739**	**(35,653)**	**27,751**
Historical cost	13,003	326,017	18,210	357,230
Amortisation and impairment losses	(11,896)	(161,988)	(1,384)	(175,268)
Grants	(515)	(2,807)	0	(3,322)
Balance at 31.12.2018	**592**	**161,222**	**16,826**	**178,640**
Disposals and divestments*				
Decrease in historical cost due to disposals and divestments		(1,200)	(2,280)	(3,480)
Decreases in accumulated amortisation due to divestments		20		20
Decreases in impairment losses due to divestments				0
Total disposals and divestments	**-**	**(1,180)**	**(2,280)**	**(3,460)**
Reclassifications*				
Change in historical cost due to reclassifications		(28,023)		**(28,023)**
Changes in accumulated amortisation due to reclassifications		27,110		**27,110**
Change in grants related to assets due to reclassifications				**-**
Total reclassifications	**-**	**(913)**	**-**	**(913)**

The changes of the year relating to both “Investments” (€76,646 thousand) and “Roll-outs” (€109,929 thousand) are attributable to software development for the company’s management systems. The investments made include:

- creating the new dynamic maintenance system to improve the efficiency of the maintenance process through predictive activities;
- purchasing additional self-service machines and the evolution of the regional sales systems;
- implementing revenue management systems, developing reporting processes for hand held devices used by on-board personnel and the CRM (Customer Relationship Management) platform;
- developing the new reporting and administrative processes, new projects related to integrated mobility and the digital travel experience;

Amortisation of €52,295 thousand is that recognised in profit or loss at the rates applicable to intangible assets.

disposals and divestments refer entirely to the transfer of the ECE project (“Extended Customer Experience” for the development of extra functions for the PICO sales system) to Ferrovie dello Stato, both for the software already recognised by Trenitalia and for assets under development.

Grants of €2,004 thousand are mainly attributable to the loan from the Piedmont region to upgrade Trenitalia’s electronic ticketing system to the BIP (Biglietto Integrato Piemonte, Integrated Piedmont ticket) system.

Impairment testing of cash generating units

The company does not have any intangible assets with an indefinite useful life nor did it recognise any goodwill.

The company did not test for impairment in 2018 as it did not identify any trigger events.

8. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities at 31 December 2018 and changes of the year are shown below.

	31.12.2017	Incr.(decr.) through profit or loss	Incr.(decr.) through OCI	31.12.2018
Deferred tax assets				
- Measurement of financial instruments	6,772		(2,515)	4,257
- Deferred tax assets on prior year losses	85,830	(3,989)		81,841
Total	**92,602**	**(3,989)**	**(2,515)**	**86,098**
Deferred tax liabilities				
plant and equipment	104,495	(733)		103,762
- Post-employment benefits and other employee benefits	(12,906)		1,090	(11,816)
- Other items: Provision for workshop charges	92	(67)		25
Total	**91,681**	**(800)**	**1,090**	**91,971**
Balance (liabilities-assets)	**(921)**	**3,189**	**3,605**	**5,873**

The €6,504 thousand decrease in deferred tax assets is due to:

- the €2,515 thousand decrease resulting from the lower fair value of interest rate hedges through CHF derivatives.
- The €3,989 thousand decrease due to the adjustment of the tax benefits calculated for future years based on the expected positive results. As reported in previous years, Trenitalia has recognised substantial deferred tax assets on its prior year tax losses, the recoverability of which, as permitted by the law, is unlimited in time in accordance with the law.

Tax losses already generated and transferred to the group consolidation scheme and not yet used at year end amount to approximately €617 million.

Deferred tax liabilities of €91,971 thousand slightly increased by a net €290 thousand, following the increase in deferred taxes related to post-employment benefits (€1,090 thousand), partially offset by the release of the provision for taxes on assets (€733 thousand) and the deferred tax liabilities related to the provision for workshop charges (€67 thousand).

9. Equity investments

The tables below show equity investments' opening and closing balances, broken down by category, and changes therein.

	Carrying amount at 31.12.2017	Carrying amount at 31.12.2018	Cumulative loss allowance at 31.12.2018
Equity investments in			
Subsidiaries	15,273	15,273	10,500
Joint arrangements	42,160	42,160	941
Other companies	35	35	23
	57,468	**57,468**	**11,464**

Changes in 2018 are shown below:

	Carrying amount at 31.12.2017	Acquisitions /Subscriptions	Acquisitions/ Reductions	Impairment losses/Reversals of impairment losses	Reclass.	Rescission	Reclassification to assets held for sale	Carrying amount at 31.12.2018	% of invest.	Cumulative loss allowance at 31.12.2018
Investments in subsidiaries	**15,273**							**15,273**		**10,500**
Serfer S.r.l.									100%	
Thello S.a.s.		9,000			(9,000)			0	100%	10,500
Trenitalia UK Limited	15,098							15,098	100%	
Soc. Ferr.Provv. Emilia Romagna Scar	175							175	70%	
Investments in joint arrangements	**42,160**							**42,160**		**941**
Cisalpino AG	4,100							4,100	50%	941
Trenord S.r.l.	38,060							38,060	50%	
Other companies	**35**							**35**		**23**
Consel S.c.a.r.l.	1							1	1%	
Consorzio Trasporti Integrati	10							10	74%	
Isfort	24							24	5.58%	23
	57,468	**9,000**			**(9,000)**			**57,468**		**11,464**

There was a €9 million increase in the investment in Thello for the share capital increase during the year. This increase was offset by the reclassification of the same amount due to the use of the provision for risks on equity investments set up in previous years for the investee's net deficit.

In the following table, the carrying amounts of equity investments in subsidiaries and jointly controlled entities are compared.

	Registered	Share/quota capital	Profit (loss) for the year	Equity at 31.12.2018	% of ownership	Attributable equity (a)	Carrying amount at 31.12.2018 (b)	Difference (b) - (a)
Investments in subsidiaries								
Thello S.a.s.	Paris, 15 rue des Sablons	10,500	(9,557)	(9,674)	100%	(9,674)	-	9,674
Trenitalia UK Limited (**)	London, 20 Primrose Street	14,533	(7,716)	7,153	100%	7,153	15,098	7,945
Società Ferr. Provvisoria Emilia Romagna Scarl (*)	Bologna, Via del Lazzaretto 16				70%		175	
							15,273	
Investments in jointly controlled entities								
Cisalpino AG (***)	Bern, Fabrikstrasse 35	86	526	7,599	50%	3,799	4,100	301
Trenord S.r.l.	Milano, Via P. Paleocapa 6	76,120	2,368	91,308	50%	45,654	38,060	(7,594)
							42,160	
TOTAL							**57,433**	

(*) company not operating
(**) average Pound Sterling exchange rate: 1.1136; at 31/12/2018: 1.1179
(***) company in liquidation; amounts at 31.12.2017

The most significant change between the carrying amount and the corresponding portion of equity refers to Thello S.a.s.. An accrual was made to the provision for risks in order to bring the investee's carrying amount into line with the impairment losses recognised at the reporting date. In this regard, it should be noted that in the meeting of 30 October 2018, Trenitalia's board of directors resolved to intervene in Thello S.a.s's quotaholder meeting on 31 October 2018, voting in favour of continuing company activities, giving the CEO the power to provide for the necessary authorisations during the meeting. At such meeting, it was decided not to proceed with the early liquidation of Thello S.a.s., deciding instead to continue with company activities, noting that the company shall have a maximum term of two years for its recapitalisation pursuant to French regulations (equity of at least 50% of quota capital).

With regard to Trenitalia UK Limited, the following should be noted: the company does not currently have own operations, as it substantially solely holds an investment in Trenitalia C2C, which operates in passenger transport on the UK's medium haul market. The acquisition of such investment was funded by the parent, Ferrovie dello Stato Italiane S.p.A.. The recoverability of the investment in Trenitalia UK's is based on Trenitalia C2C's ability to generate cash flows from operating activities. In this context and considering the approval of Trenitalia C2C's new 2019-2023 business plan, the directors tested the investment for impairment at 31 December 2018 and did not find any impairment losses. Therefore, the difference between the investment's carrying amount and the investee's equity was deemed recoverable.

The following table summarises the main statement of financial position and income statement captions of jointly controlled entities:

	% of investment	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit
Investments in jointly controlled entities										
Cisalpino AG (***)	50%	7697	500	8,197	598	0	598	828	302	526
Trenord S.r.l.	50%	299,855	201,157	501,012	317,052	91,418	408,470	807,787	797,265	10,522
31.12.2017										
Investments in jointly controlled entities										
Cisalpino AG (***)	50%									
Trenord S.r.l.	50%	303,577	212,865	516,442	354,210	70,924	425,134	797,544	795,176	2,368
31.12.2018										

(***) company in liquidation; amounts at 31.12.2017

10. Non-current and current assets (including derivatives)

Financial assets are broken down below compared with prior year corresponding figures:

	Carrying amount								
	31.12.2018			31.12.2017			Differences		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial assets									
Derivatives	-	-	-	67	-	67	(67)	-	(67)
Loan assets	1,507	22,672	24,179	-	19,325	19,325	1,507	3,347	4,854
Other loan assets	1,290	-	1,290	1,290	-	1,290	-	-	
	2,797	**22,672**	**25,469**	**1,356**	**19,325**	**20,681**	**1,441**	**3,347**	**4,788**

Financial assets amount to €25,469 thousand at 31 December 2018, compared to €20,681 thousand at the previous year end.

