(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 2017

(with report of the auditors thereon)

KPMG S.p.A.

19 March 2018

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

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 2017, the income statement and the statements of comprehensive income, cash flows and changes in equity for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Trenitalia S.p.A. as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

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 Trenitalia S.p.A. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 directors and board of statutory auditors ("Collegio Sindacale") of Trenitalia S.p.A. 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 directors of Trenitalia S.p.A. are responsible for the preparation of the Company's directors' report at 31 December 2017 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 2017 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 financial statements of Trenitalia S.p.A. at 31 December 2017 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, 19 March 2018

KPMG S.p.A.

(signed on the original)

Benedetto Gamucci
Director

ANNUAL REPORT 2017

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TRENITALIA
GRUPPO FERROVIE DELLO STATO ITALIANE

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, the quality and 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 in office since 16 September 2017:

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 directors in office until 15 September 2017:

Chairman	Tiziano ONESTI
CEO and General Manager	Barbara MORGANTE
Directors	Marco GOSSO
	Maria Rosaria MAUGERI
	Paolo COLOMBO

Board of statutory auditors in office since 3 May 2017:

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

Board of statutory auditors in office until 2 May 2017:

Chairwoman	Maria Laura PRISLEI
Standing statutory auditors	Alessandro ALESSANDRINI
	Gianfranco ZANDA
Alternate statutory auditors	Margherita BONITATIBUS
	Gianpaolo Davide ROSSETTI

Independent auditors:

KPMG S.p.A.

Manager in charge of financial reporting:

Francesca SERRA

CONTENTS

Chairman's letter

Dear Shareholder,

2017 was marked by a moderate, but widespread global recovery.
Against this background, Trenitalia's performance improved with revenue up by 4.72% to above €5.3 billion. This led to a gross operating profit of €1.585 billion (+13.71%) and a profit for the year twice that of 2016.
Excellent results were achieved in both the long haul segment (+6.1%) – where competition is always fiercer, especially in terms of prices – and the regional traffic segment (+8.7%), in which management renewed the main service contracts in place, while pursuing major investment programmes to improve the efficiency of rolling stock.
Indeed, in 2017, the first electric "Jazz" and diesel "Swing" trains and the "Vivalto" double-decker carriages were delivered and the contracts to purchase new "Rock" and "Pop" trains also began. These trains are designed and built in Italy and their construction will benefit Italy's entire economic system. Their roll-out is expected to begin in 2019.
The aim of this innovation process – which has resulted in investments exceeding €7 billion over the past six years – is to ensure increasingly better comfort for our passengers – who are always our main focus – by improving service quality, punctuality, safety and, last but not least, the economic, social and environmental sustainability of Trenitalia's fleet, in line with its mission. We believe that the quality of the services provided, the protection of the environment, the safeguarding of our workers' health and safety and energy efficiency are strategic elements in the development of our business.
This scenario includes the purchase of the Britain-based NXET (now Trenitalia c2c) to seize growth opportunities on an international scale and Trenitalia's partial demerger, which entailed the transfer of its Cargo division to Mercitalia Rail S.r.l. as of January 2017. This transaction is part of FSI group's 2017-2026 business plan to relaunch the Cargo business via a specific dedicated corporate structure and Trenitalia's focus on the passenger segment.
All these changes bring the company one step closer to its common goal of becoming increasingly competitive and promoting shared development, where everyone is called upon to play their part, for the systemic spread of well-being and dignity. Indeed, enhancing our railway services means generating economic, cultural and social well-being. In this respect, the economic value distributed externally amounts to a significant €5 billion in 2017.
We should all be proud of the development of infrastructure and services that are so significant, innovative, safe and focused on facilitating human and social connections, in the simplest and most straightforward way.
The results achieved – above all thanks to our employees, to whom I extend a special "thank you" – are an incentive for the future, to forcefully tackle the challenges facing us. Along this path – where the support and the contribution of all stakeholders will play a vital role – Trenitalia is willing to continue to do its part, focusing intensely on achieving the goals of the 2017-2026 business plan and proud to belong to the FSI group.
Sincerely

The Chairman

Tiziano Onesti

Disclaimer

This document, in particular, the part titled "Management foreseeable development" 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 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, for example, 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 (reversals of impairment losses) and provisions.
- **Net 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 algebraic 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 algebraic 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 algebraic sum of share capital and reserves, including valuation reserves (cash flow hedge and actuarial reserves), retained earnings (losses carried forward), derivative liabilities and the profit (loss) for the year.
- **Net financial debt (NFD):** this is the algebraic 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 (from the start to the end of year), 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 (from the start to the end of the year).
- **Turnover of net invested capital:** this is the ratio of invested capital to sales. It is calculated as the ratio of operating revenue to average NIC (from the start to the end of the year).

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 development of the automatic train protection (ATP).
- **HS/HC:** High speed/High capacity. This is the system of lines and means specifically developed for high speed transport and the consequent high capacity transport.
- **Average load** = (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.
- **Public 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.
- **ETCS (European Train Control System):** this is the overall network of the various national ATC systems. ATC systems consist of traditional and innovative signalling systems and can be based on continuous signal repetition (CSR) or continuous digital signal repetition (CDSR).
- **GSM-R (Global System for Mobile Communication-Railways):** 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.

Management Report

Main indicators

	Actual 2017	Actual 2016
INCOME STATEMENT HIGHLIGHTS *(millions of Euros)*		
Revenue	5,318.4	5,078.7
Operating costs	(3,732.7)	(3,684.2)
Gross operating profit	1,585.7	1,394.5
Operating profit	399.1	332.5
Profit from continuing operations	276.2	192.2
PERFORMANCE INDICATORS		
ROI	4.4%	3.7%
ROS	7.5%	6.5%
NAT	0.59	0.56
PROFITABILITY INDICATORS		
Employees (FTE)	27,639	27,421
Train-km/Employee (thousands)	8.79	8.72
Revenue/Employee	192,424	185,212
Gross operating profit margin	29.8%	27.5%
FINANCIAL INDICATORS *((millions of Euros)*		
Net financial debt	6,885.4	6,727.1
D/E	2.85	3.17
Operating cash flows	533	1,087
Investments	(940)	(1,557)
Amortisation and depreciation/Investments	1.2	0.7
Financial requirements	(158)	(202)

MAIN EVENTS OF THE YEAR

January

- On 27 January, Trenitalia UK was awarded the UK – Italy Business Awards. Every year, the British Government, the UK Trade and Investment government agency and the Milan British Consulate assign this prestigious award to the Italian investors who chose the United Kingdom as the main market to develop their business.

April

- The Electricity Service Manager accepted Trenitalia's request to obtain white certificates for its new regional trains. In the tenders for the purchase of these trains, the manufacturers that best use technology and innovation in order to reduce energy consumption and their environmental impact receive higher scores.

May

- On 22 May 2017, the company published a new tender worth €1.6 billion to purchase 135 diesel trains to be used in the non-electrified lines of Italy's regions. The tender follows that which was not awarded in July 2016. Its structure remains that of a 48-month master agreement (which can be extended to 72 months) to purchase one-deck bidirectional, blocked composition and distributed power diesel trains, to be used for regional passenger transport services. The agreement also includes full maintenance on the purchased trains for the 15 years following delivery of each train.

July

- On 26 July 2017, the company launched the "Contemporaneamenteitalia" card for visitors to a network of 26 museums located all over Italy, reached using Frecce and national trains, with a 20% discount on the train ticket.

- At 30 June 2017, Trenitalia's new app has been downloaded by 2.7 million users (+10% on 2016) and more than three million tickets were purchased using the new platform. Since July, the app has been enhanced with new functionalities now also available to customers who are not CartaFreccia members. App users can purchase tickets, change their bookings, request reimbursements, view arrivals and departures at all stations and receive updates about their itinerary. Furthermore, since December, users can also choose their carriage and seats on Frecciarossa, Frecciargento, Frecciabianca and Intercity trains.

September

- On 15 September 2017, Hitachi Rail Italy and Trenitalia gave the associations of disabled people and consumer associations a preview the full-size model of the new "Rock" regional train. This provided the opportunity to share some of the new train's highly-innovative technical characteristics, especially in terms of safety, accessibility and comfort.
- On 21 September 2017, as part of the National Rail Award, c2c won the "Innovation of the Year" award for having introduced an automatic reimbursement system for Smart Card customers for delays of more than two minutes. Consolidating its performance improvement process, at the end of September, c2c was ranked

the year's top British rail operator in terms of punctuality, with 89.3% of trains arriving within five minutes of their scheduled arrival time.

- The company and Mytaxi entered into an agreement whereby customers can benefit from a truly seamless experience, thanks to the increasingly smart integration between trains and taxis. This is the first experiment of its kind and will make it faster and cheaper to travel the "first and the last mile" between cities, starting with the Rome and Milan stations, where Mytaxi is already well established. Promotional activities for Trenitalia customers began immediately with Mytaxi granting a 50% discount on all rides paid using the app from/to the Milano Centrale, Garibaldi and Rogoredo and Roma Termini, Tiburtina and Ostiense stations.

October

- The new "Pop" train commissioned by Trenitalia to Alstom was unveiled on 3 October 2017 in Milan, as part of the 2017 Expo Ferroviaria. This train will improve customers' travel experience onboard regional trains. Pop is part of the next-generation regional trains, which are high-tech, comfortable, accessible and environmentally friendly, with interior furnishings and accessories that can be easily adapted to the different regional needs.

- Trenitalia's roadshow to unveil the new Pop and Rock regional trains began in Bologna on 10 October 2017. The Minister of Infrastructure and Transport, Graziano Delrio, participated in the opening ceremony with Trenitalia's and FS Italiane group's management held in Piazza Maggiore in Bologna. The #lamusicastacambiando village in Bologna's Piazza Maggiore and, subsequently, in the main Italian cities, will display two Trenitalia's Pop and Rock train models, designed and manufactured by Alstom Ferroviaria (Pop) and Hitachi Rail Italy (Rock), respectively. The full-size models of the new trains were reproduced to inform citizens and let them test the comfort and the characteristics of the new regional trains which will become operative in 2019. Visitors to Italy's main squares were able to see Trenitalia's tangible effort to renew the fleet, innovate the service and improve travel quality for commuters.

- The partnership between Trenitalia and FICO Eataly World was formed on 20 October 2017. FICO showcases Italy's agro-food excellence and the wonders of its biodiversities in an area covering over 100 thousand m^2 near Bologna. FICO is easily and conveniently accessible from all Italy's main capital cities thanks to the extensive network of practical and sustainable railway connections, provided by Trenitalia and the seven shuttle buses which every 15 minutes will connect the Bologna Centrale station, the historical centre and FICO.

November

- The partnership with Avios was formed in November, enabling CartaFRECCIA holders to convert their points to fly with some of the main European airline companies to hundreds of destinations around the world.

- The new winter timetable which came into force on 10 December, was unveiled on 14 November 2017. The cornerstone of the new timetable is the increase in the number of Freccia and regional trains, with the first train for Rome now leaving at 5:30 a.m.. Another 11 departures were scheduled, concentrated in the early morning and in the evening. Every day, 101 trains connect Rome and Milan, leaving the station every 15 minutes during rush hours. There are also new connections to Venice from both Rome and Turin.

Furthermore, two new trains have been introduced connecting Rome and Reggio Calabria. The Freccialink service expanded its winter network, and now includes, in addition to Courmayer, Madonna di Campiglio and Cortina, Val Gardena and Val di Fassa. Services to provincial capitals were also strengthened, with the addition of Catanzaro to Cremona, Siena, Perugia, Potenza and Matera. The regional transport offer was increased and improved during rush hours in accordance with the main customer regions.

- The second edition of the "Commuter and Regional Train Services" international training session was held at Trenintalia's offices on 24 November 2017 to provide detailed information about the main regional transport issues, covering both European railway companies and regional bodies. These three training days covered the integration of services and offers, funding and allocations for services, safety, technological innovations and sustainability projects.

- Law no. 167 came into force on 27 November 2017. Paragraph 19.7 of this law introduces the special rate regime which has been applied (pursuant to Presidential decree no. 730 of 22 May 1963) as of 1 January 2015 to all railway transport services carried out using RFI's 3KW railway infrastructure.

- On 30 November 2017, Ferrovie dello Stato Italiane placed its first green bond to finance new trains for both regional and high speed transport. The bond has a nominal amount of €600 million and a six-year term. In accordance with FS' Green Bond Framework, the proceeds from the issue will be used to finance projects with a positive impact in terms of environmental sustainability. Specifically, they will be used to renew the rolling stock for public transport, as detailed below:

  - new electric multiple unit (EMU) trains to transport regional passengers;

  - new ETR 1000 HS trains to transport HS passengers.

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

December

- During this month, Trenitalia and American Express formed a partnership which offers exclusive benefits to customers and passengers. To promote the collaboration, the two companies prepared an integrated marketing campaign which will include new offers over the next few months. The strategic partnership forged with American Express enhances the value proposition to customers along the entire customer journey, from the route planning, the selection of the purchase options, the purchase - thanks to a secure and reliable payment tool - to all additional benefits arising from the synergy of offer and loyalty between Trenitalia and American Express.

- On 6 December 2017, the National Agency for Railway Safety (ANSF) issued the updating of the safety certificate (Part B) which confirms the company's eligibility to operate on the railway lines. On 6 April 2017, the ANSF updated the safety certificate (Part A), confirming that the company's procedures were such to ensure the safety of railway operations.

- On 18 December 2017, the new Umbria.GO pass was presented, valid for all public transport services in Umbria by people who regularly use the various LPT providers in the region – all of which are managed by

FS Italiane group in Umbria. The new pass allows them to take regional trains, city urban and suburban buses.

- At year end, c2c consolidated its results and became the most punctual railway company of the year in the UK, with 95.9% of its trains arriving at their final destination on time or within five minutes of their scheduled arrival time (punctuality of 83.7% when all stops are considered). Also in December, the National Rail Passenger Survey on Customer Satisfaction with Britain's railway services revealed that 90% of customers were satisfied with c2c, which ranks first in the London & South East area, covering all commuter services to London.
- On 14 December 2017, c2c signed an agreement for 60 new Bombardier Aventra carriages, for a total investment of over GBP100 million.
- The Stability Act (Law no. 205 of 27 December 2017) approved by the Parliament near year end introduces important changes which generate opportunities for the company: it re-introduces 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, and allows the allocation of up to €100 million of the resources already available for each of the 2019-2033 years of the Fund for the updating of the public transport fleet in innovative sustainable mobility pilot projects.

MACROECONOMIC ENVIROMENT

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

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

Source: Prometeia, December 2017

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

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

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

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

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

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

Source: Prometeia, December 2017

The Eurozone's economic expansion remains solid and extends throughout the various countries and sectors. Average annual GDP growth was 2.4%, boosted by private consumption, investments and exports, which benefited from the widespread global recovery. The strong performance of the labour market, with the lowest unemployment rate since 2009 (9.1%), and low inflation continue to sustain household disposal income. At the same time, improvements in corporate earnings and favourable credit conditions are supporting the recovery of investments.

Foreign trade and the replenishing of stocks drove the GDP growth rate (+2.5%) in Germany, which remains the Eurozone's locomotive. Corporate investments continue to recover at a sound rate (1.5%), although they have slowed somewhat, and they are still one of the most dynamic components of demand. The growth in France was more moderate (+1.9%), fueled by domestic demand and the strong performance of private investments.

Spain, the Eurozone's most rapidly expanding economy, also reported GDP growth of over 3% in the past three years, driven by domestic demand and especially investments.

The Italian framework

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

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

Source: Prometeia, December 2017

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

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

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

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

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

MARKET PERFORMANCE

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

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

Traffic result of major European railway companies

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

In the passenger segment, the average increase in traffic volumes was 4.5%: among the leading railway companies, France's SNCF posted growth that was higher than average by 6.4%, while Germany's DB AG and Spain's Renfe showed growth of around 3%.

RELATIONSHIPS WITH CUSTOMERS

Passenger transport - Market

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

The 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 addition to this range, all the other offers remain in place: Two for the price of one every Saturday and holidays; Children travel free, for families, allowing children under 15 years of age to travel for free; the CartaFreccia Special card for loyal customers, who can travel on Frecce trains with a 50% discount off the Standard fare on Tuesdays, Wednesdays and Thursdays from 11 am to 2 pm; and the CartaFreccia Young and Senior cards for travellers under 26 and over 60 who can travel with a 30% or 50% discount, depending on how far ahead they book their journey. In addition, the special same-day and same-weekend roundtrip fares are still being offered for Frecce trains and the €99 promotional price for same-day roundtrip fares between Rome and Milan, which was extended to Rome and Venice in December 2017, on Frecciarossa and Frecciargento trains (second class/standard).

New HS transport passes were unveiled in February 2017 with different rates based on the day of the week and the time of day when they are used, enabling passengers to choose which of the four different passes best suits their travel needs.

1. All-day pass (24 hours a day) seven days a week
2. All-day pass (24 hours a day) valid Monday through Friday
3. Reduced hours pass (9 a.m. – 5 p.m. - proposed) seven days a week
4. Reduced hours pass (9 a.m. – 5 p.m.) Monday through Friday

In this respect, a new pricing system was introduced based on the day of the week and the time of day when the passes are used. Campaigns were organised to encourage purchases using online vouchers and discount codes: for specific events and certain times; using the Happy Birthday CartaFreccia card, Update your consent, Word-of-mouth and prepaid CartaFreccia campaigns. Specifically, in 2017, campaigns were organised to encourage the purchase of e-credit (Gift cards) during the Christmas, Easter and summer season, by topping up the e-credit balance (e.g., you spent €100 for credit of €120), in addition to initiatives to promote the advance purchase of single journeys using promotional codes for weekend travel; for example, using the BLACK30 code, customers obtained an extra 30% discount on tickets purchased between 24 November and 26 November 2017 for travel on or after 10 January 2018.

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

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

- **Frecciarossa trains**

The supply and commissioning of new Frecciarossa 1000 trains were completed in 2017:

- reinforcing highly profitable sections of the network with an increase in the frequency and seats on the Milan-Rome/Naples and Venice-Rome routes (this was carried out before the timetable was changed in December 2016)
- further increasing the seats on the above routes following the roll-out of double Frecciarossa 1000 trains in June 2017 (two highly competitive double trains)
- improving the allocation of rolling stock, driven by demand. In particular, the ETR500 trains were used on the backbone line, where demand is most highly saturated, and the Frecciarossa 1000 trains were launched also on the Venice-Rome route
- completing the project to make Frecciarossa the only train operating on the Po Plain line (April 2017) with the full conversion of Frecciabianca trains.

Furthermore, actions to win new or emerging traffic areas and to improve the local coverage continued thanks to:

- the start of commercial service at the Afragola station (June 2017)
- the reinforcement of the Rogoredo stop with 14 new stops (June 2017)
- the extension of the Frecciarossa service from Milan-Salerno to Potenza and Taranto (implemented early in December 2016)
- the improvement of connections from and to Arezzo (implemented early in December 2016)

With respect to the Frecciarossa 1000, the project for the introduction of new coat hooks and rails on overhead baggage racks (to prevent baggage from falling) was carried forward and completed.

New projects were launched to implement new signs onboard: electrical outlet pictograms (FR1000), meeting room pictograms (FR500-FR1000), pictograms indicating the fire fighting system (FR1000)

In order to improve the WiFi service, the upgrading of ETR500 trains continued to install new, higher performance 4G modems capable of working on the new LTE bands. The entire ETR 500 fleet will be updated by June 2018.