The €4,788 thousand increase in financial assets is essentially due to the balance of the cash pooling account held with Thello S.a.s. (€3,730 thousand).

Financial assets are broken down below by counterparty:

	Residual amount					
	31.12.2018			31.12.2017		
	Non-current	Current	Total	Non-current	Current	Total
Banks	1,290	-	1,290	1,356	685	2,041
Trenord S.r.l.		2,166	2,166	-	2,166	2,166
Thello S.a.s.		20,204	20,204	-	16,474	16,474
Ferrovie dello Stato Italiane S.p.A	1,507	326	1,833	-	-	-
Loss allowance		(24)	(24)			-
Total	**2,797**	**22,672**	**25,469**	**1,356**	**19,325**	**20,681**

11. Other non-current and current assets

	31.12.2018			31.12.2017			Differences		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other receivables from group companies		10,749	10,749	-	12,518	12,518		(1,769)	(1,769)
VAT asset from the parent	19,837	-	19,837	561	104,744	105,305	19,276	(104,744)	(85,468)
Receivables for tax consolidation		6,009	6,009	-	1,492	1,492		4,517	4,517
Other VAT asset	31		31	31	-	31	-	-	-
Other government authorities	61,774	10,507	72,281	71,895	10,126	82,021	(10,121)	381	(9,740)
Sundry receivables and prepayments and accrued income	1,692	11,624	13,316	1,692	18,258	19,950		(6,634)	(6,634)
Total	**83,334**	**38,889**	**122,223**	**74,179**	**147,138**	**221,317**	**9,155**	**(108,249)**	**(99,094)**
Loss allowance	(36)	(385)	(421)		(323)	(323)	(36)	(62)	(98)
Total net of the allowance for impairment	**83,298**	**38,504**	**121,802**	**74,179**	**146,815**	**220,994**	**9,119**	**(108,311)**	**(99,192)**

They can be analysed as follows:

Other non-current and current assets mainly include:

- other tax assets of €72,281 thousand, mainly related to the residual amount due from the Liguria region and the Autonomous Province of Bolzano for grants related to the purchase of rolling stock which will be disbursed in annual instalments (non-current and current portion of €53,082 thousand €7,533 thousand, respectively) and amounts due from the MIT for grants related to the Autostrada Ferroviaria Alpina project (non-current and current portion of €5,047 thousand and €1,873 thousand, respectively);
- VAT asset from the parent of €19,837 thousand for the 2018 advance paid.
- other loans and receivables of €13,316 thousand which, in turn, include: amounts due from social security institutions (€5,679 thousand), from personnel (€1,632 thousand), sundry amounts from the distributors of regional transport tickets (€838 thousand), advances to suppliers (€1,332 thousand) and other sundry (€3,835 thousand).

For additional information about non-trade receivables from related parties, reference should be made to the specific note.

The recoverable amount of loans and receivables from third parties was adjusted by the corresponding allowance for impairment (€421 thousand).

The maximum exposure to credit risk, as broken down by geographical segment, is as follows:

	31.12.2018			31.12.2017			Differences		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Italy	83,334	35,846	119,180	74,179	145,127	219,306	9,155	(109,281)	(100,126)
Eurozone countries		2,165	2,165		1,212	1,212		953	953
United Kingdom		201	201		92	92		109	109
Other European countries (EU, non-Euro)									
Other non-EU European countries		677	677		707	707		(30)	(30)
Adjustment assets held for sale									
	83,334	**38,889**	**122,223**	**74,179**	**147,138**	**221,317**	**9,155**	**(108,249)**	**(99,094)**

12. Inventories

	31.12.2018	31.12.2017	Differences
Raw materials, consumables and supplies	697,652	700,703	(3,051)
Loss allowance	(142,912)	(143,746)	834
Carrying amount	**554,740**	**556,957**	**(2,217)**
Retired assets to be sold	11,200	15,990	(4,790)
Loss allowance	(10,204)	(13,689)	3,485
Carrying amount	**996**	**2,301**	**(1,305)**
Total inventories	**555,736**	**559,258**	**(3,522)**

They can be analysed as follows:

Inventories of raw materials, consumables and supplies are substantially in line with the previous year, not highlighting any significant changes. The decrease is mainly due to raw materials, consumables and supplies (-€3,051 thousand) as a result of the purchasing efficiency initiatives and the launch of a plan for the progressive disposal of spare parts.

13. Current trade receivables

They can be analysed as follows:

	31.12.2018	31.12.2017	Differences
Ordinary customers			
- Customers	68,970	77,861	(8,891)
- Customers for travel irregularities	253,855	235,100	18,755
Government administrations and other public administrations	55,994	63,653	(7,659)
Foreign railways	4,746	9,533	(4,787)
Railways under concession	21,094	14,897	6,197
Agencies and other transport companies	22,673	23,616	(943)
government and the regions	900,240	1,301,624	(401,384)
- Public service contracts from the regions	671,886	793,502	(121,616)
- Public service contracts from the government	228,354	508,122	(279,768)
Other receivables from group companies	196,899	169,545	27,354
Total	**1,524,471**	**1,895,829**	**(371,358)**
Loss allowance	(303,868)	(285,000)	(18,868)
Total net of the loss allowance	**1,220,603**	**1,610,829**	**(390,226)**

The decrease in trade receivables of €390,226 thousand is mainly due to the decrease in receivables generated by the service contract with the MEF of €279,768 thousand and from the regions for €121,616 thousand following their settlement.

For detailed information about related party trade receivables, reference should be made to the relevant note.

The maximum exposure to credit risk, broken down by geographical segment, is as follows:

	31.12.2018	31.12.2017	Differences
Italy	1,515,500	1,871,217	(355,717)
Eurozone countries	6,669	7,197	(528)
United Kingdom	2,301	1,005	1,296
Other European countries (EU, non-Euro)	1	1,644	(1,643)
Other non-EU European countries		14,621	(14,621)
Other countries		143	(143)
United States		2	(2)
	1,524,471	**1,895,829**	**(371,358)**

The allowance for impairment increased on the previous year. Changes of the year are as follows:

Loss allowance - trade receivables	31.12.2017	IFRS 9 - FTA	Accruals	Utilisations	Reclassifications	31.12.2018
Ordinary customers						
- Customers	10,915	137	95	(114)	22,168	33,201
- Customers for travel irregularities	231,596		28,932	(10,744)		249,784
Government administrations and other public administrations	24,594	928		(458)	(22,134)	2,930
Agencies and other transport companies	13,174			(20)	(13)	13,141
Other receivables from group companies	4,722	90				4,812
Total	**285,001**	**1,155**	**29,027**	**(11,336)**	**21**	**303,868**

The 2018 accrual mainly relates to the increase in the provision covering amounts receivable due to travel irregularities (€28,932 thousand).

14. Cash and cash equivalents

They can be analysed as follows:

	31.12.2018	31.12.2017	Differences
Bank and postal accounts	5,162	9,227	(4,065)
Cash and cash on hand	30,604	30,644	(40)
Total	**35,766**	**39,871**	**(4,105)**

The positive balance of “Bank and postal accounts” is essentially due to the collections settled with banks on 31 December 2017 which went through the daily cash pooling system in place between the parent and the company at the beginning of 2019.

“Cash and cash on hand” refer to ticket office collections transferred to the company’s bank current accounts before 31 December but not credited by the banks until a later date.

15. Tax assets

Tax assets of €2,495 thousand increased by €2,316 thousand on 2017 mainly due to the IRAP advances, which were greater than the end of year taxes.

16. Equity

Changes in equity in 2017 and 2018 are shown in the statement of changes in equity at the beginning of the notes to the financial statements.

Share capital

At 31 December 2018, the company's fully subscribed and paid-up share capital was made up of 2,835,564 ordinary shares, with a nominal amount of €500 each, for a total of €1,417,782 thousand

Legal reserve

The legal reserve, which protects share capital from any losses that may arise, is set up through the allocation of 5% of profits for the year until it reaches one fifth of share capital. At 31 December 2018, it amounted to €65,980 thousand, following the allocation of 5% of the profit for 2017, equal to €13,812 thousand.

Extraordinary reserve

It includes the revaluation reserve set up in 2008, pursuant to article 15.16/23 of Decree Law no. 185/2008 (known as the Anti-Crisis Decree Law), converted by Law no. 2 of 28 January 2009, following the revaluation of certain workshop complexes deriving from the demerger of Società Ferrovie Real Estate and determined on the basis of the gains specified in an appraisal. The revaluation, as required by paragraph 18 of the above Decree, is net of the provision for deferred taxes and is equal to €177,084 thousand.

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. At 31 December 2018, this reserve was negative by €13,480 thousand. Compared to the previous year, it decreased by a gross amount of €10,481 thousand, as a result of the changes in the fair value of derivatives (IRSs and collars) held in portfolio at 31 December 2018, offset by a €2,515 thousand increase in deferred tax assets.