Work continued to consolidate the on-board website with the launch of new functions, like Internet navigation for Windows mobile devices and new direct internet access from the "FRECCE" website app.

A beauty contest was held to select the new content provider with the aim of expanding the entertainment offer on the website and on-board monitors.
A new digital news agent service was rolled out on the "FRECCE" website.

The Welcome drink offer was renewed in mid-November 2017, expanding the range available to customers to better satisfy their needs and expectations. With a view to improving customer care, young travellers now receive a special gift box which includes, among other things, crayons or a crossword puzzle. In the same period, the bar/bistrot offer was also expanded with the introduction of foods for different customer targets (e.g.: vegetarian, gluten free products, fruit extracts, etc.)

In addition to the regular optimisation and ongoing enhancement of the programming schedule of the monitors onboard Frecciarossa and Frecciargento trains, a new screen was introduced which informs passengers whether the train is travelling or has arrived on time.

98.28% of Frecciarossa trains arrived on time or, in any case no more than 0 to 15 minutes late (+97.92% on 2016). Customer satisfaction data, based on surveys by independent parties, show overall satisfaction with the journey of 95.4% at year end, in line with the previous year (95.2%).

- **Frecciargento trains**

In 2017, the Frecciargento offer was characterised by:

- expansion of the offer on Rome-Puglia route with two new daily Rome-Foggia connections and two new non-stop Rome-Bari connections.
- the penetration of new markets thanks to the launch of two connections (Rome-Genoa via Florence), thanks to the recovery of Frecciargento material generated by the upgrading of the Venice-Rome/Naples/Salerno route from Frecciargento to Frecciarossa trains.

Furthermore, the areas served increased thanks to:

- the start of commercial service at the Afragola station (June 2017);
- the launch of new stops on connections already in operation (Rosarno on Freccia Argento Rome-Reggio Calabria; Carpi on Freccia Argento Rome-Mantua)

At year end, the Rome-Reggio Calabria connection (via Napoli Afragola) was also expanded from two to four trains per day. With respect to the on-board website and the monitors, that said in relation to Frecciarossa trains also applies.

98.6% of Frecciargento trains arrived on time or, in any case no more than 0 to 15 minutes late, in line with 2016 (98.6%). Customer satisfaction data, based on surveys by independent parties, show overall satisfaction with the journey of 92.9% at year end, slightly down on the previous year (92.5%).

- **Frecciabianca trains**

In April 2017, the company completed the gradual upgrade process on services on the Turin-Milan-Venice/Udine/Trieste axis by progressively transforming Frecciabianca services into Frecciarossa through the use of ETR500 rolling stock.

The lines served by Frecciabianca in 2017 were:

- Adriatic line — 12 pairs of FB 414 trains
- North Tyrrhenian line — 6 pairs of ETR 460 trains
- South Tyrrhenian line — 2 pairs of ETR 470 trains
- Rome – Ravenna line — 1 pair of ETR 460 trains

In the second half of 2017, the Frecciabianca (FB 414) ordinary fleet was upgraded in terms of refurbishing and comfort: the internal lighting system was updated from neon to LEDs, for brighter light, better travel comfort and making the train interiors more attractive, in addition to energy savings and better functioning of on-board electrical systems. The bar was also refurbished, with warmer colours, that are comfortable and appealing to customers who enjoy their food standing at the bar . The toilets were also refurbished for an aesthetic and functional upgrade.

97.2% of Frecciabianca trains arrived on time or, in any case no more than 0 to 15 minutes late, showing an increase on 2016 (96.3%). Customer satisfaction data show overall satisfaction with the journey of 91.5% at year end (2016: 90.8%).

- **International service**

2017 saw the opening of the Gotthard Base Tunnel, shortening the journey between Milan and Zurich by 37 minutes for Italy-Switzerland EC service and bringing the total travel time between the two cities to 3 hours and 26 minutes. The complete offer, which grew to include a new EC train connecting Milan and Zurich, expanded further in June 2017 with the new EC connection between Zurich and Venice at the weekends.

Following the exit of the German partner DB, the night service offer has a new business model agreed with Austrian ŐBB, which confirmed the routes from Rome and Milan to Vienna and Munich, and now comprises a new international destination: Salzburg.

- **Freccialink**

The Freccialink service was intensified, after last year pilot service.

New routes were launched, specifically for the summer season: Sorrento-Naples, Piombino-Florence, Gallipoli-Lecce and Cremona-Brescia (June 2017) while those with a disappointing commercial performance were cut back (e.g., elimination of the L'Aquila-Rome route).

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 and will remain valid until 31 December 2026. The new service contract provides for the supply of a total of 25.1 million train-km through Intercity brand trains.

In 2017, all offers for intercity trains with dedicated price points were still available.

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

Regional transport

Most of the public service contracts expired on 31 December 2014 and were renewed in 2016 and 2017 for service continuity. Specifically, in 2017, the contracts with the Basilicata and Molise regions were renewed for nine years (6+3 years from 2015 to 2023), while a service contract with direct assignment of services was signed with the Sardinia region for nine years (from 2017 to 2025).

Furthermore, the contract with the Piedmont region was renewed for four years (from 2017 to 2020), the contract with the Calabria region was renewed for three years (from 2015 to 2017) and that with the Fruili Venezia Giulia region was renewed for two years (from 2018 to 2019).

A service contract with direct assignment of the service is being negotiated with the Sicily region for 10 years (from 2017 to 2026), while talks continued with the Valle d'Aosta region, with which a bridge contract will presumably be signed for the subsequent assignment of services by tender.

Under the service contract with the MIT, only the so-called undivided services in the north-east area (mainly Verona-Brennero and Trieste-Venice) remain.

The results achieved in the last few years led institutional customers to renew their trust in the company. Indeed, the commercial proposals made have been positively received, in terms of quality of services offered, cost containment and investments made in upgrading the fleet and on-board technologies.

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

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

A series of initiatives have been carried out to improve service quality and make services easier to use, as well as to curb and combat evasion and avoidance. In particular, with respect to the project aimed at the complete digitalisation with no paper tickets:

- contactless cardholders and users of the related payment system apps can now buy single Leonardo *Express* tickets at the automatic gates at the Roma Termini and Fiumicino Aeroporto stations using the *EMV* (Europay, MasterCard and VISA) service;
- the types of tickets and passes on sale at the indirect sales network (third-party POS) were expanded;
- the use of the single smart card spread to facilitate the integration of the various means of transport, including fares.

Furthermore:

- the commitment to anti-evasion and anti-avoidance action continued with personnel on trains and at stations. In addition to personnel on board trains, the national pool of travelling anti-evasion officers remained in place. In collaboration with Polfer (the railway police) and Company Security, they check tickets on board trains;
- Commercial and co-marketing arrangements increased considerably, including those with Le Vie Francigene, which offers discounts to travelling religious pilgrims, and with the Vatican City, for trains that directly connect the San Pietro Vaticano station with Castel Gandolfo, for tours of the Papal villas.

ECONOMIC PERFORMANCE AND FINANCIAL POSITION

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.

Trenitalia's partial demerger became effective on 1 January 2017 and provided for the allocation of a portion of its assets to Mercitalia Rail S.r.l. via the demerger of its Cargo Division. This transaction is part of FSI group's 2017-2026 business plan to relaunch the Cargo business via a specific dedicated company structure.

In accordance with IFRS 5 Non-cur-rent assets held for sale and discontinued operations, in the 2016 income statement, the revenue and costs of such division were recognised in the separate item "Loss from discontinued operations". This makes, the results for the two years comparable.

millions of Euros

	2017	2016	Change
Revenue	**5,318.4**	**5,078.7**	**239.7**
- Revenue from sales and services	5,138.8	4,858.2	280.6
- Other income	179.6	220.5	(40.9)
Operating costs	**3,732.7**	**3,684.2**	**48.5**
Personnel expense	1,677.9	1,647.8	30.1
Other costs, net	2,054.8	2,036.4	18.4
GROSS OPERATING PROFIT	**1,585.7**	**1,394.5**	**191.2**
Amortisation and depreciation	1,085.7	1,037.7	48.0
Net impairment losses	79.6	24.3	55.3
Accruals to provisions for risks and charges	21.3	-	21.3
OPERATING PROFIT	**399.1**	**332.5**	**66.6**
Net financial expense	73.2	104.3	(31.1)
PRE-TAX PROFIT	**325.9**	**228.2**	**97.7**
Income taxes	49.7	36.1	13.6
PROFIT FROM CONTINUING OPERATIONS	**276.2**	**192.2**	**84.0**
Loss from discontinued operations	**-**	**(75.4)**	**75.4**
PROFIT FOR THE YEAR	**276.2**	**116.8**	**159.4**

In 2017, the profit from continuing operations amounts to €276.2 million. This is a significant increase on the profit of €192.2 million in 2016 (+43.7%).

The gross operating profit also grew from €1,394.5 million in 2016 to €1,585.7 million in 2017, up by 13.7%. The gross operating profit margin as a percentage of revenue in 2017 came in at 29.8%, up on 2016 (27.5%).

The operating profit came to €399.1 million, up on the previous year (€332.5 million), accounting for 7.5% of revenue (6.5% in 2016).

2017 revenue (+€191,6 million) was positively affected by the recovery in the mobility demand, for both long haul and regional passenger transport and, for services offered on the market only, specific commercial measures taken to limit price competition in the HS segment.

The company's costs, on the other hand, felt the effects of certain changes in the cost of electrical energy for traction (-€120.0 million, of which €78.9 million related to previous years) following the coming into force of the above-mentioned Law no. 167 of 20 November 2017. The decrease was partially offset by the increase in the toll paid to the infrastructure operator, as per the conditions to access the network as of 2017, pertaining to the long haul and regional universal service for a total of €34.3 million.

Operating Revenue

Revenue from sales and services

Revenue from sales and services rose by 5.89% to €5,138.8 million for 2017, compared to €4,858.2 million in the previous year. The changes in each type of revenue are summarised below:

	2017	2016	% change
Traffic revenue	2,960.4	2,768.8	6.9%
Revenue from public service contracts	2,008.9	1,923.1	4.5%
Revenue from other transport-related services	169.5	166.3	1.9%
Total	**5,138.8**	**4,858.2**	**5.8%**

Traffic revenue

Traffic revenue increased by a total of roughly €191.6 million (+6.9%), with significant increases mainly in long haul passenger traffic (+€115.5 million, +6.1%) and regional passenger traffic (+€75.0 million, +8.7%).

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

Revenue from public service contracts

Revenue from public service contract fees (the regions and the government) is up by €85.8 million (+4.5%) on 2016. Such increase is the result of different trends in the Medium and Long Haul Passenger Division (+€95.5 million) and the Regional Transport Passenger Division (-€9.8 millions).

The fees from the medium and long haul service reflect the €95.5 million increase in the fees from the contract service which was renewed. The new service contract which covers the 2017-2026 ten-year period, was signed by Trenitalia, the MIT and the MEF, and 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.

Local public transport fees paid by the government for undivided services are substantially unchanged, while revenue generated by service contracts with the regions (€1,666.4 million) are down by approximately €9.9 million, due, partly to the recognition in 2017 of some adjustments related to the completion of expiring contracts, partly offset by the increase in the fees in other regions.

Additional details on the trend in revenue from public 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 €3.3 million on 2016.

Such increase is mainly due to the rise in maintenance of rolling stock (+€3.3 million).

Other income

Other revenue decreased by €40.9 million on 2016. The main decreases with respect to 2016, which are mostly due to the change, from one year to the next, in the management of certain items, are described below:

- €25.3 million decrease in fines charged to suppliers for breach of contract;
- €1.5 million decrease in ticketing fee income;
- non-recurring adjustment of the value of the free travel cards used by group companies of approximately €8.6 million, of which €5.5 million related to prior years;
- travel irregularities of €4.3 million.

Operating costs

Operating costs increased by €48.5 million (+1.3%) on 2016. This was the result of the dynamics described below.

Personnel expense increased by €30.1 million (+0.5%). The increase is the net effect of certain positive and negative factors, such as:

- greater costs due to the rise in average full-time equivalents (FTE), by 217.5, generating an effect of roughly €12.6 million;
- €25.3 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;
- €6.0 million decrease in social security charges due to reduced social security contributions for apprenticeship contracts;
- €1.8 million decrease in other personnel expense.

Other costs, net of the capitalisation of routine maintenance and other revamping operations performed on rolling stock, increased by €18.4 million (+0.9%). This caption was mainly affected by the positive prior year impact (approximately €78.9 million) generated by the considerable decrease in the unit cost of electrical energy for traction in the market services as per the new legislative measures implemented at year end. This benefit resulted in a considerable reduction of the effect of the increase in the other operating costs incurred to support the expansion of the commercial offer.

This caption, net of the above benefit, was mainly affected by:

- higher costs for transport services (production process and train operation), up by roughly €16.9 million due to:
    a) the rise in costs to access the infrastructure, which increased by €34.3 million, mainly due to the growth in the HS offer;

b) the rise in costs for services ancillary to the access of the infrastructure of €11.7 million;
c) greater replacement bus service costs, up by €3.0 million;
d) lower costs for electrical energy used for traction, down by €43.0 million, mainly due to the application of Law no. 167/2017;
e) greater cleaning costs for rolling stock, up by €6.4 million;
f) greater costs for shunting services, up by €5.3 million, following outsourcing to group companies;

- greater costs for rolling stock maintenance, up by €35.8 million, net of capitalised extraordinary maintenance costs;
- the €7.9 million increase in costs for on-board train services, consisting of food services and welcome drinks, influenced by the greater demand met and the extension of the new catering model to the entire HS fleet;
- the €3.6 million increase in IT and administrative costs, mainly due to the roll-out of new systems;
- greater utility costs of €3.2 million;
- greater losses related to the demolition and disposal of rolling stock and spare parts, up by €7.8 million;
- greater non-recurring charges of €14.3 million related to risk provisions, negative performance regime and the fine levied by AGCOM (the regulator and competition authority for the communication industries in Italy).

Amortisation and depreciation

Amortisation and depreciation rose by €48.0 million. The increase is due to the combined effect of greater depreciation of rolling stock and other investments which were rolled out in 2017 (approximately €79.2 million) and the end of the depreciation of assets that reached the end of their useful lives (roughly €31.2 million).

Impairment losses

They amount to €79.6 million and mainly relate to:

- impairment losses on rolling stock following the beginning of the disposal of technically and commercially obsolete rolling stock (€56.9 million);
- impairment losses on receivables (€20.8 million);

Provisions

Provisions grew by €21.3 million due to the accrual of 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 expense improved by €31.1 million mainly thanks to the increase in financial income (+€16.2 million) and the overall reduction of expense (-€14.9 million).

The increase in financial income is mainly due to the gains on the sale of equity investments (€7.3 million) arising from the sale of the subsidiary Serfer S.r.l. (renamed Shunting & Terminal) (€14.4 million), the dividends distributed by Trenord (€1.9 million) and the recognition of interest income (€4.2 million) on the Liguria region related to the 24-year extension of the payment of the grant for investments, totalling €50 million, to purchase rolling stock.

Furthermore, interest income on the parent rose by €3.3 million mainly as a result of the VAT asset claimed for reimbursement and the expected exchange rate gain arising from the appreciation of the Swiss Franc against the Euro in 2017 and the related impact on a portion of the financial liability in portfolio in this currency (€3.5 million). The increase is partly offset by the reduction in financial income from collars and fair value hedges (-€3.8 million).

The trend in financial expense on the servicing of non-current loans and borrowings shows an overall improvement of €8.7 million. Lower financial expense is due to the reduction in the average interest rate applied to debt, down from 1.51% in 2016 to 1.20% in 2017.

The interest cost of post-employment benefits decreased by a total of €1.3 million, while the time value of derivatives is negative by €2.1 million.

Finally, the impairment losses on equity investments had a positive impact of €8.7 million. These impairment losses relate, in particular, to Thello (€16 million in 2016).

Income taxes

The tax charge for the year increased by €13.6 million, due to the following factors:

- income taxes (IRES and IRAP) increased by €15.7 million, due to the rise in pre-tax profit;
- the net increase in deferred tax assets and liabilities came to €2.2 million and is mainly due to the adjustment of deferred tax assets of the year (€2.3 million).

Reclassified statement of financial position

As for the reclassified income statement, the figures of the statement of financial position at 31 December 2016 reflect the application of IFRS 5.

millions of Euros	31.12.2017	31.12.2016	Change
ASSETS			
Net working capital	964.7	145.1	819.6
Other assets, net	(236.1)	(140.6)	(95.5)
Working capital	**728.6**	**4.5**	**724.1**
Non-current assets	9,447.6	9,763.0	(315.4)
Non-current equity investments	57.5	49.5	8.0
Net non-current assets	**9,505.1**	**9,812.5**	**(307.3)**
Post-employment benefits	(708.1)	(767.8)	59.7
Other provisions	(222.3)	(203.0)	(19.4)
Post-employment benefits and other provisions	**(930.5)**	**(970.8)**	**40.3**
NET INVESTED CAPITAL	**9,303.2**	**8,846.2**	**457.0**
COVERAGE			
Current net financial debt	1,660.5	2,105.9	445.4
Non-current net financial debt	5,224.9	4,621.2	(603.7)
Net financial debt	**6,885.4**	**6,727.1**	**158.3**
Equity	**2,417.8**	**2,378.5**	**39.2**
Assets held for sale and liabilities associated with assets held for sale	**0.0**	**(259.4)**	**259.4**
TOTAL COVERAGE	**9,303.2**	**8,846.2**	**457.0**

Net invested capital

Net invested capital increased by €457 million on 31 December 2016 due to the €724.1 million increase in net working capital and the €40.3 million increase in post-employment benefits and other provisions, partially offset by the €307.3 million reduction in non-current assets.

Net operating working capital increased by €819.6 million, mainly due to:

- the increase of roughly €230 million in trade receivables, most of which (€219 million) are due from the MEF for service contract fees. Such increase is attributable to the rise in the receivable for the new medium and long haul railway service contract (€277.8 million) which was formalised in August, but registered by the Court of Auditors only at the end of November. Consequently, the invoiced receivables were paid on 26 January 2018. The increase is partly offset by the decrease in the receivable from the local transport service contract (-€58.9 million) essentially due to the partial collection of the fees for the services provided from 2014 to 2016.

- the receivables from ordinary-status regions and other trade receivables are substantially unchanged. In this respect, the overdue receivable from ordinary-status regions decreased by roughly €60 million to a total of €264.7 million (31 December 2016: €324.5 million). This is due to the successful credit collection procedures which, in some cases, resulted in the signing of repayment procedures whose compliance is constantly monitored.
- the decrease in trade payables by approximately €615 million due to lower volumes of investments in the second half of the year, compared to the same period of the previous year (-€220 million), the successful actions implemented to reduce past due payment terms (-€260 million) and the application of the VAT split payment approach (-€90 million).

Other net assets and liabilities decreased by €95.5 million, mainly due to the decrease of €213 million in the VAT credit due to the reimbursements received during the year (€265 million) and related to the settlement by the tax authorities of the VAT credit claimed for reimbursement accrued in the fourth quarter of 2015 and the first three quarters of 2016, offset, in part, by the decrease in the payables to personnel (€90.6 million) following the payment of the amounts related to the renewal of the new national labour agreement.