Actuarial reserve

The actuarial reserve, which includes the effects of actuarial gains and losses on post-employment benefits and the Free Travel Card, amounted to €136,188 thousand at 31 December 2018. A small actuarial loss of €725 thousand (with a tax effect of €1,089 thousand) was recognised in 2018, compared to an actuarial gain of €1,724 thousand in 2017.

Retained earnings

This caption increased by €262,430 thousand as a result of the allocation of the 2017 profit of €276,242 thousand, net of the portion allocated to the legal reserve (€13,812 thousand). No dividends were distributed in 2018.

Therefore, at 31 December 2018, retained earnings totalled €881,073 thousand, compared to €619,941 thousand at 31 December 2017. The first-time adoption of IFRS 9 resulted in a €1,298 thousand decrease in equity at 1 January 2018.

Profit for the year

The company reported a profit for the year of €256,763 thousand, compared to €276,242 thousand for the previous year.

Availability of reserves

The origin, availability and distribution of equity captions, as well as their use in the past three years, are shown below:

Origin	Balance at 31.12.2018 (a+b)	Unavailable portion (a)	Possibility of use	Available portion (b)	Available portion of (b)	Summary of uses in the past three years			
						Capital increase	Coverage of losses	Dividends	Other
Share/quota capital	1,417,782	1,417,782	-	-	-	-	-	-	-
Equity-related reserves:									
Revaluation reserve (Decree law no. 185/2008)	177,084	-	**A B**	177,084	-	-	-	-	-
Unrealised losses on CHF derivatives	(13,480)	(13,480)	-	-	-	-	-	-	-
Actuarial reserve	(136,188)	(136,188)	-	-	-	-	-	-	-
Income-related reserve:									
Legal reserve	65,980	65,980	**B**		-	-	-	-	-
Retained earnings (*)	881,073	43,054	**A B C**	838,019	838,019	-	-	45,000	-
TOTAL	**2,392,251**	**1,377,148**		**1,015,103**	**838,019**	**-**	**-**	**45,000**	**-**

A - Capital increase
B - To cover losses
C: dividends
* The unavailable reserve refers to FTA reserves (Employee benefits and tax effects)

17. Non-current and current loans and borrowings

	Carrying amount		
Non-current loans and borrowings	**31.12.2018**	**31.12.2017**	**Differences**
Bank loans and borrowings	448,031	570,396	(122,365)
Loans and borrowings from shareholders	4,030,026	4,655,829	(625,803)
Total non-current loans and borrowings	**4,478,057**	**5,226,225**	**(748,168)**
Current portion of non-current loans and borrowings	**31.12.2018**	**31.12.2017**	**Differenze**
Bank loans and borrowings	123,360	163,985	(40,625)
Loans and borrowings from shareholders	661,229	630,270	30,959
Total	**784,589**	**794,255**	**(9,666)**
Current loans	**31.12.2018**	**31.12.2017**	**Differenze**
Loans and borrowings from shareholders	550,206	500,441	49,765
Total	**550,206**	**500,441**	**49,765**
Total current loans	**1,334,795**	**1,294,696**	**40,099**
Non-current loans	**5,262,646**	**6,020,480**	**(757,834)**
Total loans and borrowings	**5,812,852**	**6,520,921**	**(708,069)**

This caption includes non-current loans and borrowings, the current portion thereof and current loans and borrowings from the parent and banks. Current loans and borrowings include accrued expenses of €18,462 thousand at 31 December 2018 (€18,637 thousand at 31 December 2017).

In particular, the non-current portion of loans and borrowings, totalling €4,478,057 thousand (€5,226,225 thousand at 31 December 2017) is down by €748,168 thousand due to:

- the reclassification of loans and borrowings falling due in 2019 (€766,334 thousand) to current loans and borrowings. They consist of: Eurofima loans of and TLTRO (Targeted Longer-Term Refinancing Operations) of €643,000 thousand from the parent and Banca Infrastrutture Innovazione e Sviluppo (formerly Opi) of €123,334 thousand;

- partly offset by the new loans granted by the parent for approximately €14,150 thousand and other changes related to exchange rates, derivatives and amortised cost of €4,016 thousand.

The current portion of non-current loans and borrowings decreased by €9,666 thousand as a result of the difference between the above reclassifications of portions of loans falling due in 2018 (€766,334 thousand) and the repayment of the principal on the loans that fell due in 2018. They consist of: the Eurofima loans from the parent of €612,100 thousand, €123,333 thousand from Banca Infrastrutture Innovazione e Sviluppo (formerly Opi) and €40,625 thousand from the European Investment Bank.

Current loans, which total €550,206 thousand (31 December 2017: €500,441 thousand), rose by €40,099 thousand, mainly to cover current cash requirements.

The terms and conditions of all non-current loans and borrowings are summarised in the table below:

Creditor	Currency	Nominal interest rate	Year of maturity	31.12.2018 Nominal amount	31.12.2018 Carrying amount	31.12.2017 Nominal amount	31.12.2017 Carrying amount
BANCA EUROPEA DEGLI INVESTIMENTI	€	6 m Euribor +/- Spread	2018	€ -	€ -	€ 40,625	€ 40,625
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2018	€ -	€ -	€ 200,000	€ 200,000
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2018	€ -	€ -	€ 200,000	€ 200,000
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2018	€ -	€ -	€ 149,400	€ 149,400
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2018	€ -	€ -	€ 62,700	€ 62,700
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2019	€ 160,000	€ 160,000	€ 160,000	€ 160,000
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2019	€ 183,000	€ 183,000	€ 183,000	€ 183,000
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2019	€ 300,000	€ 300,080	€ 300,000	€ 300,076
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2020	€ 62,700	€ 62,700	€ 62,700	€ 62,700
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2020	€ 47,400	€ 47,400	€ 47,400	€ 47,400
FERROVIE DELLO STATO ITALIANE	€	4.20%	2020	€ 500,000	€ 507,780	€ 500,000	€ 506,871
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2020	€ 150,000	€ 150,088	€ 150,000	€ 150,090
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2020	€ 150,000	€ 150,086	€ 150,000	€ 150,086
FERROVIE DELLO STATO ITALIANE	€	3.70%	2021	€ 100,000	€ 99,943	€ 100,000	€ 99,863
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2022	€ 120,000	€ 120,000	€ 120,000	€ 120,000
BANCA INFRASTRUTTURE INNOVAZIONE E SVILUPPO	€	6 m Euribor +/- Spread	2022	€ 333,333	€ 333,354	€ 416,667	€ 416,690
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2022	€ 350,000	€ 350,395	€ 350,000	€ 350,212
FERROVIE DELLO STATO ITALIANE	€	1.075%	2023	€ 600,000	€ 599,960	€ 600,000	€ 585,705
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2024	€ 122,200	€ 122,200	€ 122,200	€ 122,200
BANCA INFRASTRUTTURE INNOVAZIONE E SVILUPPO	€	6 m Euribor +/- Spread	2024	€ 240,000	€ 240,006	€ 280,000	€ 280,003
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2025	€ 42,500	€ 42,602	€ 42,500	€ 42,601
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2025	€ 300,000	€ 300,006	€ 300,000	€ 300,017
FERROVIE DELLO STATO ITALIANE	€	1.70%	2025	€ 700,000	€ 704,181	€ 700,000	€ 703,848
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2025	€ 100,000	€ 100,011	€ 100,000	€ 100,010
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2026	€ 190,000	€ 190,000	€ 190,000	€ 190,000
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2026	€ 100,000	€ 100,000	€ 100,000	€ 100,000
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2026	€ 116,000	€ 116,000	€ 116,000	€ 116,000
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2027	€ 128,700	€ 128,700	€ 128,700	€ 128,700
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2027	€ 65,700	€ 65,700	€ 65,700	€ 65,700
FERROVIE DELLO STATO ITALIANE	€	1.85%	2031	€ 50,000	€ 50,208	€ 50,000	€ 50,194
Total non-current loans - €				**€ 5,211,533**	**€ 5,224,400**	**€ 5,987,592**	**€ 5,984,691**
FERROVIE DELLO STATO ITALIANE	CHF	2.675%	2020	CHF 45,000	CHF 45,318	CHF 45,000	CHF 45,318
Total non-current loans - CHF				**CHF 45,000**	**CHF 45,318**	**CHF 45,000**	**CHF 45,318**
Euro equivalent				**€ 39,933**	**€ 40,214**	**€ 38,455**	**€ 38,726**
Adjustments to loans for FVH derivatives					**€ (1,968)**		**€ (2,937)**
Non-current loans				**€ 5,251,466**	**€ 5,262,646**	**€ 6,026,047**	**€ 6,020,480**

The following table provides a breakdown of net financial position at 31 December 2018 compared with 31 December 2017:

Net financial position	31.12.2018	31.12.2017	Change
Current net financial position	**1,429,562**	**1,660,470**	**(230,907)**
Loans and borrowings from other financial backers (parent)	550,000	500,000	50,000
Current portion of non-current loans and borrowings (parent)	643,000	612,100	30,900
Current portion of bank loans and borrowings	123,333	163,958	(40,625)
Intercompany current account	153,203	424,968	(271,765)
Other (including accruals)	(39,974)	(40,556)	583
Non-current net financial position	**4,475,260**	**5,224,936**	**(749,675)**
Loans and borrowings from other financial backers (parent)	4,030,026	4,655,829	(625,804)
Bank loans and borrowings	448,032	570,396	(122,365)
Other	(2,797)	(1,290)	(1,507)
Total	**5,904,823**	**6,885,405**	**(980,583)**

18. Post-employment benefits and other employee benefits

	31.12.2018	31.12.2017
Present value of post-employment benefit obligations	606,203	689,773
Present value of CLC obligations	18,567	18,271
Total present value of post-employment benefit and CLC obligations	**624,770**	**708,044**
Other employee benefits	78	86
Total post-employment benefits and other employee benefits	**624,848**	**708,130**

Changes in the present value of liabilities for defined benefit obligations for post-employment benefits and the Free Travel Card are shown in the table below:

POST-EMPLOYMENT BENEFITS	31.12.2018	31.12.2017
Opening balance	689,773	751,836
Interest cost (*)	4,855	7,051
Actuarial (gains) losses recognised in equity	(193)	(7,203)
Advances and utilisations	(88,231)	(61,911)
Closing post-employment benefits liabilities	**606,204**	**689,773**
CLC		
Opening balance	18,271	15,844
Service cost (**)	186	163
Interest cost (*)	249	258
Actuarial (gains) losses recognised in equity	919	2,999
Advances and utilisations	(1,058)	(993)
Closing CLC liabilities	**18,567**	**18,271**

(*)(*) through profit or loss

(**) expected present value of services payable in future years

The use of the provision for post-employment benefits (€88,231 thousand) refers to the benefits paid to the personnel who left the company during the year, advances and transfers of employees to other group companies. 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, on the basis of the actual workforce at that date and of the updated valuation assumptions, represents actuarial gains/(losses). This caption generated actuarial gains of €193 thousand during the year, compared to the actuarial loss of €7,203 thousand in 2017. This change is mainly due to the increase in the discount rate applied to the liability for post-employment benefits (0.77% at 31 December 2018, compared to 0.88% at 31 December 2017) and the higher number of employees who left the company compared to expectations.

The free travel card ("CLC") is a defined benefit plan for the company's employees who can use the company's railway services free of charge or by paying an admission fee for certain additional products or services. The present value of the benefit was calculated using actuarial techniques and amounts to €18,567 thousand at 31 December 2018, compared to €18,271 thousand at 31 December 2017. The free travel card generated an actuarial loss of €919 thousand, compared to the actuarial loss of €2,999 thousand in 2017.

Actuarial assumptions

The main assumptions for the actuarial estimate process are described below:

	31.12.2018	31.12.2017
Discount rate (post-employment benefits)	0.77%	0.88%
Discount rate (CLC)	1.57%	1.67%
Annual increase rate of post-employment benefits	2.625%	2.625%
Inflation rate	1.50%	1.50%
Expected turnover rate for employees	3%	3%
Expected rate of advances	2%	2%
Mortality	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 assumptions relating to the expected mortality are based on statistics published by the government's General Accounting Office (Ragioneria Generale dello Stato), while those relating to disability are based on the INPS (the Italian social security institution) tables broken down by age and gender.

A sensitivity analysis that shows the possible present values of defined benefit obligations, following reasonably possible changes in actuarial assumptions is given below.

31.12.2018	Post-employment benefits	Free Travel Card
Turnover rate +1%	603,530	-
Turnover rate -1%	609,166	-
Inflation rate +0.25%	612,033	19,878
Inflation rate -0.25%	600,461	17,322
Discount rate +0.25%	596,988	18,078
Discount rate -0.25%	615,697	19,079

The tables below show the contribution expected for the subsequent year, the average term of the defined benefit obligation and the payments scheduled by the plan.

31.12.2018	**Post-employment benefits**	**Free Travel Card**
Service cost	-	187
Term of the plan (years)	6.8	12.0
Estimated future payments		
First year	59,298	1,123
Second year	55,834	1,129
Third year	58,245	1,138
Fourth year	75,663	1,152
Fifth year	68,407	1,167

19. Provisions for risks and charges

The opening and the closing balance of and changes in the provisions for risks and charges for 2017 are given below, indicating the current portion.

	31.12.2017	Accruals	Utilisations and other changes	Reclassifications	31.12.2018
Restructuring provision	36,000		(919)		35,081
Other provisions:					
Provision for workshop charges	14,350		243	4,000	18,593
Provision for risks and charges	75,923	32,842	(16,563)		92,202
Total non-current portion	**126,273**	**32,842**	**(17,239)**	**4,000**	**145,876**
Provision for workshop charges - current portion	4,461	-	(73)	(4,000)	388
Total current portion	**4,461**	**-**	**(73)**	**(4,000)**	**388**
Totale Fondi rischi ed oneri	**130,734**	**32,842**	**(17,312)**	**-**	**146,264**

The restructuring provision amounting to €35 million is related to the activation of the extraordinary benefits under the bilateral fund for income assistance (Interministerial decree of 9 January 2015, Legislative decree no. 148/2015D and INPS circular dated 29 December 2015). €919 thousand of the provision was used for projects launched during the year.

The provision for workshop charges (€18,981 thousand) is substantially unchanged from the previous year. The current portion amounts to €388 thousand.

At year end, other provisions for risks and charges amount to €92,202 thousand (31 December 2017: €75,923 thousand), comprised as follows:

- provision for labour litigation of €9,898 thousand (31 December 2017: €11,195 thousand) relating to estimated charges for legal disputes concerning labour issues pertaining to the company. Specifically, this caption includes disputes of the year which mainly involved the following: subcontracting of workers, higher level duties, length of service and other issues;

- provision for possible penalties to be paid to the regions and the MIT of €19,234 thousand (31 December 2017: €5,640 thousand) in relation to the quality of the transport services rendered under the public service contracts; this increase in due to the coming into force of new contracts;
- provision for civil litigation, disputes and other risks relating to relationships with customers and third parties of €53,049 thousand (31 December 2017: €49,967 thousand), the outcome of which could be unfavourable for the company;
- provision for risks on equity investments of €10,021 thousand (31 December 2017: €9,121 thousand) for the losses of the investee Thello S.a.s., as described in the note to equity investments.

The provisions for risks and charges were increased by €32,842 thousand in 2018, with accruals for: (a) labour litigation (€2,735 thousand); (b) possible penalties to be paid to the regions and the government (€16,210 thousand); (c) disputes and any other risks relating to relationships with customers and third parties (€3,997 thousand); and (d) risks on equity investments (€9,900 thousand).

Finally, the provisions for risks and charges decreased by €16,563 thousand in 2018, due to penalties due to the regions for public service contracts (€2,616 thousand), charges arising on disputes in court or out of court concerning labour issues pertaining to the company (€916 thousand), disputes with other third parties that were settled unfavourably for the company (€4,031 thousand) and risks on equity investments (€9,000 thousand).

The company is involved in legal and administrative disputes and in legal actions in connection with its ordinary business activities. Based on the information currently available, the assessment of the risks of losing these disputes by the external lawyers handling these disputes on behalf of Trenitalia and the existing risk provisions, they are not expected to significantly impact the financial statements further.

20. Non-current and current liabilities (including derivatives)

	31.12.2018			31.12.2017			Differences		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Hedging derivatives	18,362	1,351	19,713	17,483	14,690	32,173	879	(13,339)	(12,460)
Other financial liabilities	-	153,205	153,205		424,970	424,970	-	(271,765)	(271,765)
	18,362	**154,556**	**172,918**	**17,483**	**439,660**	**457,143**	**879**	**(285,104)**	**(284,225)**

Hedging derivatives reflect the total amount of interest rate swaps (IRS), interest rate collars and fair value hedges, calculated using standard market valuation methods. They were entered into to cover fluctuations in interest rates on non-current loans and borrowings at variable rates and to cover cash flows. A total fair value of €19,713 thousand was calculated for all transactions in place at 31 December 2018 and decreased by €12,460 thousand on the previous year.

The hedging derivatives included in the company's portfolio are OTC and fall under Level 2 of the fair value hierarchy laid down in IFRS 13.

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 financial valuation models based on market standards.

The inputs used to feed the above models reflect observable market parameters which are available with the main financial info-providers.

Specifically, the swap vs. 3M Euribor curve figures were used, as well as those related to the swap vs. 6M Euribor curve, the Eur interest rate volatility cube and the credit default swap curve (CDS) 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).

Other financial liabilities comprise the debit balance of the infragroup current account held with the parent, amounting to €153,205 thousand (31 December 2017: €424,970 thousand). This caption decreased on the previous year by €271,765 thousand due to the reduced usage of the account with the parent, due to payments received during the year.

Statement of cash flows

In accordance with the amendments to IAS 7, the table below shows the reconciliation between the opening and closing balances of the assets and liabilities arising from financing activities, distinguishing between monetary changes, shown in the statement of cash flows caption "Net cash flows generated by financing activities" and non-monetary changes.