Net non-current assets decreased by €307.3 million mainly due to the net decrease (-€204.8 million) in amortisation, depreciation and impairment losses of the year (€1,114.4 million), grants related to assets received (€88.7 million) and the investments made during the year (€939.6 million). Furthermore, equity investments increased by €8 million following the subscription of Trenitalia UK's share capital increase (€15 million), net of the sale of Serfer, whose carrying amount was €7 million.

Post-employment benefits and other provisions decreased by €40.3 million on 31 December 2016, due essentially to the following:

- the €59.7 million decrease in post-employment benefits and other benefits following the utilisation of post-employment benefits when employees left the company and advances were paid (€67.2 million) and the recognition of actuarial gains of €7.2 million, offset by interest cost of €9.1 million and the recognition of an actuarial loss (€3.5 million);
- the €19.4 million increase in other provisions mainly due to the rise in the provision for risks on the investment in Thello (€7.7 million) and the increase in the Restructuring provision (€12 million).

Net financial position

The company's net financial debt amounts to €6,885.4 million, reflecting a worsening of approximately €158.3 million in the year. Continuing operations generated net cash inflows of €533.2 million in 2017, absorbed by the payment of investments (€924.2 million) (net of regular contribution), compared to €1,234.3 million in 2016, and net financial expense (€63.5 million), while it benefited from grants related to investments (€40.2 million) and VAT repayments (€265.1 million).

In 2017, the company also incurred outflows for the repayment of roughly €376.5 million in non-current loans falling due. Finally, it took out new loans, through the parent, amounting to approximately €1.4 billion. Of this amount, roughly €850 million was used to shift exposure from short-term to medium-term.

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.

	2017	**2016**	**Changes**
Reclassified equity	2,417.8	2,378.5	39.3
Derivative liabilities included under equity	(30.4)	(50.4)	20.0
Equity	**2,387.4**	**2,328.1**	**59.3**

Reclassified equity shows a €39.3 million increase due to the following changes:

- €236.7 decrease in share capital following the demerger of the Cargo Division, effective from 1 January 2017;
- recognition of the profit for the year of €276.2 million;
- €1.7 million increase in the actuarial reserve for employee benefits;
- €2.1 million decrease due to the change in the derivative liabilities included in equity (€20 million), net of the hedging reserve, including the tax effect (€17.9 million).

Assets held for sale and liabilities associated with assets held for sale

At 31 December 2016, assets held for sale and liabilities associated with assets held for sale are the net amount of (non-current and current) assets and liabilities of the Cargo Division demerged to Mercitalia Rail S.r.l..

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	**2017**	**2016**	**Change**	**%**
Revenue	**2,505.7**	**2,294.5**	**211.2**	**9.2**
- Revenue from sales and services	2,337.6	2,126.6	211.0	9.9
- Other income	168.1	167.9	0.2	0.1
Operating costs	**(1,709.8)**	**(1,685.0)**	**(24.8)**	**1.5**
Gross operating profit	**795.9**	**609.5**	186.4	30.6
Amortisation, depreciation and impairment losses	(572.0)	(534.3)	(37.7)	7.1
Operating profit	**223.9**	**75.2**	**148.7**	**197.7**

The Long Haul Passenger Transport Division ended the year with an operating profit of €223.9 million, up on the previous year (+€148.7 million). The gross operating profit also increased considerably from €609.5 million in 2016 to €795.9 million in 2017. The gross operating profit margin as a percentage of revenue came to 31.8% in 2017, up on the 26.6% of 2016.

The operating profit reflects the increase in amortisation and depreciation (€37.7 million). Of this increase, approximately €27 million refers to the commercial roll-out of the new HS material (ETR 1000) after the completion of deliveries.

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.

	2017	2016	Delta %
Revenue (€/million)	**2,506**	**2,295**	**9.2%**
Passenger-km (millions):	**20,306**	**19,855**	**2.3%**
- of which: market services (*)	16,303	15,649	4.2%
- of which: universal service	4,003	4,206	-4.8%
Train-km (thousands)	**87,506**	**82,914**	**5.5%**
- of which: market services (*)	62,034	57,230	8.4%
- of which: universal service	25,472	25,684	-0.8%

(*) Excluding Frecciallink's Passengers-Km and Bus-Km

Medium and long haul traffic revenue increased by a total of €211 million (+9.9%) on 2016. The increase is due to the rise in the fees related to the new 2017-2026 service contract (+€95.5 million) and the increase in traffic revenue from the sale of tickets (+€115.5 million or 6.1.%). 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 2017 benefited from the recovery in the mobility demand, due to the gradual improvement of the macroeconomic context in addition to the contribution of the expansion of the commercial offer aimed at better meet customer needs and seize market opportunities.

Despite the recovery in mobility demand, the market remains subject to strong pressure from intramodal and intermodal competition. With regard to the former, the commercial strategy focused on enhancing service quality was confirmed in 2017, and the company maintained a premium price strategy despite the fact that the competitor continued to opt for a particularly aggressive pricing strategy in relation to HS services.

In relation to intramodal transport, the competitive scenario is still conditioned by the fall in the price of oil which, again, made using private cars and airplanes more competitive and increased low cost bus traffic.

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

- the **market segment** shows a 6.8% increase, amounting to +€110.4 million, due to the rise in revenue (+€107.9 million) from the Freccia trains, in addition to the increase in revenue (+€2.5 million) generated by the international and charter trains;
- the **universal service** shows a €4.9 million rise in total revenue, especially in day service revenue (+€4.5 million).

Operating costs of the Long Haul Passenger Transport Division went from €1,685.0 million in 2016 to €1,709.8 million in 2017, up by €24.8 million (+1.5%).

Personnel expense increased by a total of €6.1 million, almost entirely due to the rise in unit personnel expense as per the effects of the renewal of the national labour agreement.

As mentioned earlier, other operating costs benefited from a positive impact of approximately €57.0 million following the considerable decrease in the unit cost of electrical energy for traction in the market services as per the new legislative measures implemented at year end. This benefit considerably reduced the effect of the increase in the other operating costs incurred to support the expansion of the commercial offer (+€73.8 million). Indeed, train-km, inclusive of the freccialink service, rose from 83.5 million to 88.3 million (+5.7%); specifically, the increase focused on market services (+8.7%).

The costs to access the infrastructure (toll, electrical energy, related services) rose by €36.1 million, production costs (maintenance, cleaning, crew management) rose by €18.7 million and on-board train services increased by €7.9 million in relation to catering, welcome-drink and night security escort services. Costs for sale systems and channels also increased by €7.2 million. At the beginning of 2017, 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 increase in amortisation and depreciation (+€37.7 million) is due to the rise in the depreciation of rolling stock (+€31.9 million), of which €26.7 million refers to the commercial roll-out of the new ETR 1000 fleet. The residual increase is due to the depreciation trend of extraordinary maintenance.

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

Millions of Euros	**2017**	**2016**	**Change**	**%**
Net working capital	(53.1)	(545.3)	492.2	-90.3
Net non-current assets	4,113.9	4,218.0	(104.1)	(-2.5)
Other provisions	(226,6)	(251.1)	24.5	-9.8
Net invested capital	**3,834.2**	**3,421.6**	**412.6**	**12.1**

The increase in net invested capital (+€412.6 million) is essentially due to the €492.2 million increase in net working capital following the rise in receivables from the MEF for the above-mentioned service contract fees (€277.8 million) and the decrease in trade payables as a result of the reduced investments in 2017 (€211.5 million).

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	2017	2016	Change	%
Revenue	**2,774.2**	**2,751.5**	**22.7**	**0.8**
- Revenue from sales and services	2,633.7	2,568.5	65.2	2.5
- Other income	140.6	183.0	(42.4)	-23.2
Operating costs	**(2,039.5)**	**(1,963.5)**	**(76.0)**	**3.9**
Gross operating profit	**734.7**	**788.0**	**(53.3)**	**-6.8**
Amortisation, depreciation and impairment losses	(538.0)	(523.8)	(14.2)	2.7
Operating profit	**196.8**	**264.2**	**(67.5)**	**-25.5**

The Regional Passenger Transport Division ended the year with an operating profit of €196.8 million, down on the previous year (€264.2 million). The gross operating profit showed a decrease of approximately 6.8%, decreasing from €788.0 million in 2016 to €734.7 million in 2017, mainly due to reasons which go beyond ordinary operations (decrease in other income for one-off fines recognised in 2016 (-€28 million) and settlement of prior year fees (-€20 million).

The following table reports the main traffic indicators:

	2017	2016	Delta %
Revenue (€/million)	**2,774.2**	**2,751.5**	**0.83%**
Passenger-km (millions)	18,704	18,561	**0.77%**
Train-km (thousands)	155,579	156,175	**-0.38%**

In 2017, regional transport traffic revenue grew on the previous year by €65.2 million (+2.5%). This is due to the rise in passenger traffic revenue, up by approximately €74.9 million (+8.96% on 2016). This was significantly impacted by the systematic fight against evasion which the company has undertaken. Production measured in terms of train-km decreased by 0.38%, mainly in Lazio, Tuscany, Calabria, Molise, Puglia and Veneto.

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 (€1,666.4 million) are down by approximately €9.9 million, essentially due to settlements for services provided in prior years. As for fees from the government, the public service contract with the MIT for the special-status regions is 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, periodically requesting the same number of train-km as in 2011 for services to regions still included under the scope of the original contract. At the same time, the Ministry and the regions signed transfer deeds, thus reducing the scope of the services to include solely undivided services. Moreover, Trenitalia has provided these services on the basis of continuity clauses in connection with the expired contract, which the MIT has, itself, cited. Trenitalia has reported this situation on multiple occasions to both the MIT and MEF and, in the second half of 2017, a work group comprised of MIT, MEF and Trenitalia representatives completed the analysis of the regional services covered by the service contract in terms of planned and actual production from 1 January 2009 to 31 December 2016 and quantified Trenitalia's related receivable. In 2017, 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 accrued.

Other revenue decreased by €42.5 million, mainly as a result of the reduction in fines from suppliers (roughly €28 million), travel irregularities (€3.5 million) and operating services (€4.9 million).

The operating costs of the Regional Transport Division amount to €2,039.5 million, up by approximately €76.0 million on the previous year (+3.9%) The increase is due to personnel expense (approximately €18.6 million, or 2.1%), specifically in relation to the increase in personnel expense for employees and other costs, net of roughly €57.5 million (5.4%).

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

- the rise in electrical energy cost (+€9.6 million, or +28% on the previous year), despite the fall in production, due to the considerable increase in the unit cost, which went up from 0.26€/tkm to 0.34€/tkm;
- the increase in toll costs (+€4.8 million), despite the fall in production, due to the rise in the average IMU (unit cost of electrical energy for traction) which went up from 2.54€/tkm to 2.58€/tkm;
- greater costs for traffic-related services to RFI due to the introduction of a new charge to hold rolling stock (€9.9 million) and the rise in the cost to use washing platforms (€1.2 million);
- greater transport-related costs (cleaning, shunting, substitute services, diesel purchase, in points of sale fees) (approximately €15 million).

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

Millions of Euros	**31/12/2017**	**31/12/2016**	**Change**	**%**
Net working capital	630.7	411.5	219.2	53.3
Net non-current assets	4,621.0	5,052.1	(431.1)	(8.5)
Other provisions	(412.1)	(445.1)	33.0	-7.4
Net invested capital	**4,839.6**	**5,018.5**	**(178.9)**	**- 3.6**

Net invested capital decreased by approximately €178.9 million on the previous year, mainly as a consequence of the reduction in non-current assets (-€278.9 million), following the transfer of some real estate complexes leased to third parties to the support division, partially offset by the rise in net working capital due to the decrease in trade payables (+€202 million). This is mainly the result of the performance of the flows related to the lower investment volumes in 2017 compared to 2016.

HUMAN RESOURCES

The company has 27,607 employees at year-end. More detailed information is given the table below:

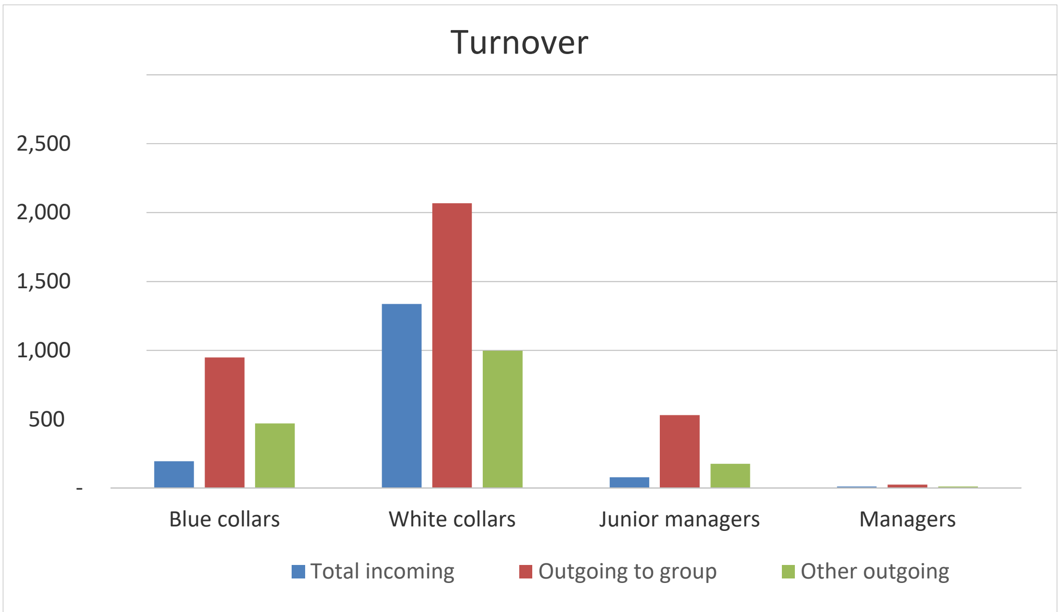
	Employees	Junior managers	Managers	Total
Balance at 31.12.2016	27,314	3,668	228	31,210
Increase	1,384	80	13	1,477
Decrease	(4,336)	(707)	(37)	(5,080)
Balance at 31.12.2017	**24,362**	**3,041**	**204**	**27,607**

New hires, not considering transfers between group companies, mainly consist of personnel assigned to maintenance for railway operations. Decreases in the year are due to ordinary employee turnover, promotions and intragroup transfers. Furthermore, on 1 January 2017, following the partial demerger of Trenitalia's Cargo Division to Mercitalia Rail S.r.l., 3,117 employees (employees and junior managers) and 15 managers were transferred to the latter company.

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

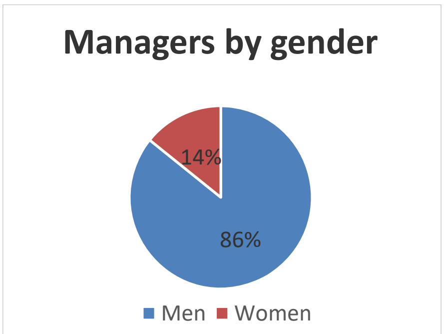
2017 turnover is as follows:

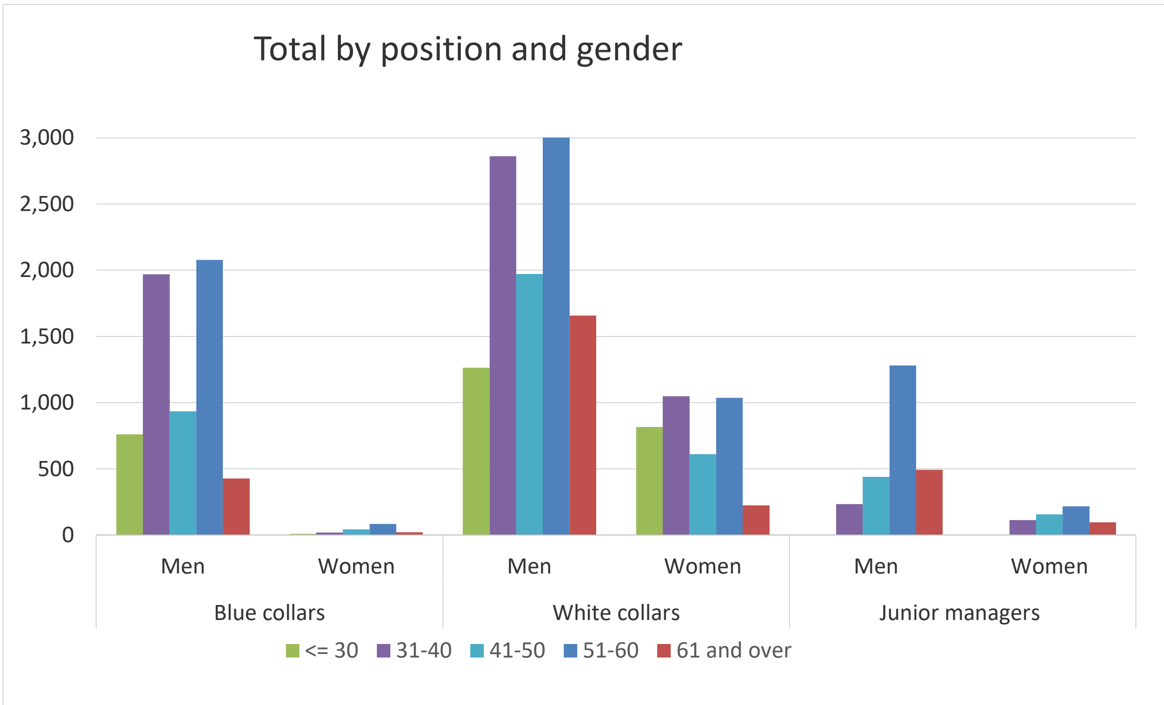
	Blue collars	White collars	Junior managers	Total employees and junior managers	Managers	**Total**
Balance at 31/12/2016	7,575	19,739	3,668	**30,982**	**228**	**31,210**
Recruitment	194	1,182	7	**1,383**	-	**1,383**
Personnel from other group companies	1	6	5	**12**	5	**17**
Promotions	-	149	68	**217**	8	**225**
Total new personnel	**195**	**1,337**	**80**	**1,612**	**13**	**1,625**
Personnel who left the company	322	930	168	**1,420**	11	**1,431**
Personnel transferred to other group companies	949	2067	530	**3,546**	26	**3,572**
Promotions	148	68	9	**225**	-	**225**
Total outgoing personnel	**1,419**	**3,065**	**707**	**5,191**	**37**	**5,228**
Balance at 31/12/2017	**6,351**	**18,011**	**3,041**	**27,403**	**204**	**27,607**
Average workforce for 2017	**6,494.3**	**17,938.3**	**3,180.9**	**27,613.5**	**203.0**	**27,816.5**

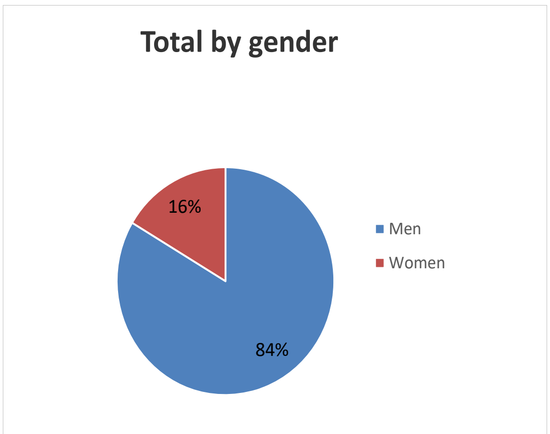


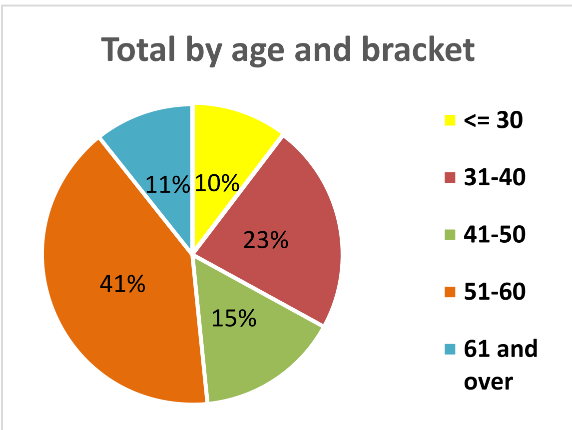
Information about the number of employees and a breakdown by age bracket and gender is given below:

	Blue collars		White collars		Junior managers		Managers		Total by gender		
Age bracket	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Total
<= 30	761	9	1,263	817	3	2			2,027	828	**2,855**
31-40	1,969	19	2,860	1,050	235	114	5	2	5,069	1,185	**6,254**
41-50	935	43	1,973	612	439	157	74	14	3,421	826	**4,247**
51-60	2,078	85	6,517	1,038	1,282	218	72	11	9,949	1,352	**11,301**
61 and over	428	23	1,658	224	493	98	24	2	2,603	347	**2,950**
Total employees at 31/12/2017	**6,171**	**179**	**14,271**	**3,741**	**2,452**	**589**	**175**	**29**	**23,069**	**4,538**	**27,607**
Average workforce for 2017	**6,294.3**	**200.0**	**14,305.8**	**3,632.5**	**2,568.3**	**612.7**	**174.4**	**28.6**	**23,342.8**	**4,473.8**	**27,816.5**


Managers by gender
14%
86%
Men
Women


Total by position and gender
3,000
2,500
2,000
1,500
1,000
500
0
Men
Women
Blue collars
Men
Women
White collars
Men
Women
Junior managers
<= 30
31-40
41-50
51-60
61 and over


Total by gender
16%
84%
Men
Women


Total by age and bracket
11%
10%
23%
41%
15%
<= 30
31-40
41-50
51-60
61 and over

In February 2017, 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 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 Interministerial decree implementing the agreement dated 28 July 2016 came into effect 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 overall 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. During the year, the projects launched involved 180 resources. In 2018, further roll-outs involving approximately 250 resources are expected.