	Non-current loans	Current loans	Financial assets	Financial liabilities	Total
Balance at 31 December 2017	**6,020,481**	**500,441**	**(20,681)**	**457,142**	**6,981,037**
Net cash flows as per the statement of cash flows	(757,834)	49,765	(4,788)	(273,744)	(986,601)
Fair value loss	-	-	-	(10,481)	
Balance at 31 December 2018	**5,262,647**	**550,206**	**(25,469)**	**172,917**	**5,994,436**

21. Other non-current and current liabilities

They can be analysed as follows:

	31.12.2018			31.12.2017			Differences		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Social security charges payable	-	118,211	118,211	-	128,733	128,733	-	(10,522)	(10,522)
VAT payables	-	4,036	4,036	-	6,067	6,067	-	(2,031)	(2,031)
Other payables to group companies	-	31,434	31,434	-	16,404	16,404	-	15,029	15,029
Payables for tax consolidation	-	-	-	-	11,710	11,710	-	(11,710)	(11,710)
Other payables and accrued expenses and deferred income	47	376,067		1,067	373,101	374,168	(1,020)	2,966	1,946
Total	**47**	**529,748**	**153,681**	**1,067**	**536,014**	**537,081**	**(1,020)**	**(6,266)**	**(7,286)**

Other current liabilities are down by a total of €7,286 thousand on 31 December 2017, essentially due to:

- the decrease in VAT liabilities (€2,031 thousand);
- the decrease in Social security charges payable (€10,522 thousand) following the reduction in expenses related to the amounts accrued in the prior year;
- the decrease in the liability for the tax consolidation scheme (€11,710 thousand) due to the IRES calculation for the company, which is in credit in 2018;
- the increase in Other liabilities with group companies (€15,029 thousand) mainly due to the substantial increase in VAT payables to the parent;
- the increase in Other liabilities and accrued expenses and deferred income (€1,946 thousand) mainly due to the increase in payables to employees for remuneration accrued and not paid.

22. Non-current and current trade payables

They can be analysed as follows:

	31.12.2018			31.12.2017			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Suppliers		660,499	660,499		854,631	854,631		(194,132)	(194,132)
Payments on account	4,230	1,829	6,059	126	2,015	2,141	4,104	(185)	3,919
Group companies		547,990	547,990		349,841	349,841		198,149	198,149
Total trade payables	**4,230**	**1,210,319**	**1,214,549**	**126**	**1,206,487**	**1,206,613**	**4,104**	**3,832**	**7,936**

The increase in trade payables compared to the previous year of €7,936 thousand is mainly due to the increase in advances for the non-current portion and related to the acquisition of rolling stock for €4,104 thousand. Current trade payables due to suppliers decreased but were offset by an increase in trade payables to group companies, therefore, overall they remained substantially in line with the previous year.

For a more detailed analysis of group transactions, reference should be made to the section on related parties.

23. Tax liabilities

The caption has a nil balance as the IRAP balance is reflected in Tax assets due to the payment of advances that were greater than the actual final balance.

Income statement

24. Revenue from sales and services

The tables and comments below give a breakdown of revenue from sales and services.

	2018	2017	Changes
Revenue from transport services	**5,002,005**	**4,963,693**	**38,312**
Market revenue	2,961,885	2,960,404	1,481
Passenger traffic products	*2,961,885*	*2,960,404*	*1,481*
Public service contract fees	2,040,120	2,003,289	36,831
Other service revenue	**122,547**	**119,367**	**3,180**
Total revenue from contracts with customers	**5,124,552**	**5,083,060**	**41,492**
Other revenue from sales and services	82,055	80,209	1,846
Revenue from sales and services	**5,206,607**	**5,163,269**	**43,338**

With regard to public service contracts, the amount relates solely to public service contracts with the government.

	2018	2017	Changes
Public service contract fees from the government			
For passenger transport	358,727	342,498	16,229
Total	**358,727**	**342,498**	**16,229**

Total revenue from contracts with customers can be broken down as follows by geographical segment, product line and moment of recognition:

	Transport services		Changes
	2018	2017	
Geographical segment			
Italy	5,115,634	5,071,839	43,795
Europe	6,227	8,883	(2,656)
Non-EU	2,691	2,338	353
Total revenue from sales and services	**5,124,552**	**5,083,060**	**41,492**
Revenue by product line			
Traffic revenue/market	2,961,885	2,960,404	1,481
Service contract fees (*)	2,040,120	2,003,289	36,831
Other revenue	122,547	119,367	3,180
Total revenue from sales and services	**5,124,552**	**5,083,060**	**41,492**
Moment of recognition			
At a point in time	-	-	-
Over time	5,124,552	5,083,060	41,492
Total revenue from sales and services	**5,124,552**	**5,083,060**	**41,492**

The caption amounts to €5,206,607 thousand and shows an increase on the previous year of €43,338 thousand, mainly due to Public service contract fees, which comprise the fees from public service contracts with the government for medium and long-haul services and for undivided regional services of €358,727 thousand (€342,498 thousand in 2017) and fees from public service contracts with the regions of €1,697,602 thousand (€1,666,352 thousand in 2017).

The fees from the medium and long-haul service reflect the adjustment of the estimated fee for 2018 for €16,229 thousand, net of estimated penalties, while the amount of local public transport fees paid by the government for undivided services are substantially unchanged. Revenue generated by service contracts with the regions increased by €13,322 thousand. This increase is due to the higher fees provided for in the new service contracts.

The table below provides information about contract assets and liabilities:

thousands of Euros

	2018 December	2017 December	Change
Contract assets classified under "Current/non-current trade receivables"	602,446	845,517	(243,071)
Contract assets classified under "Other current assets/Non-current assets"	19,035	20,041	(1,006)
Contract assets	557,559	704,107	(146,548)
Contract liabilities	(65,143)	(63,806)	(1,338)
Assets / liabilities	**1,113,897**	**1,505,859**	**(391,963)**

Contract assets are represented by the company’s right to the fee for services completed but not yet invoiced at the reporting date with reference to contacts with customers. Such assets are reclassified to trade receivables when the right becomes unconditional.

The table below shows the significant changes in contract assets and liabilities for the year:

thousands of Euros

	December 2018	
	Contract assets	**Contract liabilities**
Reclassification during the year included in opening balance of Contract liabilities		63,806
Including contract liabilities due to payments net of taxes during the year		(65,143)
Reclassification from "contract assets" recognised at the beginning of the year	(571,966)	
Increases in contract assets due to the provision of services	425,418	
Decrease in assets/liabilities	**(146,548)**	**(1,338)**

25. Other income

This caption can be analysed as follows:

	2018	2017	Changes
Revenue from property management	9,866	9,730	136
Gains	1,615	2,961	(1,346)
Other revenue	149,827	136,840	12,987
Total	**161,308**	**149,531**	**11,777**

Other income increased by €11.8 million compared to 2017. The main changes can be broken down as follows:

- increase in travel irregularities for €3.5 million;
- increase in insurance compensation of €2.4 million;
- non-recurring adjustment of the value of the free travel cards used by group companies of approximately €5.5 million, with a negative impact in the previous year.

Other sundry income amounts to €149,827 thousand at year end (€136,840 thousand at the previous year end). It mainly includes: amounts for free travel card holders of €78,451 thousand, fines for travel irregularities of €35,271 thousand, insurance compensation of €4,220 thousand and fines imposed on suppliers of €2,861 thousand.

26. Personnel expense

This caption can be analysed as follows:

	2018	2017	Changes
Employees	**1,623,513**	**1,619,626**	**3,887**
Wages and salaries	1,213,979	1,208,567	5,412
Social security charges	320,179	327,857	(7,678)
Other expense for employees	7,359	2,041	5,318
Post-employment benefits	80,020	80,392	(372)
Provisions/Releases	1,976	769	1,207
Consultants and freelancers	**36**	**78**	**(42)**
Wages and salaries	11	55	(44)
Social security charges	25	23	2
Other costs	**63,443**	**58,181**	**5,262**
Temporary workers, seconded employees and wor	6,740	2,649	4,091
Post-employment benefits/CLC service costs	(872)	(830)	(42)
Other costs	57,575	56,362	1,213
Total	**1,686,992**	**1,677,885**	**9,107**

Personnel expense amounts to €1,686,992 thousand and is up by €9,107 thousand on 2017. The increase is mainly due to the rise in the average unit cost as per the full application of the new national labour agreement and the adjustment to cover the estimated charges for 2018 contractual holiday leave.

The table below gives a breakdown of the company's average number of employees by category:

PERSONNEL	2018	2017	Change
Managers	193	203	(10)
Junior managers	3,044	3,181	(137)
Other	24,318	24,433	(115)
TOTAL	**27,555**	**27,817**	**(262)**

27. Raw materials, consumables, supplies and goods

They can be analysed as follows:

	2018	2017	Changes
Raw materials, consumables and supplies	274,122	276,697	(2,575)
Electrical energy and fuel for traction	127,111	28,028	99,083
Lighting and driving force	10,815	10,636	179
Total	**412,048**	**315,361**	**96,687**

Raw materials, consumables and supplies of €412,048 thousand showed an overall increase of €96,687 thousand compared to the previous year. This increase was negatively impacted, mainly with reference to Electrical energy and fuel for traction, both as a result of the positive impact recognised in 2017 related to the €78.9 million decrease in the unit cost of electrical energy for traction (IMU) pertaining to previous years and to the €18.7 million increase in the unit cost of electrical energy for traction in 2018.

28. Services

This caption can be analysed as follows:

	2018	2017	Changes
Transport services	**981,206**	**923,742**	**57,464**
Fees	845,587	788,339	57,248
Cargo transport services	10,110	14,952	(4,842)
Other transport-related services	81,638	80,967	671
Shunting services	37,654	29,279	8,375
Ferry services	6,217	10,205	(3,988)
Provisions/Releases			0
Maintenance, cleaning and other contracted services	**558,098**	**538,894**	**19,204**
Contracted services and work	589	244	345
Contract cleaning and other services	234,739	230,140	4,599
Maintenance and repair of intangible assets and property, plan	322,770	308,510	14,260
Provisions/Releases			0
Property services and utilities	**26,828**	**28,324**	**(1,496)**
Administrative and IT services	**114,660**	**108,927**	**5,733**
External communication and advertising expense	**28,453**	**20,703**	**7,750**
Other	**318,832**	**317,715**	**1,117**
Professional services	5,102	8,200	(3,098)
Prize competitions and fees to other railway companies	11,342	10,464	878
Group common costs	3,308	4,098	(790)
Insurance	14,439	17,866	(3,427)
Night security escort	19,486	22,660	(3,174)
Catering	94,992	91,164	3,828
Consultancies	1,061	763	298
Agencies' fees	47,885	45,444	2,441
Other	121,217	117,056	4,161
Total	**2,028,077**	**1,938,305**	**89,772**

Costs for services rose by €89,772 thousand.

The most significant changes refer to the following:

- an increase in transport services (€57,464 thousand) due to the rise in the commercial offer. Indeed, the increase is mainly attributable to fees (€57,248 thousand) due to the introduction of the new special tariff regime for costs to access the infrastructure;
- higher maintenance and cleaning costs (€19,204 thousand) following the roll out of new rolling stock.

Other includes railway police services for €14,170 thousand, facilities services for €14,632 thousand and ferrotel (railway hotels) services for €26,421 thousand.

29. Use of third-party assets

This caption, which is analysed in the following table, decreased by €5,006 thousand, mainly due to lower lease instalments and condominium expenses:

	2018	2017	Changes
Lease payments, condom. expenses and registration tax	64,642	67,922	(3,280)
Leases and indemnities for rolling stock and other	13,790	15,337	(1,547)
IT and other services	13,428	14,032	(604)
Provisions/Releases	425	0	425
Total	**92,285**	**97,291**	**(5,006)**

30. Other operating costs

This caption can be analysed as follows:

	2018	2017	Changes
Other costs	45,993	44,889	1,104
Losses	0	9,681	(9,681)
Provisions/Releases	0	60	(60)
Total	**45,993**	**54,630**	**(8,637)**

The decrease is mainly due to the losses recognised in 2017 on the disposal of rolling stock no longer used in the production cycle.

31. Internal work capitalised

Internal work capitalised relates to the cost of materials, personnel and transport expense capitalised in 2018 against value-increasing maintenance of rolling stock carried out at the company's workshops.

The €381,156 thousand balance is almost entirely attributable to value-increasing maintenance.

32. Amortisation and depreciation

This caption can be analysed as follows:

	2018	2017	Changes
Amortisation of intangible assets	52,704	44,641	8,063
Depreciation of property, plant and equipment	1,008,297	1,041,109	(32,812)
Total	**1,061,001**	**1,085,750**	**(24,749)**

The €24.7 million decrease is due to the combined effect of the increased depreciation of rolling stock and other investments which were rolled out in 2018 (approximately €74.7 million) and the end of the depreciation of assets that reached the end of their useful lives (roughly €98.7 million). The decrease in the useful lives of certain types of rolling stock, which are expected to be taken out of production in the next five years, also contributed to the decrease by approximately €24 million.

33. Impairment losses (gains)

This caption can be analysed as follows:

	2018	2017	Changes
Impairment losses on non-current assets	36,518	58,749	(22,231)
Impairment losses on current assets	95	20,829	(20,734)
Total	**36,613**	**79,578**	**(42,965)**

2018 impairment losses mainly refer to the impairment of goods no longer used in the production cycle

34. Financial income

This caption can be analysed as follows:

	2018	2017	Changes
Other financial income	7,089	21,079	(13,990)
Financial income from derivatives	156	0	156
Dividends	1,500	1,900	(400)
Exchange rate gain	10	3,465	(3,455)
Total	**8,755**	**26,444**	**(17,689)**

Financial income amounts to €8,755 thousand, down by €17,689 thousand.

The decrease in financial income is mainly due to the recognition of gains on the sale of equity investments in 2017 for €7.3 million following the sale of the subsidiary Serfer S.r.l. (subsequently renamed Mercitalia Shunting & Terminal) and the lower interest income related to VAT asset (-€4.2 million) which was a direct consequence of the decrease in tax assets due to reimbursements received. Furthermore, it should also be noted that in 2017 interest income from the Liguria region pertaining to previous years was recognised (approximately €3.5 million) for the payment plan of the grants related to assets of €50 million over 24 years. Lastly, Trenord distributed fewer dividends, resulting in a further €0.4 million decrease.

35. Financial expense

This caption can be analysed as follows:

	2018	2017	Changes
Financial expense on payables	77,050	79,319	(2,269)
Financial expense on post-employment benefits (TFR and CLC)	7,228	9,395	(2,167)
Financial expense on derivatives	0	2,871	(2,871)
Impairment losses on financial assets	9,900	7,702	2,198
Exchange rate loss	1,485	373	1,112
Total	**95,663**	**99,661**	**(3,998)**

Financial expense is down by €3,998 thousand on 2017, mainly as a result of the effect of the reduction in the interest rates applied on international markets and, specifically, the Euribor, to which borrowing costs are indexed.

Impairment losses on financial assets of €9,900 thousand are essentially due to the accrual on the investment in Thello S.a.s., as described in paragraph 9.

36. Current and deferred taxes

Income taxes can be analysed as follows:

	2018	2017	Changes
IRES	16,533	22,122	(5,589)
IRAP	22,667	26,735	(4,068)
Deferred taxes	3,189	740	2,449
Total	**42,389**	**49,597**	**(7,208)**

Current income taxes amount to €42,389 thousand, down €7,208 thousand on 2017.

The IRAP (regional tax on productivity) charge amounts to €22,667 thousand, while the IRES (corporate income tax) charge, pursuant to article 77.1 is €16,533 thousand.

For additional information about the income statement effect of deferred taxes (€3,189 thousand), reference should be made to note 8.
The table below shows the reconciliation of the effective tax rate:

	2018	%	2017	%
Profit for the year	256,763		276,242	
Total income taxes	42,389		49,597	
Pre-tax profit	**299,152**		**325,839**	
Theoretical IRES (24.00%)	**71,797**	**24.0%**	**78,201**	**24.0%**
Lower taxes:				
Utilisation of the provisions for risks and charges and company restructuring	(2,032)	-0.7%	(5,473)	-1.7%
IRAP portion related to personnel expense deductible from IRES	0	0.0%	0	0.0%
Dividends recognised in the income statement	(342)	-0.1%	(433)	-0.1%
Other changes	(12,914)	-4.3%	(6,146)	-1.9%
Higher taxes:				
Impairment losses and accruals that cannot be deducted in whole or in part	16,788	5.6%	31,686	9.7%
Other changes	17,456	5.8%	19,488	6.0%
Total current income taxes (IRES)	**90,753**	**30.3%**	**117,323**	**36.0%**
Income from participation in the tax consolidation scheme and other adjustments	(74,220)	-24.8%	(95,201)	-29.2%
IRES	**16,533**	**5.5%**	**22,122**	**6.8%**
IRAP	**22,667**	**7.6%**	**26,735**	**8.2%**
Total deferred taxes	**3,189**	**1.1%**	**740**	**0.2%**
TOTAL INCOME TAXES	**42,389**	**14.2%**	**49,597**	**15.2%**

The percentage impact also considers IRAP, although this tax is calculated using a tax base that does not correspond with pre-tax profit (loss).

37. Contingent assets and contingent liabilities

Disputes with suppliers

The company is a party to some disputes with its rolling stock suppliers mainly in respect of the different interpretation of the price revision clause. From April 2018, the Rome Court handed down an unfavourable decision for the company on appeal, overturning the previous first-instance decisions. The company is considering whether to appeal to the Court of Cassation. However, any expenses consequent to this ruling may be capitalised on the relevant investments.

Proceedings commenced by the Antitrust Authority against Trenitalia

For proceedings commenced by the Antitrust Authority against Trenitalia, reference should be made to the information provided in the specific section of the 2017 Annual Report and to the information provided below:

Proceedings for unfair business practices

- **Antitrust Authority proceedings A/519 – abuse of a dominant position**

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, Ferrovie dello Stato Italiane, through its subsidiaries Trenitalia S.p.A. and RFI, 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.