Trenitalia training activities

Trenitalia's training plan for 2017 consisted of a total of approximately 187,735 man-days (166,000 man-days in 2016) with the participation of approximately 124,500 people.

The aim of the plan is to support the achievement of business targets by focusing attention on the areas covered by the business plan, i.e., to:

- 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 develop 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.

Training was provided also with Fondimpresa grants totalling €2.53 million, net of the losses pertaining to the reporting processes and the liquidation of assets, to cover external costs of approximately €1.95 million.

Specifically, Trenitalia training in 2017 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 in LHPTD and RPD growth. In particular, in addition to customer-oriented training provided to all regional personnel (which began last year), a survey was launched to check the success of the above training and develop new initiatives in 2018. The RPD cultural growth process was also facilitated through team building initiatives which promoted the development of team work and involved both the purchase and commercial departments' employees.

- technical/professional training: to develop practical and theoretical space technical/professional skills, which are essential for work activities, such as technical/professional certification and updates for train conductors, inspectors, escorts and train assemblers. In 2017, special attention was devoted to training new employees in apprenticeship procedures and in training their tutors.
- 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.

Health and safety in the workplace

The group's and Treinitalia'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 the awareness, monitoring and analysis of accidents reported by workers who suffered several accidents;
- in collaboration with the Turin university, the Public health and paediatric department, and the Piedmont DR, the implementation of a risk assessment system which measures the risk related to legionella bacteria, following the publication of the new government/region guidelines for employees, related in particular to the activities performed on-board the train, and while maintaining/cleaning rolling stock at fixed plant and water management activities related to the water supply of railway vehicles;
- in July, the third edition of the UIC accident at work report. 32 railway companies representing 22 countries were surveyed by the "statistics on accidents at work" work group coordinated by Trenitalia, which defined the criteria and methodology for gathering and managing data on accidents at work applicable to European railway companies.
- updating the accident at work management procedure, with the inclusion of more frequent and prompt investigations in order to analyse the reasons for accidents and their circumstances. Furthermore, the procedure for accidents involving contractors' employees will provide for more timely management and monitoring activities;
- launch of a "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 SGI information system. This led to an increase in the number of reported near misses from 390 in 2016 to 767 in 2017 (figures at 31 December 2017), achieving the target set;
- meetings at plants (road show project) to foster a sense 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 set (-2%), as shown in the table below.

Type	2017	2016	Change
Number of accidents (> 3 days paid by INAIL [the Italian labour insurance institute] or to be defined, excluding accidents in transit)	698	861	-18.93 %
Frequency (Number of accidents x 1000 / average number)	25.10	27.44	-8.54 %
Of which: fatal accidents	0	2	-2

These data confirm the improvement trend in accidents, which resulted in a 43.6% drop in the frequency in 2017 compared to 2010.

ENVIRONMENTAL AND SAFETY POLICY

Quality, Environment and work Safety integrated management System

During the year, Trenitalia revised and integrated its policy for quality, the environment, health and safety in the workplace and energy. Specifically, it added new commitments in relation to energy and the environment. The company's activities in terms of safety and the environment in 2017 were mainly focused on the following:

- renewing certificates of compliance with ISO 14001, ISO 9001 and OHSAS 18001 standards for the planning and providing of the passenger transport service;
- the implementation, roll-out and improvement of the company's integrated management system, specifically:
  - the definition of the general goals for the integrated management system which were subsequently applied to each organisational/process level involved in relation to quality, environment, health and safety in the workplace;
  - publication and updating of the operating instructions for the system and environmental and safety in the workplace issues (including, for example, guidelines for the issue and management of the environmental analysis and the strategic environmental assessment, management of ozone depleting substances and fluorinated greenhouse gases, management of the process to monitor and measure Trenitalia's integrated management system, management of specific types of waste and dangerous goods, etc.);
  - the development 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 legislation in this sector, acquiring the necessary technical and legal knowledge in these fields.

Operational safety

The company's operational safety policy is perfectly in line with the guidelines set out in the FS Italiane Group 2017-2026 business plan and includes commitments based on compliance with specific binding requirements in the sector and, concurrently, the outcome of the internal assessment process carried out as part of the Operational Safety Management System, aimed at continuous improvement.

The commitments in the policy are organised into appropriate macro safety targets, each of which entails the annual definition of steps and projects to prevent and mitigate specific risks. Together, these form the company's annual safety plan, and the policy is published as a part of this plan. The Operational Safety Management System procedures require that the company review the policy each year to consider developments in the company' s internal and external context. The policy for 2018 was updated considering two new issues:

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

The company considers safety in railway operations a crucial, binding part of all its activities and therefore a strategic area for its business development.

It mainly ensures operational safety by complying with standards and mandatory rules. Its scrupulous compliance with rules is, above all, a cultural value underpinning the work of all company personnel, who have always seen safety as an ethical duty in their daily conduct.

The company's organisational model empowers all managers, junior managers and operating personnel at all levels to take responsibility to ensure the safety of passengers, personnel and third parties, while also protecting things and the environment.

In this scope, 2017 activities focused on defining and constantly updating Operational Safety Management System procedures (COCS and DOCS) in line with developments in the applicable legislation and in the company's organisational structures.

Meanwhile, activities to extend the Operational Safety Management System continued, to encompass the new types of vehicles used by the divisions and sections of newly activated lines, specifically the new Bivio Venezia – Bivio Navile interconnection (Milan – Naples HS/HC line and related interconnections) for which part B of the safety certificate was also updated.

In particular, the company believes it is essential to:

- ensure that resources with responsibility for the Operational Safety Management System work in close contact with resources responsible for operating processes, for the continuous improvement of their part of the system "... to pursue an accident rate of zero, considering legislative developments, technical and scientific advancements and making it a priority to prevent serious accidents." (article 2 of ANSF decree no. 4/2012).

To this end, it manages information on safety in a transparent, complete and timely manner, in a process that clearly indicates the level at which any non-conformities are detected and pinpoints the causes, the company taking the suitable steps to remedy the non-conformity and prevent similar non-conformities. Furthermore, it checks the effectiveness of these steps, ensuring that they are traceable with respect to all concerned parties;

- leverage the human factor as a vehicle for spreading employee awareness of their role in the safety process and preparing them to carry out their duties through the following steps:
  - guaranteeing all personnel's comprehensive and effective knowledge of this policy;
  - planning training and ongoing refresher courses for personnel and all parties involved in the provision of the service, in a continuous process that is managed and organised to enhance workers' personal knowledge;
  - involving personnel at all levels and their representatives, in order to receive all useful feedback and create a virtuous cycle of continuous improvement based on past experience to achieve the safety targets and the objectives of the policy;
  - focusing utmost attention on sensitising and developing human resources, as a crucial factor in ensuring transport safety;
- prioritising investments in technologies that meet the highest international standards;
- guaranteeing, as the party in charge of the maintenance of vehicles registered in its name in the National Vehicle Register (NVR), correct and immediate maintenance through the implementation of the maintenance system, as defined by ruling legislation, through the coordinated monitoring of all related operational, technological and logistical variables;
- promoting the implementation of procedures, provisions and requirements regulating the application of operating structures that meet mandatory standards in line with the safety guidelines issued by the ANSF, and in the light of the recent reorganisation of legislation, as well as to promote the continuous improvement of safety performance;
- encourage a "risk assessment culture":
  - following the significant operational, organisational and technical changes to the railway system;
  - during the periodic monitoring of operational risks in order to adopt any necessary risk mitigation measures;
- promote digitalisation in processing Operational Safety Management System procedures, spurring the development of IT systems to support security activities and processes, with the aim of simplifying the related modi operandi and attain more effective traceability;
- ensure the monitoring of Operational Safety Management System processes and procedures, as a requirement for checking the correct application and effectiveness of the system, improving it where possible, as well as to ensure the control and management of railway operations risks related to operations on the lines of the infrastructure operator RFI and those of the networks that fall under the scope of application of Legislative decree no. 112 of 15 July 2015, identified by the Decree dated 5 August 2016 on which Trenitalia is authorised to operate (or intends to request authorisation).

- encourage 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 simplify and optimise processes.

Trenitalia's commitment to security also entails exchanging information relevant to operational safety issues and partnerships with the national railway infrastructure operator (RFI) and other railway operators (railway companies, suppliers, ECMs, holders, etc.), in accordance with Italian and European legislation and developments in such legislation, in order to identify and implement suitable actions to control outsourced or shared risks.

On-board safety

The agreement between FS Italiane and Polfer (Railway Police) has led to more police patrolling and controls on board trains and at stations to ensure passengers and workers travel safely, as free from petty crime as possible. Preventions measures have also been taken on the more critical trains, i.e., night trains and crowded city trains.

Work is being carried out on rolling stock to install video surveillance devices, while more recently acquired rolling stock is already equipped with these devices.

Sustainability for Trenitalia

For Trenitalia, the quality of the services provided, the protection of the environment, the protection of health, the safety of its works and energy efficiency are strategic elements in the development of its operations.

Trenitalia's commitment to these issues is reflected in the "Integrated Policy for quality, the environment, health and safety at work and energy", a document which 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.

The environment

During the year, the environmental issues were followed and managed in line with that set out in the environmental section of Ferrovie dello Stato Italiane's governance model. In this respect, as part of the SGI, specific environmental goals were set (e.g., reducing CO2 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.). Some of the activities performed in respect of specific environmental issues are described below:

- Noise emissions: In 2017, this issue - which is increasingly important in Italy - was monitored carefully. Specifically, the emissions of the Milan, Naples, Mestre, Lecce and Foggia HS IMCs and other parking activities at some railway sites where DR Liguria, DR Lazio, DP Bolzano and Trento operate were subject to in-depth analysis. The Turin Polytechnic Institute performed new measurement campaigns to update the Noise pollution reclamation plan of the Milan HS IMC, as required by the Ministry of the Environment and the Territory and ISPRA (the Italian institute for environmental protection and research). During the year, the contract with Italcertifer became effective, governing the performance of measurement campaigns and forecast valuations of the noise impact, following the launch of new operations or the developments of those already in place.
- Water discharges: this issue covers the discharges of trains' toilets and was closely monitored by the Central and Divisional structures. With respect to LHPTD: a new physical/chemical wastewater treatment system was installed at the Milan HS maintenance hub.
- Water resources: At the Bari HS IMC, the water network condition assessment led to the identification and elimination of a leak. At the same time, the works to install the new water network were completed. At the Turin carriage IMC, consumption was constantly monitored and soleneid valves to automatically shut down the networks at night were installed. In general, campaigns to increase the awareness of the importance of rational water use in all the company's divisions and the concurrent actions to reduce waste, monitor consumption and possibly eliminate network leaks resulted in a decrease in water withdrawals in absolute terms.
- Reclamations: in 2017, 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, operations at the Siracusa site resumed after having been suspended.
- International UIC activities: Trenitalia participated in the environmental and safety activities planned for

2017, focusing, in particular, on noise and vibration issues.

- Greenhouse gas emissions: the 2017 environmental targets were set and assigned to the divisions/departments to reduce atmospheric emissions (specific CO_2 emissions from activities carried out at the rolling stock maintenance workshops and specific CO_2 emissions from traction measured by traffic unit). With respect to the company's industrial areas covered by the UE Emission Trading Directive, in April 2017, the company presented certificates for credit 2016 emission allowances, equal to 7,526 units, to the Ministry of the Environment via access to the EU's CO_2 and emission registry, down by 4.5% on the previous year. Furthermore, it completed the conversion of some power stations from diesel to natural gas.
- 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 the use of some dangerous products in industrial activities (e.g.: lubricants, paints).

Energy

Energy consumption in 2017 shows an increase the consumption of natural gas for heating (+14.6%) and a decrease in the consumption of diesel for heating (-15.4%).

The increase in the consumption of natural gas for heating was due to more severe winter weather than in the previous year and the conversion of some power plants to natural gas, which also resulted in the reduction in the consumption of diesel for heating. Diesel consumption fell after some plants were closed.

The main energy efficiency actions carried out in 2017 are as follows:

- LED relamping at the Foligno OMC, Rome and Naples HS maintenance hubs and many other projects with a smaller impact at other Trenitalia's plants;
- beginning of the construction of photovoltaic facilities at the Rome HS maintenance hub and the Naples S.M. La Bruna OMC workshops and roll-out of the Florence Osmannoro plant;
- approval of the requests for investments in the installation of LEDs, heating tapes and photovoltaic facilities at the Florence, Foligno, Verona and Naples OMC plants;
- campaign to detect gas leakages in compressed air production and distribution systems at four plants and beginning of the related reclamation activities;
- continuation of the energy diagnosis campaign, which began in 2015, with the performance of another 10 diagnosis;
- updates to the guidelines for energy diagnosis, management of electrical appliances, management of the process for the authorisation of photovoltaic facilities and the lighting technical/management document. Issue of new technical/management documents on compressed air and heating;
- development of an information system to monitor Trenitalia's electrical energy and gas consumption;
- continuation of training activities for the network of local energy contacts and the campaign to increase awareness at plants. For seven plants, the issue of the energy saving operating instructions;
- GSE's (the Italian national grid operator) approval of the requests for white certificates for the new Pop and Rock regional trains;

- issue of Ferrovie dello Stato Italiane's first green bond to finance "Pop" and "Rock" and Frecciarossa 1000 trains, based on the energy efficiency of trains.

Water

Water withdrawals decreased by 5.0% mainly thanks to the reduction in withdrawals for industrial use achieved through a series of water network maintenance and renovation and the installation of systems which automatically close the pipes at some maintenance plant.

The projects of the year consisted of setting new specific goals to reduce water consumption, increase personnel's awareness, maintenance, reclamation and improving the efficiency of water networks.

Waste

Production of special waste decreased by 5.9%. This is the combined effect of the rise in hazardous special waste (+31.0%) – following the demolition of rolling stock and the increase in high speed maintenance – offset by the more significant decrease in non-hazardous special waste (-10.5%) due to the completion of the campaigns for rolling stock demolition which began in 2016.

The main projects carried out in 2017 related to the definition of the annual waste recovery targets that resulted in initiatives which collectively enabled the company to achieve the annual target.

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 2017 were assigned percentage weights ranging between 1.4% and 47% (2016: between 0.71% and 25%).

During the year, Ferrovie dello Stato Italiane S.p.A. issued the first green bond, amounting to €600 million. It will be used to finance the purchase of the new "Pop" and "Rock" regional trains and to refinance the "Frecciarossa 1000" HS train. The loan is considered "green" thanks to its environmental and energy efficiency clauses based on which the new rolling stock was selected.

Sustainable mobility

In 2017, the following partnerships continued, promoting the use of means of transport with a low environmental impact in order to travel sustainably the 'first and the last mile' between cities of one's journey.

- Train and car sharing: "Enjoy", the car sharing service managed by Eni in partnership with Trenitalia and Fiat, available in five cities with a fleet made up of over 2,000 (or write two thousand) Fiat 500s in Milan, Rome, Catania, Turin and Florence.
- Train and electric car: "Ecorent", an electric car rental service available at the Rome, Bologna and Milano stations.

- Train and bike sharing: collaboration with the Clear Channel and Bicincittà service operators in Milan, Verona, Turin and dozens of other Italian cities.
- Train and bicycle touring: agreement with FIAB - Italy's bicycle federation – and the bike-friendly hotels in the "Albergabici" network.

Furthermore, during the year, the company forged a new partnership to promote door-to-door integrated mobility and streamline traffic flows to and from stations using means of transport other than private cars. To this end, in September, Trenitalia and Mytaxi - Europe's leading taxi app– signed an agreement to offer promotions to passengers travelling by train + taxi.

INVESTMENTS

Investments in 2017 amount to approximately €940 million (including around €342 million for extraordinary maintenance) and are detailed below with comparative data for 2016:

(millions of Euros)	**2017**	**2016**	**Changes**	
			Absolute	**%**
Increases	361	987	(626)	-173%
Revamping	90	70	19	22%
Rolling stock	**451**	**1,047**	**(596)**	**-132%**
On-board technologies	11	12	(2)	-14%
Plant and other	60	44	16	27%
IT	76	64	12	15%
Value-increasing maintenance	342	334	8	2%
TOTAL *	**940**	**1,501**	**(562)**	**-60%**

(*) "Total" includes contractual advances of €86 million and recoveries of advances paid in previous years, amounting to approximately €93 million. These are mainly advances paid to purchase new rolling stock and recoveries following the completion of deliveries.

In 2017, the delivery of the new ETR 1000 trains of the Long Haul Passenger Transport Division was completed, expanding the HS fleet. Furthermore, the company launched a project to purchase 17 V250 trains to upgrade the entire service. For the regional transport service, the first electric "Jazz" and diesel "Swing" trains, as well as the of the double-decker "Vivalto" carriages were delivered. New contracts were launched to purchase new "Rock" and "Pop" carriages for the Emilia Romagna region.

Total investments, gross of extraordinary maintenance, for the 2012-2017 period, are given below:

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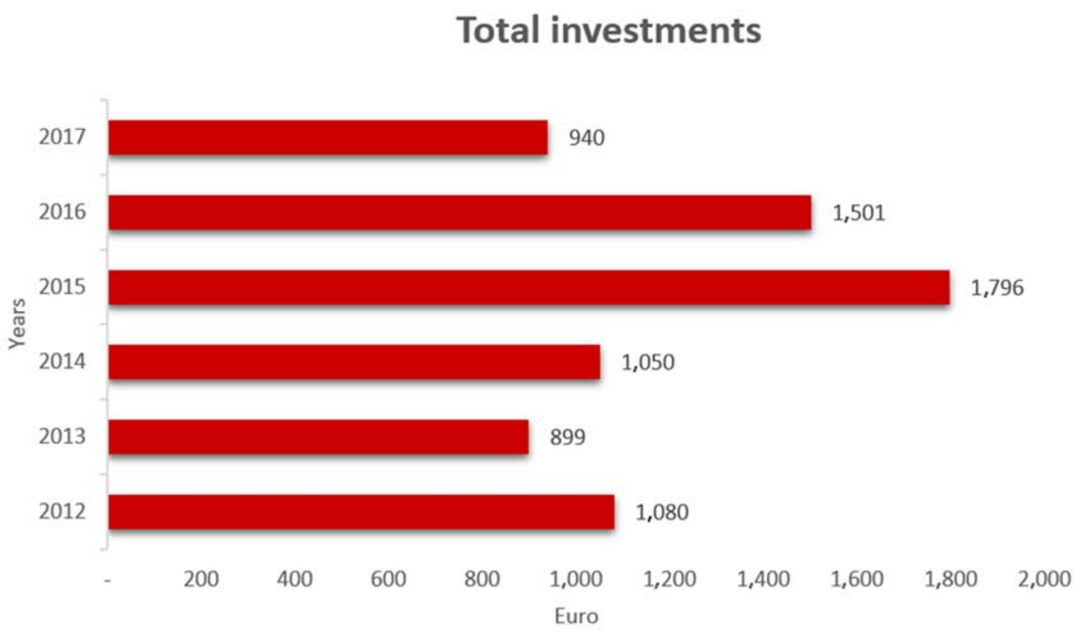


Investments are analysed by division/department below:

(millions of Euros)	**2017**	**2016**	**Changes**	
			Absolute	**%**
Long Haul Passenger Transport Division	228	630	(402)	-176%
Universal Service Passenger Transport Division	71	21	50	70%
Regional Passenger Transport Division	218	455	(237)	-109%
Technical Department	28	23	5	17%
IT Department	18	19	(2)	-10%
Staff	36	19	16	46%
Value-increasing maintenance - LHPTD	141	147	(6)	-5%
Value-increasing maintenance - USPTD	47	40	7	14%
Value-increasing maintenance - RPTD	153	145	8	5%
TOTAL	**940**	**1,501**	**(562)**	**-60%**

The decrease in LHPTD and the Regional Passenger Transport Division investments is due to the completion of the deliveries of the ETR1000 trains for the LHPTD and the new electric "Jazz", diesel "Swing" trains and the double-decker carriages for "Vivalto" trains for regional services. Investments in the Universal Service Passenger Transport Division increased by approximately €50 million on 2016.

Long Haul Passenger Transport Division:

Investments mainly related to the purchase of 17 V250 trains (roughly €0.2 million).

Investments continued to increase the number of seats available on some of the HS electric "Frecciarossa 1000" trains running on the HS Turin-Naples line (€3.4 million), making it possible to use the ETR1000 double trains. 49 Frecciarossa 1000 ETR trains were running at 31 December 2017.

Works began to upgrade the fire protection system onboard Intercity train carriages, implementing an automatic fire-extinguishing system.

Restructuring work is underway at the Naples, Milanp Martesana and Turin shunting sites, in order to reorganise and strengthen maintenance activities for the HS fleet.

ICT activities mainly relate to revenue management systems, the development of reporting processes for hand held devices used by on-board personnel and the CRM (Customer Relationship Management) platform, for approximately €0.9 million.

Universal Service Passenger Transport Division:

Activities mainly focused on upgrading E402A locomotives to E401 locomotives (approximately €4 million), the conversion of Z1 towed carriages in Z1 to semi-automated carriages (roughly €42 million) and the revamping of Intercity carriages (about €12 million).

Work began to upgrade the technology systems on-board the E401, E402 and E403 locomotives and to install the ERTMS on semi-automated carriages to provide commercial service on the Florence-Rome express line (approximately €0.5 million).

Regional Passenger Transport Division:

As part of the renewal of the transport regional fleet, six "Swing" trains were delivered (approximately €19 million) and the purchase of 27 "Swing" trains, 13 of which under option, was authorised. These trains will be used in Tuscany, Marche, Molise, Basilicata, Sardinia and Sicily.

Delivery of double-decker "Vivalto" carriages continued (approximately €65 million).

During the year, as mentioned in the introduction, contracts began to purchase 39 electric high-capacity trains (approximately €34 million) and 47 medium-capacity trains (roughly €14 million) to be used in the Emilia Romagna region.

Delivery of the "Jazz" electric trains continued, up by approximately €19 million.

Revamping and restyling activities continued to constantly improve customer services. Restyling activities involved the "Minuetto" and the "Vivalto" fleet to guarantee full compliance with environmental and safety legislation. This includes the renovation of the fire-fighting system of the "Minuetto" fleet. Investments also related to the technological upgrade of "Vivalto" carriages on commuter trains worth approximately €4 million and on "Minuetto" trains.

The project to upgrade the Verona full train maintenance plant was approved. This will lead to cost savings, the lease of the vacated facilities and a reduction in the resources used for shunting and maintenance (approximately €0.6 million). Work continued on the Veneto maintenance network; in particular, efforts continued to upgrade the Mestre current maintenance plant.

The development of new sales channels continued (approximately €1 million).

Technical Department:

The construction of photovoltaic facilities and the implementation of LED lighting systems began at the Florence Osmannoro, Foligno and Verona sites, to reduce consumption and maintenance costs.

Transversal investments:

The following IT projects related to integrated mobility and digital travel experience, the production and sales platform and systems to support reporting and administrative processes were carried out:

- the "IT Crash Programme" began. A series of initiatives related to the Infrastructure, Compliance, IT Governance and FS Italiane Business plan security, it aims to create IT governance tools to trace Trenitalia's organisational structure, operating and control processes, IT tools, information flows and the technology used, for the monitoring and governance of operational risks and data quality, the steering of strategies for applications (support in the decision-making process) and the improvement of process efficiency (approximately €3 million);
- investments were made, together with the development of new maintenance processes, to update, modify and develop management control systems in order to measure the economic effects of new initiatives launched and support management decisions with a set of support tools (approximately €3 million);
- Activities continued on the new "Dynamic Maintenance Management System" (DMMS) to make the maintenance process more efficient through predictions;

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	**-**	**41**
Long Haul Passenger Transport	-	3
Regional	-	38
Carriages	**41**	**193**
Long Haul Passenger Transport		
• InterCity IC 270 trains		39
• Z1 semi-automated carriages		27
Regional		
• Double-decker trains	41	69
• Medium haul trains	-	56
• Low floor		2
Trains	**21**	**70**
Long Haul Passenger Transport		
• Frecciarossa (ETR 1000)	8	
Regional		
• Jazz trains	3	
• Swing trains	6	
• Flirt trains	4	
• TAF trains	-	17
• Minuetto trains	-	53

The Trenitalia fleet

As a result of investments in 2017, the Trenitalia fleet is composed as described below:

Operating rolling stock at 31.12.2017

Category		Units
Driving	Electric locomotives	910
Driving	Diesel locomotives	93
Total driving vehicles		**1,003**
Light vehicles	Electric ("ALE" and "LE" models) Diesel ("ALN" and "LN" models)	**602**
Trains	TAF	88
Trains	Minuetto trains	203
Trains	Jazz trains	77
Trains	Flirt trains	6
Trains	Swing trains	32
Trains	Electric trains	155
Total trains		**561**
Shunting vehicles	Diesel locomotives/railcars	**198**
Driven	Passenger and special carriages	5,262
Total driven		**5,262**

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 for short-term concessions arising from agreements with public bodies and, lastly; iii) the regulatory framework that is subject to changes from time to time. These risks are detailed below.

With respect to the company's competitor on the high speed market, business risks are assessed and monitored continuously, including with respect to the strategies that its competitor implements over time. The overall assessment includes risks arising from mobility market and price trends. If lower prices are offered in order to gain additional market share, the profitability of the segment could be affected.

Domestic spending, employment levels and the overall development of the main economic factors influence the performance of the medium and long haul mobility market. In this context, modal competition and its proper regulation are critical factors for success.

High speed transport and the related services have enabled the railway sector to begin competing with other modes of transport (air and road), especially by shortening travel times, increasing comfort and carrying passengers to the urban centre of major cities. The critical factor for success in this market segment will continue to be maintaining and improving service quality and rapidly adapting to changes in market demand. The overall change in the business model with respect to the products offered must also take into account developments in competitor models. The progressive renewal of the fleet with new HS trains is a key factor of innovation and attraction for potential new customers, while the technological innovation of new vehicles will progressively shorten travel times on certain segments of the HS lines, thereby providing the group with a crucial factor for success that helps mitigate some of its business risk. Similarly, developments in sales channels, with the support of technological innovation, will give it additional competitive edge.

In the local public transport (LPT) segment, certain Italian regions have particularly critical financial situations, which could prolong the uncertainty of whether they will meet the contractual payment dates for service contract considerations, although this situation seems to have substantially improved compared to previous periods. The 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 at competitive interest rates for its invested capital, enabling it to cover any delays in collections. Furthermore, the contracts signed with the Italian regions do not consider how the regions will find the necessary funds to pay for the service. Some Italian regions are moving towards tenders, which could lead to the awarding of large segments of local transport in the future. Until the tenders are called, many regions, in the medium term, have renewed contracts with Trenitalia for six years and longer, and others for shorter periods. Some regions are negotiating bridge agreements. This situation creates stable conditions for Trenitalia in the medium term with respect to its plans. All investments downstream from the public service contracts in place with the regions have "put" clauses in favour of Trenitalia. The potential effects of non-renewal of these public service contracts with the regions should in any case be considered as risks attributable to any company operating on the free market. The LPT scenario could be affected (upon the outcome of tenders and, accordingly, in the management of potential migrations from one operator to another) in certain ways relating to transfers of essential facilities (as defined by the ART) to a new operator.

With respect to the relevant regulatory context, in recent years, a series of different rules and/or regulations has affected the company's business operations, while additional aspects in the electrical energy sector are currently being defined which could require the company to take action to prevent and manage their potential effects. 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

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.

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 labout agreement in 2012 and 2016. Senior management, the departments and relevant structures carefully monitor the operational risk described above. 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 2017, 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 line with the way in which data protection was previously managed, the company is preparing for when EU Regulation 2016/679 (General Data Protection Regulation – "GDPR") will take effect, by preparing a computer log of data treatments, assessing the risks related to the violation of people's liberties and rights and establishing the position of Data Protection Officer. Legal and contractual risks mainly arise from litigation that the group companies have pending with various parties, such as suppliers, clients and personnel. With respect to these risks, which are currently monitored and mitigated by specific company structures, any necessary accruals are recognised after their probability of occurrence has been respectively assessed, in accordance with the applicable accounting policies. Residual risks, after the appropriate mitigation actions and accruals, fall within the tolerance limits considering business operations

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.

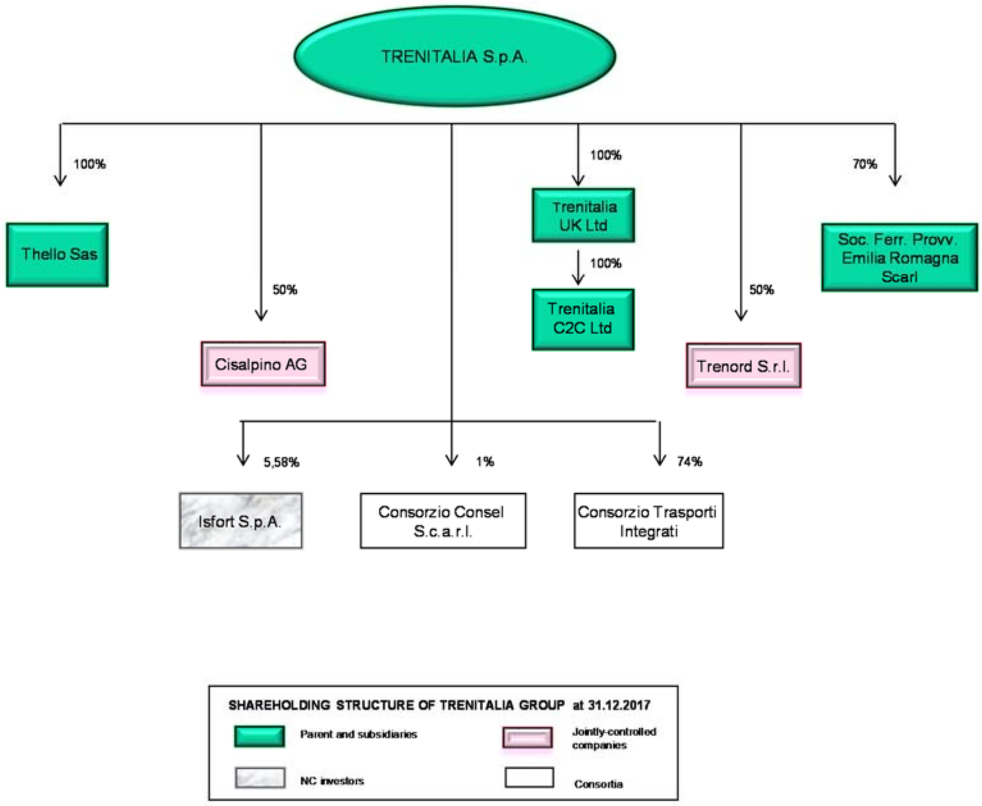
RELATED PARTY TRANSACTIONS

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.

THE TRENITALIA GROUP

The Trenitalia group is composed as follows at 31 December 2017:



PERFORMANCE OF SUBSIDIARIES

The results for 2017 of Trenord S.r.l., Thello S.a.s. and Trenitalia UK Ltd. are presented below.

Trenord S.r.l.

(€'000)

	2017	2016
Revenue	804,319	766,199
Costs	(726,771)	(690,014)
Gross operating profit	**77,548**	**76,185**
Amortisation, depreciation, impairment losses and provisions	(60,866)	(57,352)
Operating profit	**16,683**	**18,832**
Net financial income (expense)	1,600	(572)
Pre-tax profit	**18,283**	**18,260**
Income taxes	(7,761)	(9,064)
Profit for the year	**10,522**	**9,196**

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

In 2017, Trenord further expanded its operating schedule, upon the request of the Lombardy region. Production remained at 2016 levels, with 42.0 million train-km (41.6 million in 2016)
Punctuality (84.2%) was affected by the age of most of the fleet (approximately 40%), which was impacted by the harsh summer. However, the weighted average delay fell from 4.1 to 3.7 minutes and train cancellations decreased by 5%.

The Lombardy region "adopted" Trenord's investment plan worth €1.6 billion. The plan is entirely focused on the purchase of 161 new trains: the first ones will be delivered by 2020. In addition to this plan, Trenord's plan was approved by its board of directors in October, injecting an additional €400 million for investments in revamping and maintenance. This confirms the company's direct commitment to renovate and refresh the oldest carriages, which are more than 35 years old, in order to meet customer needs.

In 2017, the company reported a profit of €10.5 million for the year, up by €1.3 million on the previous year. Revenue grew considerably. The gross operating profit amounts to €77.5 million, up on 2016 (+€1.4 million), while the operating profit amounts to €16.7 million. At year end, the company counted 4,109 employees.

As provided for by the new service contract that was signed, this greater structural production is pushing the company to focus constantly on containing costs and a fuller and more efficient use of production factors, such as human resources and operating assets, in line with increasing production volumes, safety and service quality. Trenord is therefore a strong company, which can think about tomorrow challenges while focusing on today's expectations.

Finally, the incident on 25 January 2018 in Seggiano di Pioltello involving Trenord regional train no. 10452 travelling the Cremona and Milan Porta Garibaldi station route resulted in deaths and injuries. At present, no liabilities for the companies can be estimated.

Thello S.a.s.

(€'000)

	2017	2016
Revenue	40,778	37,564
Costs	(47,585)	(52,692)
Gross operating loss	**(6,807)**	**(15,128)**
Amortisation, depreciation, impairment losses and provisions	(1,101)	(126)
Operating loss	**(7,908)**	**(15,254)**
Net financial income (expense)	174	(280)
Pre-tax loss	**(7,734)**	**(15,534)**
Income taxes	(15)	(416)
Loss for the year	**(7,749)**	**(15,950)**

In 2017, 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.

After being heavily impacted by the tense climate following international terrorist attacks in Paris, Brussels and, finally, Nice in 2016, and as a result of an aggressive commercial policy implemented in 2017, revenue rose by approximately €3.2 million.

Operating costs are down on 2016 mainly thanks to the infrastructure operator's adjustment to energy cost (approximately €1.5 million), the decrease in costs to lease the rolling stock of the night train purchased from Trenitalia (€0.7 million) and minor costs for on-board services provided by new suppliers (roughly €1 million).

The increase in amortisation and depreciation is due to the rise in Trenitalia's rolling stock for the night train service (€8 million).

The company ended the year with a loss of €7.8 million. An approximately €9 million capital increase is being finalised to cover cumulative losses. New marketing an princing campaigns are planned for 2018 to relaunch the offer of night and day railway connections, in addition to a revamping plan for vehicles used on the night connections. Furthermore, sales channels will be developed as well as business efficiency with interoperability and track optimisation. According to forecasts, all these actions will enable the company to substantially breakeven by 2020.

Trenitalia UK Ltd.

(€'000)	2017
Revenue	506
Costs	(2,845)
Gross operating loss	**(2,339)**
Amortisation, depreciation, impairment losses and provisions	-
Operating loss	**(2,339)**
Net financial income	2,595
Pre-tax profit	**256**
Income taxes	-
Profit for the year	**256**

In February 2017, Trenitalia UK's share capital increase of GBP 13 million was completed, necessary to sign the agreement with National Express Group PLC to acquire 100% of NXET Trains Limited (National Express Essex Thameside), subsequently renamed Trenitalia c2c. The acquisition was carried out by Trenitalia UK for a consideration of GBP 73 million and was financed through the above capital increase and the granting of a loan from the parent of GBP 60 million. The subsidiary c2c has annual turnover of approximately €200 million, 600 employees and a leased fleet of 74 Bombardier trains. It also manages the c2c (City to Coast) franchise between London and Shoeburyness on the east coast of South Essex.

On 1 March 2017, First-Trenitalia East Midlands Rail Limited, the joint venture between First Group and Trenitalia UK, was included in the shortlist of railway franchises for the East Midlands. Furthermore, on 22 June, the British Transport Department selected Trenitalia UK among the finalists for the South East franchise tender. This has been the first tender in which Trenitalia UK participated alone after obtaining the passport (PPQ) in December 2015. This pre-qualification enables it to participate in British public tenders for the management of railway services in the UK market. Around the same time, Trenitalia UK, in a joint venture with First Group, was shortlisted for the West Coast franchise which includes the current InterCity services between London, Manchester, Liverpool, Preston, Edinburgh and Glasgow.