Proceedings commenced by the Transport Regulator ("ART")

- 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 fee to use railway infrastructures. RFI, Grandi Stazioni and Centostazioni lodged three extraordinary appeals with the President of Italy against ART resolution no. 70 of 31 October 2014, notifying Trenitalia thereof as a defendant. Subsequently, the appeals were lodged with the Lazio regional administrative court, before which Trenitalia appeared to request that RFI's appeal be rejected and those of Grandi Stazioni and Centostazioni be accepted. With rulings nos. 3076/2016, 3086/2016 and 3087/2016 of 10 March 2016, the Lazio regional administrative court stated that the appeals should be lodged with the Piedmont regional administrative court where RFI's and Grandi Stazioni's cases were summarised. Trenitalia appeared in both proceedings on 3 May 2016.
  With respect to the proceedings commenced by RFI (no. 265/2016 in the general register), in the hearing held on 15 March 2017, despite NTV's opposition, the panel decided that the case could be tried. After lengthy and in-depth discussions, no new aspects were identified with respect to the briefs filed by the parties. In its ruling no. 541 issued on 21 April 2017, the Piedmont regional administrative court, agreeing with Trenitalia's defence arguments, partly rejected and partly found inadmissible RFI's appeal. On 26 July, RFI filed an appeal before the Council of state to reform/nullify decision no. 541/2017 of Piedmont regional administrative court. The hearing for the appeal was held on 7 February 2019 and the company is waiting the filing of the ruling.
  With respect to the proceedings commenced by Grandi Stazioni (no. 255/2016 in the general register), in the hearing held on 15 March 2017, the panel noted that the dossier received from the Lazio regional administrative court was incomplete (not the portion relating to Trenitalia's documentation) and, consequently, postponed the hearing to 28 June 2017, after which the judge called a recess to decide on the case. In its ruling no. 1025 filed on 24 August 2017, the regional administrative court declared the appeal against resolutions nos. 70/14 and 76/14 partly inadmissible due to a loss of legal interest and, partly, lack of grounds. Grandi Stazioni Retail S.p.A. and Grandi Stazioni Rail S.p.A. filed an appeal with the

Council of State on 30 November 2017 and 12 December 2017 respectively, against ruling no. 1025/2017. The hearing for the appeal was held on 7 February 2019 and the companies are waiting the filing of the ruling.

- ART resolution no. 96 of 13 November 2015 - Principles and criteria for determining the fees to access and use the railway infrastructure. Resolution no. 96 of 13 November 2015, with which the ART defined the criteria for determining the fees to access and use the railway infrastructure, was appealed by Trenitalia with an extraordinary appeal before the President of Italy. Subsequently, the appeal was transferred to the Piedmont regional administrative court, before which Trenitalia appeared on 5 May 2016. With a brief presenting additional grounds, and with a petition for interim measures, notified on 26 September 2016, Trenitalia appealed against resolution no. 72 of 27 June 2016 (Implementation of resolution no. 96/2015 - application method and deferral of terms) and resolution no. 75 of 1 July 2016 (2016-2021 fee system for the minimum access package to national railway infrastructure. Compliance with the regulatory model approved with resolution no. 96/2015 as subsequently integrated), with which the ART implemented the regulatory project for the minimum access package. The hearing to discuss the petition for interim measures was held on 11 October 2018 in which the panel recommended, considering the complexity of the matter, discussing the merits of the case. The parties accepted the recommendation and the case was postponed to the public hearing of 15 March 2017. During the hearing, the panel, believing that there were reasons for a connection with NTV's appeal against the same resolution, after hearing the legal advisors, scheduled a hearing for 28 June 2017, where, given the opportunity to jointly discuss all the appeals related to ART resolution no. 96/2015, the panel postponed the hearing to 7 November 2017. After the hearing on the merits, a recess was called in order to decide on the appeal. With ruling no. 57 published 11 January 2019, the Piedmont regional administrative court postponed Trenitalia S.p.A.'s appeal. On 11 April 2018, Trenitalia S.p.A. filed an appeal before the Council of State to reform/nullify the first-level proceedings and the hearing has yet to be scheduled.
- ART resolution no. 80/2016 of 15 July 2016 - 2017-2021 fee system for services other than the minimum access package provided by Rete Ferroviaria Italiana S.p.A. - Compliance with the regulatory model approved with resolution no. 96/2015. Trenitalia lodged its individual appeal before the Piedmont regional administrative court against resolution no. 80/2016 with which the ART approved, with some provisions, the fee system applied for 2017 to 2021 by the railway infrastructure operator to services other than the minimum access package. Specifically, such resolution assessed the alleged compliance of the fee system proposed by RFI with the criteria previously established by the ART in its resolution no. 96/2015 "Principles and criteria for determining the fees to access and use the railway infrastructure". With a brief presenting additional grounds served on 30 January 2017, Trenitalia subsequently appealed against ART resolution no. 140/2016 implementing "Instructions and requirements for the "2018 Network Prospectus", submitted by the Italian railway infrastructure operator, R.F.I. S.p.A., and the ruling "2017 Network Prospectus". Instructions for the preparation of the "2019 Network Prospectus" adopted by the ART on 30 November 2016. The case was discussed at the hearing of 7 November 2016. On 20 November, ruling no. 1240 was filed, in which the Piedmont regional administrative court declared the appeal partly inadmissible and partly rejected Trenitalia's appeal for cancellation of resolution no. 80 of 15 July 2016 (and consequent measures), related to services other than those covered by the minimum access package, with each party paying its legal costs. On 20 February 2018, Trenitalia S.p.A. filed an appeal before the Council of State to reform/nullify the first-level proceedings and the hearing has yet to be scheduled.

38. Directors' and statutory auditors' fees

The following fees were paid to directors and statutory auditors for the performance of their duties:

RECIPIENTS	2018	2017	Change
Directors	816	848	(32)
Statutory auditors	63	63	0
	879	**911**	**(32)**

Directors' fees include the amounts envisaged for the positions of Chairman and CEO, as well as the fixed and variable fees due for his duties as general director of the company.

In addition to the above fees, the following fees were paid to the Supervisory body: approximately €35 thousand to the Chairman of the Supervisory body and €18.9 thousand to a statutory auditor serving as member of said body.

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 amount to €618 thousand and include those paid during the year for other non-audit services (€216 thousand).

40. Management and coordination

The highlights of the parent, Ferrovie dello Stato Italiane S.p.A., at 31 December 2017 are broken down as follows:

thousands of Euros

	31.12.2017	**31.12.2016**
Assets		
Total non-current assets	42,774,571	42,539,698
Total current assets	4,661,967	5,268,296
Total assets	**47,436,538**	**47,807,994**
Equity		
Share capital	36,340,433	36,340,433
Reserves	39,064	7,120
Retained earnings	256,834	0
Profit for the year	230,910	638,773
Total equity	**36,867,241**	**36,986,326**
Liabilities		
Total non-current liabilities	7,241,431	7,299,976
Total current liabilities	3,327,866	3,521,692
Total liabilities	**10,569,297**	**10,821,668**
Total equity and liabilities	**47,436,538**	**47,807,994**

	2,017	**2,016**
Revenue	182,143	156,691
Operating costs	(200,506)	(167,266)
Depreciation	(21,377)	(19,994)
Net impairment gains	(4,889)	(1,055)
Provisions		
Net financial income	166,104	565,905
Income taxes	109,435	104,492
Profit for the year	**230,910**	**638,773**

41. Related parties

Transactions with key managers

Key managers' fees are as follows:

	2018	2017
Short-term benefits	4,085	3,618
Post-employee benefits	268	232
	4,353	**3,850**

The benefits relate to the fees paid to key managers, plus MBOs, if any. In addition to short-term benefits of €4,085 thousand paid out in 2018, a variable portion is to be paid in 2018, for an amount not exceeding €1 million (€930 thousand in 2017).

Key managers did not receive any termination benefits nor any other long-term benefits.

Other related party transactions

The main transactions between Ferrovie dello Stato Italiane group and its related parties, which were all carried out on an arm's length basis, are described below:

Name	Receivables	Payables
Subsidiaries		
Thello S.a.s.	Maintenance and lease of rolling stock Sale of railway tickets Sales fees *Financial:* Interest income on loans	Fees payable
Trenitalia Uk LTD	Seconded personnel	
Soc.Fer.Provv.Emilia Rom.Scarl	Sureties	
Joint arrangements		
Trenord S.r.l.	Lease of rolling stock Rolling stock maintenance Traffic and shunting services Sales fees	Fees payable Integrated traffic management services
Cisalpino	Seconded personnel	
Mercitalia Shunting & Terminal (formerly Serfer)	Maintenance and lease of rolling stock Carriage leases	Shunting services Railway transport terminal services Carriage maintenance
Parents		
Ferrovie dello Stato Italiane S.p.A. (a)	Transport of employees and relatives Training services Tickets *Financial:* pool	Supply and management of personnel services Seconded personnel Company officers Property lease payments and charges License to use the brand *Financial:* Intragroup current account Interest expense on loans Surety fees
Other related companies	**Receivables**	**Payables**
Rete Ferroviaria Italiana S.p.A. (b)	Transport of employees and relatives Rolling stock maintenance Lease of rolling stock Maintenance engineering	Toll Electrical energy and fuel for traction Shunting Ferry service Traffic-related services Maintenance Railway police services Health services Seconded personnel Property lease payments and charges
FSE Infrastructure	Lease of rolling stock	
FSE Trasporto Ferro	Seconded personnel	
BBT	Seconded personnel	
Cemat S.p.A.	Rolling stock maintenance and testing	Railway material
Terminali Italia S.r.l.	Carriage leases Tickets	Shunting
Mercitalia Logistic S.p.A. (b)	Lease of rolling stock Tickets	Transport and shipping Railway transport terminal services Porterage services Lease of rolling stock Area leases