The profit for the year, which substantially breaks even, is the result of the operating costs incurred to participate in the tenders, offset by the divided received from the subsidiary c2c.

TREASURY SHARES

At 31 December 2017, 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 at the reporting date. Unless otherwise indicated, up to the date of preparation of this report, no information had arisen that would indicate that the company is exposed to contingent liabilities or losses of any amount, nor is any information known with a potentially material impact on the company's equity, financial position or results of operations. Furthermore, where appropriate, the company has joined the criminal proceedings as a civil party claiming damages. Specifically:

In 2017, 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.

Litigation pursuant to Legislative decree no. 231/2001

- Criminal proceedings no. 6305/2009 in the general register of crimes - no. 1917/2010 in the general register of the Preliminary Investigation Judge - no. 2135/2013 in the general register at the Lucca Court related to the railway accident in Viareggio on 29 June 2009. On 31 July 2017, the sentence read on 31 January 2017 was lodged. Both the natural persons and the companies filed an appeal before the Florence Court of Appeal. On 31 January 2017, the first-level hearing was concluded and the judge handed down the related ruling, finding, 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 shall indicate the activity or the structures subject to the latter prohibition which, in any case, is not executive pursuant to law until the ruling has been issued.
- Criminal proceedings no. 1758/2014 in the general register of crimes before the Milan Court. The proceedings were brought about in 2012 following alleged violations of the legislative limits established for the drainage of industrial waste water in public sewers at an industrial plant in Milan. The company is accused of violating article 25-undecies.2.a).1 of Legislative decree no. 231/2001 as the crime was allegedly committed in the interest and to the benefit of the company.

  In the last hearing held on 15 November 2017, the Judge dropped the reservation on the preliminary questions establishing, *inter alia*, that the Milan municipality is theoretically entitled to join the proceedings as a civil party claiming financial and other damages. Its actual eligibility will be specifically assessed considering the outcome of the proceedings, which have commenced and the discovery motions were made. The next hearing is set for 4 May 2018.

- 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 omitted in order to carry out the works more rapidly and less expensively. Consequently, the company was summoned to court in the hearing to be held on 14 May 2018.
- Criminal proceedings no. 2851/2008 in the general register of crimes - no. 1368/2012 in the general register at the Potenza Court. The proceedings were brought about following the railway accident that occurred on 8 August 2008 at the "Sider Potenza" hub, when rolling stock of the Cargo Division (comprised of an engine and ten carriages containing iron scrap) hit the engine being driven by an employee of Sider Potenza who then died from the injuries suffered. With its ruling issued on 9 March 2016, the Potenza Court ordered the documents be transferred to the Public Prosecutor in relation to the alleged crime as per article 25-septies of Legislative decree no. 231/2001 charged to the company. The ruling was filed on 9 May 2017 and, at present, no deed was served to the company following this decision.
- Criminal proceedings no. 20765/2014 in the general register of crimes are pending before the Florence Court. The proceedings refer to the operating accident 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, as - according to the Public Prosecutor - employees were assigned multiple duties in order to reduce the number of workers, thereby cutting costs for Trenitalia in relation to wages to be paid or, even, the number of employees hired. The preliminary hearing began following the motion for indictment filed by the Public Prosecutor against the above natural persons and the company. During the hearing held on 26 September 2017, Trenitalia's lawyer filed many preliminary documents describing how the company (and the Tuscany Regional Direction) had already implemented an effective Management, organisational and control model pursuant to Legislative decree no. 231/2001. However, despite in-depth discussions about the merit of the various charges, the preliminary hearing judge postponed all rulings to 10 November 2017 before the first criminal section, with a sole judge, of the Florence Court. During the first hearing, the judge preliminarily noted the failure to notify the decree about the proceedings to Trenitalia, as the accused party pursuant to Legislative decree no. 231/2001. Therefore, it postponed the trial to 26 January 2018, while ordering the notification of the decree to the company's registered office. The next hearing will therefore cover the claims and the admission of evidence and another date will be set to start the preliminary investigation.

EU procedures

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 cargo sector (case SA 32953).

The first aid measure being investigated relates to four asset allocation operations within FS Italiane group, in which assets were allocated to Trenitalia S.p.A. and FS Logistica S.p.A. (now Mercitalia Logistics S.p.A.), respectively. In particular, these transfers include assets that do not constitute railway infrastructure (they are mainly workshops) and are, in any case, no longer functional for the infrastructure operator. The second measure being investigated relates to the compensation from Italy to Trenitalia S.p.A. for rail cargo transport from 2000 to 2014 under three consecutive public service contracts. After 2015 and 2016, in which there were no further developments, near the end of 2017, the European Commission resumed the examination of both dossiers. Accordingly, considering the current stage of the cases and their complexity, and based on the opinions of independent legal experts, in line with previous evaluations, we believe that: 1) the effects of any negative development with respect to case SA 32179 would substantially relate to assets, due to the re-allocation of assets within 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 2017, 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 update the group of procedures governing the processes analysed.

During the year, the Supervisory body organised training activities and promoted the knowledge of the 231 model. E-learning training was provided and involved both company managers and employees. In order to maximise the in-house knowledge of Legislative decree no. 231/2001 and the 231 model, Trenitalia prepared an easy-to-read leaflet to be distributed to all its employees, specifically those who could not take the e-learning courses (on-board personnel and maintenance blue-collars). The leaflet was also posted on the company's intranet in January 2018

Following the legislative developments introduced in 2017, on 27 November 2017, upon the proposal of the Supervisory body, Trenitalia's board of directors, decided to begin updating the 231 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.

Management foreseeable development

In 2018, Trenitalia's top and middle management will work on building upon the 2017 performance and on launching the new 2018-2023 business plan which, in particular, will focus on improving the business efficiency of core operating processes and on domestic and international competition.

In order to face increasingly aggressive competition in the HS market, Trenitalia launched more robust new offers, focusing on service quality and pricing. In the regional transport market, it will manage and sign new service contracts and fully participate in the challenges posed by those regions where the definition of the local public transport strategy is still pending.

In 2018, major investments will be authorised to purchase new rolling stock for local transport following the new service contracts agreed by the regions, which amount to approximately €1.02 billion, equal to 144 new Pop and Rock trains.

The financial settlement of some services provided to the Public administration is still pending. This physiologically and structurally skews cash flows, forcing the company to use other sources of funding which clearly translate into additional financial expense.

Financial statements: financial schedules and notes

Statement of financial position

Euros	Notes	31.12.2017	31.12.2016
Assets			
Property, plant and equipment	*(5)*	9,296,758,637	9,633,413,472
Intangible assets	*(6)*	150,888,779	129,674,105
Deferred tax assets	*(7)*	92,602,188	99,749,379
Equity investments	*(8)*	57,468,542	49,462,022
Non-current financial assets (including derivatives)	*(9)*	1,356,258	1,961,741
Other non-current assets	*(10)*	74,179,168	14,788,548
Total non-current assets		**9,673,253,572**	**9,929,049,267**
Inventories	*(11)*	559,258,465	584,436,195
Current trade receivables	*(12)*	1,610,829,254	1,373,093,913
Current financial assets (including derivatives)	*(9)*	19,324,570	3,133,577
Cash and cash equivalents	*(13)*	39,871,039	38,693,450
Tax assets	*(14)*	179,290	6,986,026
Other current assets	*(10)*	146,814,643	353,780,694
Total current assets		**2,376,277,261**	**2,360,123,855**
Total assets held for sale	*(15)*	**-**	**633,249,771**
Total assets		**12,049,530,833**	**12,922,422,893**
Equity			
Share capital	*(16)*	1,417,782,000	1,654,464,000
Reserves	*(16)*	229,252,169	223,411,183
Valuation reserves	*(16)*	(155,818,812)	(175,520,774)
Retained earnings	*(16)*	619,941,141	508,962,378
Profit for the year	*(16)*	276,241,638	116,819,751
Total equity		**2,387,398,136**	**2,328,136,538**
Liabilities			
Non-current loans and borrowings	*(17)*	5,226,225,390	4,622,359,654
Post-employment benefits and other employee benefits	*(18)*	708,129,875	767,764,749
Provisions for risks and charges	*(19)*	126,272,770	108,583,420
Deferred tax liabilities	*(7)*	91,681,178	89,929,246
Non-current financial liabilities (including derivatives)	*(20)*	17,482,623	46,240,765
Other non-current liabilities	*(21)*	1,067,305	756,261
Total non-current liabilities		**6,170,859,141**	**5,635,634,095**
Current loans and borrowings and current portion of non-current loans and borrowings	*(17)*	1,294,695,897	1,889,222,389
Current portion of provisions for risks and charges	*(19)*	4,460,745	4,461,630
Current trade payables	*(22)*	1,206,612,857	1,821,487,933
Payables per income taxes	*(23)*	9,829,957	-
Current financial liabilities (including derivatives)	*(20)*	439,659,615	265,536,466
Other current liabilities	*(21)*	536,014,485	604,100,461
Total current liabilities		**3,491,273,556**	**4,584,808,879**
Total liabilities associated with assets held for sale	*(15)*	**-**	**373,843,381**
Total liabilities		**9,662,132,697**	**10,594,286,355**
Total equity and liabilities		**12,049,530,833**	**12,922,422,893**

Income statement

Euros	Notes	2017	2016
Revenue			
Revenue from sales and services	*(24)*	5,138,784,679	4,858,190,657
Other income	*(25)*	179,576,240	220,522,128
Total revenue		**5,318,360,919**	**5,078,712,784**
Operating costs			
Personnel expense	*(26)*	1,677,885,146	1,647,819,992
Raw materials, consumables, supplies and goods	*(27)*	315,361,267	435,196,600
Services	*(28)*	1,938,305,430	1,827,475,425
Use of third-party assets	*(29)*	97,291,233	97,251,592
Other operating costs	*(30)*	60,190,725	40,165,083
Internal work capitalised	*(31)*	(356,328,295)	(363,677,979)
Total cost		**3,732,705,506**	**3,684,230,711**
Amortisation and depreciation	*(32)*	1,085,749,302	1,037,677,933
Impairment losses	*(33)*	79,578,638	24,267,421
Provisions	*(34)*	21,271,512	-
Operating profit		**399,055,961**	**332,536,719**
Financial income and expense			
Financial income	*(35)*	26,444,256	10,229,574
Financial expense	*(36)*	99,661,440	114,505,127
Net financial expense		**(73,217,184)**	**(104,275,553)**
Pre-tax profit		**325,838,777**	**228,261,166**
Income taxes	*(37)*	49,597,139	36,061,882
Profit from continuing operations		**276,241,638**	**192,199,284**
Loss from discontinued operations	*(15)*	**-**	**(75,379,533)**
Profit for the year		**276,241,638**	**116,819,751**

Statement of comprehensive income

Euros	**Notes**	**2017**	**2016**
Profit for the year		**276,241,638**	**116,819,751**
Other comprehensive income			
Items that will not be reclassified to profit or loss, gross of the tax effect:			
Actuarial gains (losses)	*(16)*	4,205,676	(4,066,716)
Tax effect of actuarial gains/(losses)	*(16)*	(2,481,488)	166,081
Items that are or maybe 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)*	23,654,963	19,660,716
Cash flow hedges - tax effect of the effective portion of changes in fair value	*(16)*	(5,677,191)	(4,963,507)
Total other comprehensive income, net of the tax effect		**19,701,960**	**10,796,573**
Comprehensive income		**295,943,598**	**127,616,324**

Statement of changes in equity

Euros	Equity								
		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 2015	**1,654,464,000**	**34,824,709**	**177,084,324**	**(54,120,243)**	**(132,197,104)**	**25,591,686**	**324,421,518**	**230,043,010**	**2,234,520,214**
Capital increase									
Dividend distribution							(34,000,000)		**(34,000,000)**
Allocation of profit for the previous year		11,502,150				**11,502,150**	218,540,860	(230,043,010)	**-**
Comprehensive income, of which:									
Profit for the year								116,819,751	**116,819,751**
Profit recognised directly in equity				14,697,208	(3,900,635)	**10,796,573**			**10,796,573**
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**	**2,328,136,538**
Capital increase									
Cargo demerger	(236,682,000)								**(236,682,000)**
Actuarial gains (losses)									
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**

Statement of cash flows

Euros	Notes	2017	2016
Profit for the year	*(16)*	**276,241,638**	**116,819,751**
Amortisation and depreciation	*(5-6)*	1,085,749,302	1,091,137,642
Accruals to provisions for risks	*(19)*	*42,514,661*	*17,902,935*
Impairment losses	*(5-6-9)*	*58,672,826*	*22,607,981*
Accruals for employee benefits	*(18)*	*7,471,786*	*9,814,118*
Accruals and impairment losses		**108,659,273**	**50,325,034**
Net profits on sales	*(25-30)*	(585,932)	(1,549,436)
Change in inventories	*(11)*	25,177,730	6,148,018
Change in trade receivables	*(12)*	(237,735,341)	563,808,598
Change in trade payables	*(22)*	(614,875,076)	(353,540,822)
Change in current and deferred taxes	*(7-14-23)*	17,377,137	7,027,930
Change in other liabilities	*(21)*	(67,774,932)	18,844,327
Change in other assets	*(10)*	147,575,431	(93,469,839)
Utilisation of the provision for risks and charges	*(19)*	(24,826,196)	(36,791,536)
Payment of employee benefits	*(18)*	(62,900,984)	(45,356,261)
Net cash flows generated by operating activities		**652,082,050**	**1,323,403,406**
Investments in property, plant and equipment	*(5)*	*(875,827,564)*	*(1,508,398,477)*
Increase in intangible assets	*(6)*	*(64,007,864)*	*(48,222,140)*
Increase in equity investments	*(8)*	*(15,097,846)*	*(175,001)*
Investments, before grants		**(954,933,274)**	**(1,556,795,618)**
Grants for property, plant and equipment	*(5)*	*88,976,343*	*54,060,701*
Grants for intangible assets	*(6)*	-	*154,432*
Grants		**88,976,343**	**54,215,133**
Divestments of property, plant and equipment	*(5)*	*15,157,574*	*19,675,756*
Divestments of intangible assets	*(6)*	-	*(4,838)*
Divestments of equity investments	*(8)*	*14,396,803*	*11,489*
Divestments		**29,554,377**	**19,682,407**
Net cash flows used in investing activities		**(836,402,554)**	**(1,482,898,078)**
Disbursement and repayment of non-current loans	*(17-20)*	1,009,148,181	97,133,761
Disbursement and repayment of current loans	*(17-20)*	(999,808,937)	894,932,996
Changes in financial assets	*(9-20)*	(15,585,509)	11,036,501
Changes in financial liabilities	*(20)*	210,786,020	(3,695,954)
Dividends	*(16)*	-	(34,000,000)
Net cash flows generated by financing activities		**204,539,755**	**965,407,303**
Total cash flows		**20,219,250**	**805,912,631**
Opening cash and cash equivalents		(405,317,429)	(1,211,230,060)
Closing cash and cash equivalents		(385,098,179)	(405,317,429)
of which intragroup current account	***(20)***	**(424,969,218)**	**(444,013,015)**
of which cash and cash equivalents	***(13)***	**39,871,039**	**38,695,586**

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 6 March 2018, 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 for public use 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 prepare the statutory audit.

2. Accounting policies

These financial statements have been prepared in accordance with IFRS (which include the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and in effect at the reporting date ("IFRS"). Specifically, the company consistently applies the IFRS to all periods presented in these financial statements.

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.

The financial statements are comprised of the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. In detail:

- the statement of financial position has been prepared by classifying assets and liabilities as "current/non-current", with specific separation of assets held for sale and liabilities associated with assets held for sale or included in disposal groups classified as held for sale;
- the income statement has been prepared by classifying operating costs by nature, with separate recognition of profit or loss from continuing operations and profit or 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 that are not carried out with owners in their capacity as owners;
- the statement of changes in equity separately presents the profit or loss for the year and any variations not taken through profit or loss;
- the statement of cash flows has been prepared by reporting cash flows arising from operating activities using the indirect method.

In addition, the annual report includes a directors' report which shall be read alongside the financial statements.

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 or, in particular, in the next 12 months. Reference should be made to note 4 "Financial risk management" for a description of the company's financial risk management procedures.

The financial statements have been prepared on the historical cost basis, except where fair value measurement is mandatory.

3. Accounting standards applied

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 conditions. Any financial expense that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised and depreciated on the basis of the useful life of the asset to which they refer. 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 / Full train	10%	10 years
- Basic component	3.3% - 4.3%	23-30 years
- Capitalised second-level maintenance	20%	5 years
- Value-increasing maintenance (significant revamping)	5.5%	18 years
Land and buildings		
- Owned land	-	
- Owner-occupied land	-	
- Industrial buildings and light construction	2%	50 years
- Value-increasing maintenance - industrial buildings	5%	20 years
- Leasehold improvements	20%	5 years
Industrial plants		
- Workshop plants	5%	20 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
- Specific plants	12%	8 years
- Generic plants	8%	12.5 years
- Sundry and small equipment	12%	8 years
- Health equipment	12.5%	8 years
- Leasehold improvements	20%	5 years

Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance, that can be controlled and can generate future economic benefits. They are recognised at purchase and/or production cost, including any directly-attributable expenses incurred to make the asset available for use, net of accumulated amortisation (except for intangible assets with an indefinite useful life) and impairment losses, if any. Interest expense, if any, that accrues during and for the development of intangible assets, is considered part of the purchase cost. Amortisation begins when the asset is available for use and is charged on a straight-line basis over its estimated useful life. Specifically, 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 where all the following conditions are met:

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

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

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

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

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, i.e., 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

The company classifies financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

Management classifies financial assets upon initial recognition.

(a) Financial assets through profit or loss

This category includes financial assets held for trading, derivatives (see the paragraph below) and assets designated as such upon initial recognition. Their fair value is calculated based on the reporting date bid price. The fair value of unquoted derivatives is calculated by applying commonly used financial valuation techniques. Fair value changes of the instruments included in this category are immediately recognised in profit or loss.

Classification as current or non-current assets reflects management's trading expectations: those that are expected to be realised within 12 months or designated as held for trading are included under current assets.

(b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. If there is an objective evidence of impairment, their carrying amount is decreased to reflect the discounted value of future flows: the impairment losses identified by impairment tests are recognised in profit or loss. If, in a subsequent period, the reasons behind the impairment loss cease to exist, the carrying amount of the asset is reversed without exceeding what the amortised cost would have been had the impairment not been recognised. These assets are classified as current, except for the portions due after one year which are included under non-current assets.

(c) Held-to-maturity financial assets

These assets are measured at amortised cost and are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. They are classified under current assets when the term is within 12 months. If there is objective evidence of impairment, their carrying amount is decreased to reflect the discounted value of future flows: the impairment losses identified by impairment tests are recognised in profit or loss. If, in a subsequent period, the reasons behind the impairment loss cease to exist, the carrying amount of the asset is reversed without exceeding what the amortised cost would have been had the impairment not been recognised.

(d) Available-for-sale financial assets

This category includes financial assets, other than derivative financial assets, that are designated as available for sale or are not classified in any of the above categories. They are measured at fair value which is calculated based on market prices at annual or interim reporting dates or using financial valuation models and techniques. Fair value changes are recognised in a specific equity caption ("reserve for available-for-sale financial assets"). This reserve is released to profit or loss only when the asset is actually sold or, in case of decreases, when the significant and prolonged decrease in fair value already recognised in equity cannot be recovered. Classification under current or non-current assets depends on management's intention and the effective trading of the security: those assets which are expected to be realised within twelve months are classified under current assets.

If there is objective evidence of impairment, their carrying amount is decreased to reflect the discounted value of future flows: the decreases in fair value previously recognised in equity are reversed to profit or loss. The impairment losses recognised in prior years are reversed when the reasons behind their recognition cease to exist. This only applies to financial instruments other than equity instruments.

Derivatives

Derivatives are considered as assets held for trading and are measured at fair value through profit or loss, unless they effectively hedge a specific risk underlying the group's assets or liabilities or commitments.

Specifically, the company uses derivatives as part of a hedging strategies which mitigate the risk of fair value changes of recognised assets or liabilities or assets or firm commitments (fair value hedges) or changes in cash flows expected from firm commitments or highly probable transactions (cash flow hedges). Reference should be made to note 20 for information about the recognition of hedges of the currency risk on long-term contracts.

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

Fair value hedges

Fair value changes of derivatives designated as fair value hedges and which qualify as such, are recognised in profit or loss, similarly to fair value changes of hedged assets or liabilities attributable to the risk hedged.

Cash flow hedges

Fair value gains or losses on derivatives designated as cash flow hedges which qualify as such, are recognised, only to the extent of the "effective" portion, in other comprehensive income in the hedging reserve. They are subsequently reclassified to profit or loss when the underlying hedged item affects profit or loss. Fair value gains or losses related to the ineffective portion are immediately recognised in profit or loss. Should the underlying transaction no longer be considered highly probable, the related portion of the "hedging reserve" is immediately reclassified to profit or loss. Conversely, should the derivative be sold, expire or no longer qualify as an effective hedge of the risk for which the transaction was created, the related portion of the "hedging reserve" is maintained until the underlying item affects profit or loss. Recognition of the hedge as a cash flow hedge is discontinued prospectively.

Fair value 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 for the asset or liability, either directly or indirectly;

Level 3: financial assets and financial liabilities whose fair value is calculated based on unobservable inputs for the asset or liability.

Cash and cash equivalents

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

Loans, trade payables and other financial liabilities

Loans, trade payables and other financial liabilities are initially recognised at fair value, net of directly-attributable costs, and are subsequently measured at amortised cost, applying the effective interest rate method. When there is a change in the estimated expected cash flows, the carrying amount of the liabilities is recalculated to reflect this change on the basis of the present value of the new expected cash flows and of the effective internal rate as initially determined. Loans, trade payables and other financial liabilities are classified under current liabilities, except for those with a contractual term beyond twelve months after the reporting date and those for which the company has an unconditional right to defer their settlement for at least twelve months after the reporting date. Loans, trade payables and other financial liabilities are derecognised when repaid and when 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 has no 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 profit or loss in the relevant year, taking account of the related deferred tax effect.

Specifically, the company manages a defined benefit plan that consists of is represented by 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 relatives, the right to use - free of charge or, in some cases, for an admission fee - the company's railway services.

Therefore, a provision has been accrued, on the basis of the above actuarial techniques, which includes the discounted cost related to retired employees who are entitled to the benefit, as well as the portion of the benefit vested by employees in service and to be paid after termination of employment. The accounting treatment of the Free Travel Card benefits and the effects arising from their actuarial valuation are the same as those envisaged for post-employment benefits.

Provisions for risks and charges

Provisions for risks and charges are recognised for certain or probable losses and charges, whose amount and/or due date cannot be determined. They are recognised only when the company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. This amount represents the best estimate of the expenditure required to settle the obligation. The rate used to determine the present value of the liability reflects the current market values and takes account of the specific risk that can be associated to each liability.

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

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

Revenue

Revenue is recognised when it is probable that future economic benefits will flow to the company and these benefits can be measured reliably, net of returns, rebates, trade discounts and bulk discounts.

Revenue from services is recognised in profit or loss on a percentage of completion basis and only when the outcome of the service can be estimated reliably.

Revenue from the sale of goods is recognised at the fair value of the consideration received or receivable. It is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the goods and the related costs can be measured reliably.

Interest income is recognised in profit or loss on the basis of the effective rate of return.

Government grants

Government grants, when formally assigned and, in any case, when the right to their disbursement is deemed definitive as it is reasonably certain that 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 rate 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 area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

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

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

New standards

FIRST-TIME ADOPTION OF STANDARDS, AMENDMENTS AND INTERPRETATIONS

The following new standards are effective for annual periods beginning on after 1 January 2017:

Amendments to IAS 12 – Income taxes

On 19 January 2016, the IASB issued some amendments to IAS 12 - Income tax. The document *Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12)* clarifies the accounting for deferred tax assets on debt instruments measured at fair value. The amendments apply to annual periods beginning on or after 1 January 2017. The adoption of the amendments had no significant effect on these financial statements, given their nature and/or scope of application.

Amendments to IAS 7 – *Statement of cash flows*

On 29 January 2016, the IASB issued some amendments to IAS 7 - Statement of cash flows. The Disclosure initiative (Amendments to IAS 7) document is meant to improve the presentation and disclosure of the financial information provided to users of financial statements and to resolve some of the critical issues reported by operators. The amendments introduce new disclosures for changes in assets and liabilities arising from financing activities. The amendments apply to annual periods beginning on or after 1 January 2017. The company adopted these amendments retrospectively with no significant effects on these financial statements given their nature and/or scope of application.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS RECENTLY ENDORSED BY THE EUROPEAN UNION

At the preparation date, the competent bodies of the European Union have completed the endorsement process necessary to adopt the following standards and amendments. The company decided not to exercise the option for earlier adoption (when provided for).

IFRS 15 – Revenue from contracts with customers and amendments

On 28 May 2014, as part of the IFRS-US GAAP convergence project, the IASB and the FASB issued IFRS 15 - Revenue from contracts with customers. This document was endorsed by the European Union with Regulation no. 1905 of 22 September 2016. This standard is a unique and comprehensive framework for revenue recognition and sets out the provisions to be applied to all contracts with customers (except for those covered by other standards on leases, insurance contracts and financial instruments). IFRS 15 replaces the previous standards applicable to revenue: IAS 18 - Revenue and IAS 11 - Construction contracts, as well as the following interpretations: IFRIC 13 - Customer loyalty programmes, IFRIC 1 - Agreements for the construction of real estate, IFRIC 2018 - Transfers of assets from customers and SIC 31 - Revenue - Barter transactions involving advertising services. The new five-step model for revenue recognition requires that revenue be recognised upon transfer of the goods or services to the customer (and no longer with the substantial transfer of risks and rewards) at the consideration the entity expects to be entitled to (i.e., no longer at fair value). Furthermore, on 12 April 2016, the IASB published some clarifications about IFRS 15 - Revenue from contracts with customers. The new standard, also following the amendment published by the IASB on 11 September 2015, applies to annual periods beginning on or after 1 January 2018. However, early application is permitted.

IFRS 9 – *Financial instruments*

On 24 July 2014, the IASB issued the definitive version of IFRS 9 - Financial instruments. This document was endorsed by the EU with Regulation no. 2067 of 22 November 2016. It presents the results of the IASB's project to replace IAS 39 and supersedes all the previous versions of IFRS 9 on classification, measurement, derecognition, impairment and hedge accounting. The key new issues introduced with respect to classification and measurement include the business model used to manage financial assets and liabilities and the characteristics of cash flows. The standard also introduces new guidance for the measurement of impairment losses (expected credit losses) and a new hedge accounting model. IFRS 9 is applicable to annual periods beginning on or after 1 January 2018.

Estimated effects of the adoption of IFRS 15 and IFRS 9

The company, which will adopt IFRS 15 *Revenue from contract with customers* and IFRS 9 *Financial instruments* as of 1 January 2018, analysed the effects of the first-time adoption of these standards on the financial statements. The estimate of these effects on the company's equity is based on the assessments carried out by ad hoc work groups and the information available up to the date of publication of the financial statements, specifically:

- with respect to IFRS 15, the company does not expect any significant impact on the recognition, calculation and measurement of revenue from customers;
- with respect to IFRS 9, despite the significance of the critical masses affected by this standard, especially in relation to the measurement of financial assets (impairment), the company does not expect any significant impact on its financial position or results of operations.

The actual effects of the adoption of the above standards on 1 January 2018 may change since:

- the company has not yet completed the check and assessment of controls over the new information systems; and
- the new measurement criteria may change until the presentation of the company's first financial statements inclusive of the first-time application date.

With respect to IFRS 9, the company believes that the impairment losses on the assets included in the scope of the model under said standard will increase and become more volatile. Using the methodology described below, the company has estimated that the application of the impairment testing under IFRS 9 at 1 January 2018 will generate an increase in impairment losses, many of which will be recurring.

IFRS 16 – *Leases*

On 13 January 2016, the IASB issued IFRS 16 - Leases, which replaces IAS 17. This document was endorsed by the EU and was published on 9 November 2017. IFRS 16 is applicable to annual periods beginning on or after 1 January 2019. The new standard eliminates the different recognition of operating and finance leases, while containing elements that simplify its application. It also introduces the concept of control within the definition of a lease. Specifically, in order to determine whether a contract is a lease, IFRS 16 states that a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time. Earlier application is permitted to entities that also adopt IFRS 15 - Revenue from contracts with customers.

The company is currently assessing the future impacts this standard may have through work groups specifically set up to this end.

Amendments to IFRS 4 – Insurance contracts

On 12 September 2016, the IASB issued some amendments to IFRS 4 - Insurance contracts designed to address the consequences of the different effective dates of IFRS 9 and IFRS 4.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

At the preparation date, the competent bodies of the European Union have not yet completed the endorsement process necessary to adopt the following accounting standards and amendments, as detailed below. The measurement of any impact that such standards, amendments and interpretations may have on the company's financial statements, financial position and financial performance is currently being analysed.

IFRS 14 – Regulatory deferral accounts

On 30 January 2014, the IASB issued IFRS 14 - Regulatory deferral accounts, an interim standard applicable to the rate-regulated activities project. IFRS 14 permits only entities which are first-time adopters of IFRS to continue to account for rate regulation balances in accordance with their previous GAAP. In order to improve comparability with the entities that already apply IFRS and that do not recognise these balances, the standard provides that the impact of rate regulation be separately presented in an entity's financial statements. The standard is applicable to annual periods beginning on or after 1 January 2016 and earlier adoption is allowed. However, the European Commission suspended the endorsement process pending the issue of the definitive version of the standard by the IASB.

Amendments to IFRS 10 – Consolidated financial statements and IAS 28 – Investments in associates and joint venture

On 11 September 2014, the IASB issued Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28) to resolve an inconsistency between IAS 28 and IFRS 10. The amendments establish that when an asset is transferred/contributed to a joint venture or an associate, or when an equity investment is sold, resulting in the loss of control, while retaining joint control or significant influence over the associate or joint venture, the amount of the recognised gain or loss depends on whether the transferred/contributed assets or equity investment constitute a business, as defined in IFRS 3 - Business Combinations. Specifically, when the transferred/contributed assets or equity investment constitute a business, the entity shall recognise the gain or loss entirely. Conversely, it shall recognise only the portion of gain or loss attributable to the minority interests of the associate or joint venture which constitute the parties to the transaction. In December 2015, the IASB issued the amendment which defers indefinitely the coming into force of the amendments to IFRS 10 and IAS 28.

Amendments to IFRS 2 – Classification and measurement of Share-based payment transactions

On 20 June 2016, the IASB issued some amendments to IFRS 2 - Share-based payment to clarify how to account for certain share-based payment transactions. The amendments apply to annual periods beginning on or after 1 January 2018, with earlier application being permitted. The EU endorsement is expected by the first quarter of 2018.

Annual Improvements to IFRS: 2014-2016 Cycle

On 8 December 2016, the IASB issued the Annual improvements to IFRS. 2014-2016 Cycle. The amendments are part of the normal rationalisation and clarification of the IFRS and covered IFRS 1 - First-time adoption of International Financial Reporting Standards, IFRS 12 - Disclosure of interests in other entities and IAS 28 - Investments in associates and joint ventures.

IFRIC 22 – Foreign currency transactions and advance consideration

On 8 December 2016, the IASB issued IFRIC 22 - Foreign currency transactions and advance consideration to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is applicable to annual periods beginning on or after 1 January 2018, with earlier application being permitted. The EU endorsement is expected by the first quarter of 2018.

Amendment to IAS 40 – Investment property

On 8 December 2016, the IASB issued some amendments to IAS 40 - Investment property, which provide guidance on transfers to, and from investment property. They apply to annual periods beginning on or after 1 January 2018, with earlier application being permitted. The EU endorsement is expected by the first quarter of 2018.

IFRIC 23 – Uncertainty over income tax treatments

On 7 June 2017, the IASB issued IFRIC 23 - Uncertainty over income tax treatments. The interpretation clarifies the accounting for uncertain deferred or current taxes, related to interpretation issues not clarified by the relevant tax authorities. It applies to annual periods beginning on or after 1 January 2019, with earlier application being permitted. The EU endorsement is expected in 2018.

Amendments to IFRS 9 - Prepayment features with negative compensation

On 12 October 2017, the IASB issued the amendment to IFRS - 9 Financial Instruments. The amendment proposes that financial instruments with prepayment, which may result in negative compensation, may be recognised using the amortised cost method or the fair value through other comprehensive income method, depending on the business model adopted. The EU endorsement is expected in 2018.

Amendments to IAS 28 - Long-term interests in associates and joint ventures

On 12 October 2017, the IASB published the amendment to IAS 28 - Investment entities. The amendment clarifies that IFRS 9 applies to non-current receivables from an associate or a joint venture that form part of the net investment in the associate or joint venture. Furthermore, under the amendments, IFRS 9 also applies to said receivables prior to the adoption of IAS 28, so that the entity does not consider any adjustments to the long-term interests arising from the application of this standard. The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted.

Annual Improvements to IFRS: 2015-2017 Cycle

On 12 December 2017, the IASB issued the Annual improvements to IFRS Standards 2015-2017 Cycle. The amendments are part of the normal rationalisation and clarification of the IFRS and cover: IAS 12 Income taxes, IAS 23 Borrowing costs and IFRS 3 Business combinations.

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. 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 limits by counterparty and credit rating.

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

Euros	31.12.2017	31.12.2016
Non-current financial assets (including derivatives)	1,356	1,962
Allowance for impairment		
Non-current financial assets (including derivatives), net of the allowance for impairment	**1,356**	**1,962**
Non-current trade receivables		
Allowance for impairment		
Non-current trade receivables, net of the allowance for impairment	**-**	**-**
Other non-current assets	73,587	14,197
Allowance for impairment		
Other non-current assets, net of the allowance for impairment	**73,587**	**14,197**
Construction contracts		
Allowance for impairment		
Construction contracts, net of the allowance for impairment	**-**	**-**
Current trade receivables	1,895,830	1,645,459
Allowance for impairment	(285,000)	(272,365)
Current trade receivables, net of the allowance for impairment	**1,610,829**	**1,373,094**
Current financial assets (including derivatives)	19,325	3,134
Allowance for impairment		
Current financial assets (including derivatives), net of the allowance for impairment	**19,325**	**3,134**
Cash and cash equivalents	**39,871**	**38,693**
Other current assets	40,774	29,833
Allowance for impairment	(323)	(519)
Other current assets, net of the allowance for impairment	**40,451**	**29,314**
Total exposure, net of the allowance for impairment	**1,785,419**	**1,460,394**

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

Euros	31.12.2017	31.12.2016
Public administration, Italian government and regions	1,350,809	1,156,203
Ordinary customers	70,483	72,277
Financial institutions	67	827
Other debtors	324,190	192,394
Total exposure, net of the allowance for impairment	**1,745,548**	**1,421,700**

	31.12.2017	31.12.2016
Public administration, Italian government and regions	77%	81%
Ordinary customers	4%	5%
Financial institutions	0%	0%
Other debtors	19%	14%
Total exposure, net of the allowance for impairment	**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 2017 by overdue amounts, net of the allowance for impairment and excluding cash and cash equivalents:

31.12.2017						
	Overdue by					
	Not overdue	**0-180**	**180-360**	**360-720**	**beyond 720**	**Total**
Public administration, Italian government and regions (gross)	609,979	416,314	73,720	125,847	149,543	1,375,403
Allowance for impairment	-	(3,376)	(4,661)	(16,557)	-	(24,594)
Public administration, Italian government and regions (gross)	**609,979**	**412,938**	**69,059**	**109,290**	**149,543**	**1,350,809**
Ordinary customers (gross)	54,812	24,602	17,319	43,623	172,637	312,993
Allowance for impairment	-	(15,115)	(16,656)	(41,555)	(169,184)	(242,510)
Ordinary customers (net)	**54,812**	**9,486**	**664**	**2,068**	**3,453**	**70,483**
Financial institutions	67	-	-	-	-	**67**
Other debtors (gross)	221,726	54,697	17,381	25,778	22,826	342,409
Allowance for impairment	-	-	-	(8,593)	(9,626)	(18,219)
Other debtors (net)	**221,726**	**54,697**	**17,381**	**17,185**	**13,200**	**324,190**
Total exposure, net of the allowance for impairment	**886,584**	**477,121**	**87,104**	**128,543**	**166,196**	**1,745,548**

31.12.2016						
	Overdue by					
	Not overdue	**0-180**	**180-360**	**360-720**	**beyond 720**	**Total**
Public administration, Italian government and regions (gross)	566,010	123,079	97,793	372,846	290	1,160,018
Allowance for impairment			(950)	(2,866)		(3,816)
Public administration, Italian government and regions (gross)	**566,010**	**123,079**	**96,844**	**369,980**	**290**	**1,156,203**
Ordinary customers (gross)	66,042	18,129	2,189	40,773	195,740	322,873
Allowance for impairment		(16,096)	(1,104)	(40,592)	(192,804)	(250,596)
Ordinary customers (net)	**66,042**	**2,033**	**1,085**	**181**	**2,936**	**72,277**
Financial institutions				**827**		**827**
Other debtors (gross)	110,099	43,744	6,791	32,193	18,039	210,866
Allowance for impairment		(139)	(348)	(13,241)	(4,745)	(18,472)
Other debtors (net)	**110,099**	**43,606**	**6,443**	**18,952**	**13,294**	**192,394**
Total exposure, net of the allowance for impairment	**742,151**	**168,717**	**104,371**	**389,941**	**16,520**	**1,421,700**

Receivables from the public administration total €1,351 million and mainly refer to amounts due from the regions and the MEF in connection with service contracts. Of this amount, approximately 44% is already overdue. Overdue receivables from the Campania region (approximately €33 million), the Valle d’Aosta region (approximately €67 million), the Calabria region (roughly €7 million) and the MEF (roughly €224 million) are particularly significant. The breakdown by due date includes the receivable 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.