Mercitalia Transport e Service S.r.l.		Transport and shipping Facilities management Area leases
Mercitalia Terminal S.p.A.		Shunting services
Mercitalia Rail S.r.l.	Seconded personnel Commercial leases	Lease of locomotives Tickets
Ferservizi S.p.A. (b)	Transport of employees and relatives	Personnel management Accounting and treasury Facilities management Ferrotel Catering administrative management Group purchase services
Metropark S.p.A.		Parking agreements
Grandi Stazioni Rail S.p.A. (b)	Tickets	Property lease payments Sponsorships Advertising campaigns in stations Building expense
GS Immobiliare (b)	Tickets	Property lease payments Sponsorships Advertising campaigns in stations Building expense
Centostazioni S.p.A. (b)	Tickets	Property maintenance Plant cleaning Property lease payments and charges
BUSITALIA - Sita Nord (b)		Replacement bus services
BUSITALIA Rail Service	Parking area fee	Replacement bus services
Fercredit S.p.A. (b)	Tickets	Credit scoring services Factoring of trade payables *Financial:* Interest expense
Trainose SA Ellenic	Company officers	
Italferr S.p.A. (b)	Transport of employees and relatives	Engineering services
Netinera Deutschland GmbH	Seconded personnel Rolling stock maintenance	
Infrastructure Engineering Services doo Beograd		Engineering services
Italcertifer Soc.Cons.p.A. (b)	Certifications and tests	Test activities Certifications and tests
Nugo	Transport of employees and relatives	
FS Sistemi Urbani S.r.l. (b)		Property lease payments and charges
Other related parties		
Pension funds	Tickets	Supplementary pension fund services
CDP Group	Tickets	Purchase of materials
ENEL group	Transport of material Lease payments	Lighting and driving force Electrical energy
ENI group	Transport of material Tickets	Diesel fuel for traction Gas utilities
EXPO 2015 Group	Area utilisation Fee income	
Leonardo group	Lease of rolling stock	Rolling stock maintenance Purchase of materials
GSE group	Tickets	
Invitalia Group	Tickets	
IPZS Group	Tickets	
POSTE group		Printing of tickets, publications Transport and shipping Post charges

(a) Company that manages and coordinates Trenitalia S.p.A.
(b) Company under common control

The table below summarises statement of financial position and income statement amounts at 31 December 2017 for related party transactions.

Trade and other transactions

	31.12.2018				2018	
	Receivables	Payables	Investments	Commitments	Costs	Revenue
Subsidiaries	**28,365**	**1,584**	**-**	**-**	**1,217**	**28,194**
Soc.Fer.Provv.Emilia Rom.Scarl	220					87
Thello S.a.s.	25,754	1,584			1,217	25,322
Trenitalia Uk	2,391					2,785
Joint arrangements	**74,469**	**49,202**	**-**	**-**	**6,535**	**106,747**
Trenord S.r.l.	74,468	49,202			6,535	106,746
Cisalpino (in liquidation)	1					1
Parent	**51,643**	**40,496**	**-**	**-**	**49,386**	**3,413**
Ferrovie dello Stato Italiane S.p.A. (a)	51,643	40,496			49,386	3,413
Related parties	**110,180**	**487,484**	**17,962**	**-**	**1,278,419**	**172,347**
Rete Ferroviaria Italiana S.p.A. (b)	68,650	275,133	6,405		1,067,686	113,671
Blueferries Srl		13			16	
Mercitalia Terminal S.p.A.					-	
Nugo	15 -	73				11
Mercitalia Intermodal S.p.A.						
FSE Infrastruttura	1,401	6,009				2,671
FSE Trasporto Ferro	1,101					2,260
Terminali Italia S.r.l.	5	3			8	17
Mercitalia Logistics S.p.A. (b)	46	421			329	96
Mercitalia Shunting & Terminal (già Serfer)	966	13,541	8,112		41,003	1,186
Mercitalia Transport e Service S.r.l.	72	5,633			14,551	353
Ferservizi S.p.A. (b)	1,322	20,858	41		70,998	2,016
Metropark S.p.A.		75			183	
GS Rail	70	2,195			23,431	127
GS Immobiliare	6	314			1,507	31
Centostazioni S.p.A. (b)		216			4,982	17
Busitalia - Sita Nord (b)	780	2,427			7,983	273
Busitalia Veneto (b)	2	17			153	80
Busitalia Rail Service (b)	96	28,035			41,905	701
Fercredit S.p.A. (b)	56	125,150			310	62
Italferr S.p.A. (b)	1,255	640	3,390		-	1,516
Italcertifer Soc.Cons.p.A. (b)	259	325	13		550	304
TX Logistik AG	3	9			9	
Trainose SA Ellenic	38					38
FS Sistemi Urbani S.r.l. (b)	33	37			252	43
Mercitalia Rail Srl (FS Telco)	34,005	6,506			2,564	46,875

Other related parties	**1,153**	**33,875**	**-**	**-**	**53,957**	**4,654**
ENEL group	152	22			20	23
ENI group	84	960			1,001	597
Leonardo group	232	14,718			42,630	3,631
Cassa Depositi e Prestiti group	610	14,910			87	107
Expo 2015 S.p.A.		(1)				
GSE group	5	3			2	22
Invitalia Group	11				6	149
IPZS Group	41				4	104
POSTE group	15	953			1,204	2
RAI group	3				3	20
Other pension funds		2,311			9,001	
TOTAL	**265,809**	**612,642**	**17,962**	**-**	**1,389,514**	**315,355**

Financial transactions

Name	31.12.2018				2018	
	Receivables	Payables	Guarantees	Commitments	Expense	Income
Subsidiaries	**20,204**	**-**	**-**	**-**	**-**	**240**
Thello S.a.s.	20,204					240
Joint arrangements	**2,166**	**-**	**-**	**-**	**-**	**-**
Trenord S.r.l.	2,166					
Parent	**1,833**	**5,519,410**	**-**	**-**	**55,334**	**4,503**
Ferrovie dello Stato Italiane S.p.A.	1,833	5,519,410			55,334	4,503
Other related companies	**137**	**-**	**-**	**-**	**34**	**-**
Fercredit S.p.A.					34	-
Rete Ferroviaria Italiana S.p.A.	137					
TOTAL	**24,340**	**5,519,410**	**-**	**-**	**55,368**	**4,742**

42. Guarantees

Guarantees total €1,656,414 thousand and substantially relate to:

- collateral in the form of pledges on the company's rolling stock, issued by the company in favour of Eurofima to secure non-current loans raised through Ferrovie dello Stato Italiane (€1,513,181 thousand);
- guarantees issued in favour of the regions for service contracts and other bodies by banks and the Post (€149,233 thousand).

43. Disclosure Pursuant to Law No. 124/2017

The following table provides the disclosure required by article 1.125 of Law no. 124/2017 with reference to 2018. The figures are net of interest.

Provider		Amount
Grants related to assets (*)		**7,294,017**
Lazio Innova	Sustainable and intelligent mobility project	36,189
Province of Bolzano	Grants to purchase rolling stock	5,320,000
Liguria region	Grants to purchase rolling stock	1,937,828
Grants related to come		**3,994,298**
European Union	Chariot research project	141,250
European Union	Sprint project	253,545
European Union	Ersat project	15,728
European Union	EuTravel project	240,218
European Union	Bonvoyage project	400,000
European Union	5G-Eve project	104,738
European Union	GOF4R, ST4RT project	106,056
Cassa Depositi e Prestiti	Grants pursuant to Law no. 166/2002 art 38 comma 5-7	2,732,764
Grants Training		**2,772,140**
Fondo Impresa	Grants for training	2,772,140
	Total grants pursuant to article 1.125 of Law no. 124/2017	**14,060,455**

(*) grants approved in prior years which are disbursed over a number of years

The following table provides the information required by article 1.126 of Law no. 124/2017 with reference to 2018.

Beneficiary		Amount
Grants related to come		**4,040,000**
Fondazione FS Italiane	Donations	3,940,000
Politecnico di Milan	Donations	100,000
	Total grants pursuant to article 1 of Law no. 124/2017	**4,040,000**

44. Events after the reporting date

January

- On 22 January 2018, in partnership with ZigZag, Trenitalia signed an agreement which offers passengers who travel with Freccia, Intercity, Incercity night, EuroCity and Euronight trains a special discount on scooter sharing services in Rome and Milan.
- On 25 January 2018, Trenitalia presented its new Travel Book dedicated to 33 Italian UNESCO sites that can be reached by train, aimed at incentivising sustainable travel.

February

- On 12 February 2018, a new non-stop connection was created between Rome and the port of Civitavecchia for cruise passengers and commuters on the FL5 line.
- On 19 February 2018, Lega Ambiente (an Italian environmental association) launched the 31st edition of the “Treno Verde” (Green train) initiative in collaboration with the FS group, to improve integrated and sustainable mobility.

ALLOCATION OF PROFIT FOR THE YEAR

The company’s financial statements as at and for the year ended 31 December 2018 show a profit for the year of €256,763,282.97, which we propose allocating as follows:

- €12,838,164.15 to the legal reserve;
- €243,925,118.82 to retained earnings.

The board of directors

The Chairman

Prof. Tiziano Onesti