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 2017, 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 receivables 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 2017 and 2016, including interest to be paid:

31/12/2017	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2 years	Beyond 5 years
Non-derivative financial liabilities							
Bank loans and borrowings	734,381	748,956	102,598	62,049	124,941	377,900	81,468
Shareholder loans	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**

31/12/2016	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2 years	Beyond 5 years
Non-derivative financial liabilities							
Bank loans and borrowings	1,089,779	1,104,768	177,884	177,970	165,570	376,728	206,616
Shareholder loans	5,421,803	5,654,063	1,524,221	28,683	644,818	1,787,030	1,669,311
Financial liabilities	258,480	258,480	258,480	-	-	-	-
Total	**6,770,062**	**7,017,311**	**1,960,585**	**206,653**	**810,388**	**2,163,758**	**1,875,927**
Trade payables	**1,821,488**	**1,821,488**	**1,821,488**	**-**	**-**	**-**	**-**
Derivative financial liabilities	**53,297**	**57,859**	**15,609**	**11,876**	**16,853**	**8,477**	**5,044**

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 and trade payables by due date within one year, from 1 to 5 years and after 5 years:

31/12/2017	Carrying amount	Within one year	1 years	Beyond 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**	**-**	**-**

31/12/2016	Carrying amount	Within one year	1 years	Beyond 5 years
Non-derivative financial liabilities				
Bank loans and borrowings	1,089,779	354,636	533,958	201,185
Shareholder loans	5,421,803	1,534,587	2,303,319	1,583,897
Financial liabilities	258,480	258,480	-	-
Total	**6,770,062**	**2,147,703**	**2,837,277**	**1,785,082**
Trade payables	**1,821,488**	**1,821,488**	**-**	**-**

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 2017, the all-in cost of the company's non-current debt, including the credit spread, stood at 1.3%.

At 31 December 2017, approximately 45% of non-current debt accrues interest at fixed rates or is hedged until maturity via interest rate derivatives.

With reference to the residual debt not covered until maturity, the following were negotiated:

- three-year hedges, effective between the second half of 2015 and the second half of 2018. These hedges were agreed in the second half of 2015 through interest rate swaps that fix the average cost of debt, including the spread, to below 0.5%
- hedging transactions via interest rate cap, effective between 2018 and 2020, with a strike rate on the 6M Euribor set at 0.00% and an average premium of 0.1% per year. The transactions performed in 2016 enable the company to incur an overall borrowing cost hedged to the maximum equal to the credit spread increased by such premium

Again in 2016, Trenitalia carried out its first fair value hedge transaction, transforming a fixed-rate, 15-year €50 million loan into a variable rate via the interest rate swap.

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

The tables below show Trenitalia's debt, including current debt, and the related hedges (variable rate and fixed rate loans):

	Carrying amount	**Contractual cash flows**	**Current portion**	**1 and 2 years**	**2 and 5 years**	**beyond 5 years**
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**
Variable rate	6,051,689	6,182,299	2,117,975	783,642	1,464,005	1,816,677
Fixed rate	718,373	835,012	49,263	26,746	699,753	59,250
31 December 2016	**6,770,062**	**7,017,311**	**2,167,238**	**810,388**	**2,163,758**	**1,875,927**

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.

	31.12.2017	31.12.2016
Before hedging with derivative instruments		
Variable rate	71.46%	89.39%
Fixed rate	28.54%	10.61%
After hedging with derivative instruments		
Variable rate	15.44%	30.68%
Hedged variable rate	20.75%	18.62%
Fixed rate	63.81%	50.70%

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 2017:

	Shift + 50 bps	Shift - 50 bps
Interest expense on variable-rate liabilities (Δ)	19,143	(12,975)
Net cash flows from hedges (Δ)	(15,893)	13,209
Total	**3,250**	**234**

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, either as an increase or a decrease, in the swap rate curve recorded at 31 December 2017 on the fair value of hedging derivatives is given below:

	Shift + 50 bps	Shift - 50 bps
Fair value of cash flows hedge transactions (Δ)	12,971	(7,753)
Fair value of fair value hedge transactions (Δ)	(2,976)	3,201
Total	**9,995**	**(4,552)**

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 CHF 45 million with Eurofima through the parent, following its acquisition of the assets of Cisalpino AG, as shown in the table below:

	31/12/2017		31/12/2016	
	Euro equivalent	**CHF**	**Euro equivalent**	**CHF**
Shareholder loans	38,455	45,000	63,786	68,500
Gross amount in the statement of financial position	**38,455**	**45,000**	**63,786**	**68,500**
Currency forwards	-	-	-	-
Net balance	**38,455**	**45,000**	**63,786**	**68,500**

Equity 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 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
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	

31 December 2016	Loans and receivables	Loans and borrowings	of which: hedging derivatives
Non-current financial assets (including derivatives)	1,962		827
Other non-current assets	14,789		
Current trade receivables	1,373,094		
Current financial assets (including derivatives)	3,134		
Cash and cash equivalents	38,693		
Tax assets	6,986		
Other current assets	353,781		
Non-current loans and borrowings		4,622,360	
Non-current financial liabilities (including derivatives)		46,241	46,241
Other non-current liabilities		756	
Short-term loans and borrowings and current portion of medium/long-term loans and borrowings		1,889,222	
Current trade payables		1,821,488	
Current financial liabilities (including derivatives)		265,536	7,056
Other current liabilities		604,100	

Statement of financial position disclosure

5. Property, plant and equipment

Property, plant and equipment at 31 December 2017 and changes therein are shown in the table below. The assets' estimated useful lives did not change during the year.

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	2,058,046	18,354,540	187,897	466,920	793,177	21,860,580
Depreciation and impairment losses	(691,594)	(10,580,451)	(156,369)	(407,720)	(23,396)	(11,859,530)
Grants	-	(417,240)	-	0	(38,504)	(455,744)
Balance at 01.01.2016	**1,366,452**	**7,356,849**	**31,528**	**59,200**	**731,277**	**9,545,306**
Investments				9	1,508,390	1,508,399
Roll-outs	27,728	1,602,341	5,110	20,827	(1,656,776)	(770)
Depreciation	(26,179)	(992,767)	(6,505)	(21,589)		(1,047,040)
Impairment losses	(295)	(9,593)			(4,317)	(14,205)
Disposals and divestments*		(240)	(374)	-		(614)
Increases	(1,815)	(27,300)	(2,567)	(224)	(19,376)	(51,282)
Other changes	92	17	(281)	172		(0)
Other reclassifications**		(17,512)				(17,512)
Total changes	**(469)**	**554,946**	**(4,617)**	**(805)**	**(172,079)**	**376,976**
Reclassification to assets held for sale						
Historical cost	(50,461)	(1,132,224)	(13,501)	(60,188)	(12,427)	(1,268,801)
Depreciation and impairment losses	11,172	897,376	11,606	59,344		979,498
Grants	0	129	305			435
Total reclassification to assets held for sale	**(39,289)**	**(234,718)**	**(1,590)**	**(845)**	**(12,427)**	**(288,868)**
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 31.12.2016	**1,326,694**	**7,677,077**	**25,321**	**57,550**	**546,771**	**9,633,413**
Investments	-	-	-	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)	-	(1,041,428)
Impairment losses	-	(56,852)	-	-	(1,432)	(58,284)
Disposals and divestments*		(15,207)	-	(16)	-	(15,223)
Increases	-	(102,307)	-	-	13,630	(88,677)
Other changes	-	-	-	-	(3,322)	(3,322)
Other reclassifications**	-	(3,631)	-	-	-	(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)	(596,577)
Balance at 31.12.2017	**1,333,763**	**7,527,588**	**29,388**	**44,363**	**361,657**	**9,296,759**
Disposals and divestments*						
Historical cost		(54,203)	(294)	(30,598)		(85,095)
Depreciation		36,069	294	30,582		66,945
Grants		-				
Impairment losses		2,927				2,927
Total disposals and divestments	**-**	**(15,207)**	**-**	**(16)**	**-**	**(15,223)**
Other reclassifications **						
Historical cost	3,294	(980,005)			(132)	(976,843)
Depreciation		948,067				948,067
Grants	(3,294)	1,853			132	(1,309)
Impairment losses		26,454				26,454
	-	**(3,631)**			**-**	**(3,631)**

The most significant changes of the year are as follows:

- investments of €875,827 thousand refer to rolling stock for €804,382 thousand (including advances for the purchase of rolling stock) and to other investments in workshop systems and buildings and technical equipment for €71,445 thousand. Specifically, investments in rolling stock particularly relate to the ongoing renewal of both the high speed service fleet (€361,303 thousand), with the completion of the delivery of new ETR 1000 electric trains, and the regional transport fleet, with the completion of the contracts to purchase "Vivalto" carriages, electric "Jazz" trains and the diesel "Swing" trains and the beginning of the purchase of the new "Rock" and "Pop" trains. Other investments include value-increasing maintenance (€341,544 thousand) and revamping/restyling projects (€100,623 thousand). They also include the continuation of plant maintenance reinforcement and improvement.
- roll-outs mainly related to rolling stock (€1,001,481 thousand), including: new rolling stock for regional transport, such as double-decker carriages (€81,407 thousand), E464 locomotives (€2,392 thousand), "Flirt", "Swing" and "Jazz" trains (€74,883 thousand), and for high speed transport, with HS ETR 1000 trains (€303,925 million) as well as value-increasing maintenance and restyling and revamping projects (€539 million);
- depreciation is recognised in profit or loss in accordance with the rates applicable to property, plant and equipment;
- impairment losses of €58,284 thousand essentially include the impairment of rolling stock (€56,852 thousand) following the beginning of the disposal process;
- disposals and divestments mainly refer to the sale of rolling stock to Thello Netinera (€1,016 thousand), Trasporto Ferroviario Toscano and Mercitalia Shunting;
- reclassifications of €3,631 thousand are due to non-current assets that the company no longer uses in the production cycle and that have been transferred to current assets pending disposal;
- the increase in grants related to assets of €88,677 thousand mainly consists of those given by the regions and the EC via the MIT for the purchase of rolling stock (€88,581 thousand and €1,110 thousand, respectively);

The rolling stock guarantees issued in favour of Eurofima for the non-current loans raised through the parent Ferrovie dello Stato Italiane amount to €2,157,897 thousand, updated based on the Amendment Agreement dated 28 March 2017.

6. Intangible assets

Intangible assets at 31 December 2017 and changes therein are shown in the table below. The assets' estimated useful lives did not change during the year.

INTANGIBLE ASSETS

	Development expenditure	Concessions, licences, trademarks and similar rights	Assets under development and payments on account	Total
Historical cost	14,914	606,060	10,778	631,752
Amortisation and impairment losses	(11,473)	(477,828)	(1,224)	(490,525)
Grants	(1,959)	(428)	-	(2,387)
Balance at 01.01.2016	**1,482**	**127,804**	**9,554**	**138,840**
Investments			48,222	**48,222**
Roll-outs	435	45,201	(44,867)	**769**
Amortisation	(514)	(43,583)		**(44,097)**
Impairment losses				**-**
Disposals and divestments				**-**
Other changes	5			**5**
Change in grants		(2,932)	0	**(2,932)**
Other reclassifications				**-**
Total changes	**(74)**	**(1,314)**	**3,355**	**1,967**
Reclassification to assets held for sale				
Historical cost	(1,000)	(67,255)	(180)	**(68,435)**
Amortisation and impairment losses	1,000	53,525		**54,525**
Grants	-	2,778		**2,778**
Total reclassification to assets held for sale	**0**	**(10,953)**	**(180)**	**(11,133)**
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 31.12.2016	**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				**-**
Other changes				**-**
Change in grants				**-**
Other reclassifications *	-	-		**-**
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**

Reclassifications*				
Change in historical cost due to reclassifications	(1,444)	(374,575)		**(376,019)**
Changes in accumulated amortisation due to reclassifications		374,795		**374,795**
Change in grants related to assets due to reclassifications	1,444	(220)		**1,224**
Total reclassifications	**-**	**-**	**-**	**-**

The changes of the year relating to both "Investments" (€64,008 thousand) and "Roll-outs" (€24,188 thousand) are attributable to software development for the company's management systems. The investments made include:

- an investment project to adopt a new regional control room organisational model which will improve controls over the operating management processes;
- creating the new dynamic maintenance system to improve the efficiency of the maintenance process through predictive activities;
- implementing revenue management systems, developing reporting processes for hand held devices used by on-board personnel and the CRM (Customer Relationship Management) platform;
- developing a business continuity solution for company processes and applications.

Amortisation of €44,641 thousand is that recognised in profit or loss at the rates applicable to intangible assets.

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 2017 as it had not identified any trigger events.

7. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities at 31 December 2017 and changes of the year are shown below.

	31.12.2016	Incr.(decr.) through profit or loss	Incr.(decr.) through OCI	31.12.2017
Deferred tax assets				
- Measurement of financial instruments	12,449		(5,677)	6,772
- Deferred tax assets on prior year losses	87,300	(1,470)		85,830
Total	**99,749**	**(1,470)**	**(5,677)**	**92,602**
Deferred tax liabilities				
- Value differences on intangible assets and property, plant and equipment	105,225	(730)		104,495
- Post-employment benefits and other employee benefits	(15,386)		2,480	(12,906)
- Other items: provision for workshop charges	90	2		92
Total	**89,929**	**(728)**	**2,480**	**91,681**
Balance (Liabilities-Assets)	**(9,820)**	**742**	**8,157**	**(921)**

The €7,147 thousand decrease in deferred tax assets is due to:

- the €5,677 thousand decrease resulting from the lower fair value of interest rate hedges through CHF derivatives.
- the €1,470 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. In this respect, the company continues to apply an extremely prudent approach when calculating recognisable deferred tax assets considering their potential recoverability in the time period covered by the 2018 budget and the 2019 plan only.

Tax losses already generated and transferred to the group consolidation scheme and not yet used at year end amount to approximately €477 million (€849 million at 31 December 2016).

Deferred tax liabilities of €91,681 thousand slightly increased by a net €1,752 thousand, following the increase in deferred taxes related to post-employment benefits (€2,480 thousand) and the deferred tax liabilities related to the provision for workshop charges (€2 thousand), partially offset by the release of the provision for taxes on assets (€730 thousand).

8. Equity investments

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

	Carrying amount at 31.12.2016	**Carrying amount at 31.12.2017**	**Cumulative allowance for impairment at 31.12.2017**
Equity investments in			
Subsidiaries	7,263	15,273	1,500
Jointly controlled entities	42,160	42,160	941
Other companies	39	35	23
	49,462	**57,468**	**2,464**

Changes in 2017 are shown below:

	Carrying amount at 31.12.2016	Acquisitions/ Subscriptions	Acquisitions/ Reductions	Impairment losses/Reversals of impairment losses	Reclass.	Rescission	Reclassification to assets held for sale	Carrying amount at 31.12.2017	% of invest.	Cumulative allowance for impairment at 31.12.2017
Investments in subsidiaries	**7,263**							**15,273**		**1,500**
Serfer S.r.l.	7,088		(7,088)						100%	
Thello S.a.s.	-							0	100%	1,500
Trenitalia UK Limited	-	15,098						15,098	100%	
Soc. Ferr.Provv. Emilia Romagna Scarl	175							175	70%	
Investments in jointly controlled entities	**42,160**							**42,160**		**941**
Cisalpino AG	4,100							4,100	50%	941
Trenord S.r.l.	38,060							38,060	50%	
Other companies	**39**							**35**		**23**
Consel S.c.a.r.l.	1							1	1%	
Consorzio Trasporti Integrati	10							10	74%	
Isfort	28			(4)				24	5.58%	23
	49,462							**57,468**		**2,464**

In detail:

- TrenitaliaUK's capital increase which took place on 10 February 2017 for a consideration of GBP13 million equal to approximately €15 million.
- the sale of the entire investment held in Serfer S.r.l. to Mercitalia Logistics S.p.A. on 7 July 2017 for a consideration equal to the company's entire equity (€14.3 million). This transaction resulted in a gain of €7.3 million.

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

	Registered office	Share/quota Capital	Profit (Loss) for the year	Equity (Net deficit) at 31.12.2017	% of ownership	Attributable equity (a)	Carring amount at 31.12.2017 (b)	Difference (b) - (a)
Investments in subsidiaries								
Thello S.a.S.	Paris, 15 rue des Sablons	1,500	(7,746)	(9,121)	100%	(9,121)	-	9,121
Trenitalia UK Limited (**)	London, 20 Primrose Street	14,652	256	14,905	100%	14,905	15,098	193
Società Ferr. Provvisoria Emilia Romagna Scarl (*)	Bologna, Via del Lazzaretto 16						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	10,522	92,752	50%	46,376	38,060	(8,316)
							42,160	
TOTAL							**57,433**	

(*) Not operating
(**) Average 2017: GBP exchange rate 1.143; al 31/12/2017: 1.127
(***) Average 2017 Swiss France exchange rate: 1.110; al 31/12/2017: 1.170

The most significant difference 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.

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/(loss)
Investments in jointly controlled entities										
Cisalpino AG (**)	50%	7,906	499	8,405	670	0	670	408	938	(530)
Trenord S.r.l.	50%	358,020	261,146	619,166	429,300	101,516	530,816	782,907	771,754	11,153
31.12.2016										
Investments in jointly controlled entities										
Cisalpino AG (**)	50%	7,697	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										

(**) amounts in Euros

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

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

	Carrying amount								
	31.12.2017			31.12.2016			Differences		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial assets									
Derivatives	67	-	67	827	-	827	(760)	-	(760)
Loan assets	-	19,325	19,325	-	3,134	3,134	-	16,191	16,191
Other loan assets	1,290	-	1,290	1,135	-	1,135	155	-	155
	1,356	**19,325**	**20,681**	**1,962**	**3,134**	**5,096**	**(606)**	**16,191**	**15,585**

Financial assets amount to €20,681 thousand at 31 December 2017, compared to €5,096 thousand at the previous year end.

The €15,585 thousand increase in financial assets is essentially due to the balance of the intercompany current account held with Thello SaS (€16,474 thousand).

Financial assets are broken down below by counterparty:

	31.12.2017			31.12.2016		
	Non-current	Current	Total	Non-current	Current	Total
Banks	1,356	684	2,040	1,714	-	1,714
Trenord S.r.l.	-	2,166	2,166	-	2,166	2,166
Thello S.p.A.	-	16,474	16,474	-	-	-
Ferrovie dello Stato Italiane S.p.A.	-	-	-	248	968	1,216
Total	**1,356**	**19,324**	**20,681**	**1,962**	**3,134**	**5,096**

10. Other non-current and current assets

They can be analysed as follows:

	31.12.2017			31.12.2016			Differences		
	Non-current	**Current**	**Total**	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Other receivables from group companies	-	12,518	12,518	-	16,343	16,343		(3,825)	(3,825)
VAT credits from the parent	561	104,744	105,305	561	317,675	318,236		(212,931)	(212,931)
Receivables for tax consolidation	-	1,492	1,492	-	1,455	1,455		37	37
Other VAT credit	31	-	31	31	-	31	-	-	-
Other government authorities	71,895	10,126	82,021	13,241	2,760	16,001	58,654	7,366	66,020
Sundry receivables and prepayments and accrued income	1,692	18,258	19,950	956	16,067	17,023	736	2,191	2,927
Total	**74,179**	**147,138**	**221,317**	**14,789**	**354,300**	**369,089**	**59,390**	**(207,162)**	**(147,772)**
Allowance for impairment	-	(323)	(323)		(519)	(519)		196	196
Total net of the allowance for impairment	**74,179**	**146,815**	**220,994**	**14,789**	**353,781**	**368,570**	**59,390**	**(206,966)**	**(147,576)**

Other non-current and current assets mainly include:

- receivables from other government authorities of €82,021 thousand, mainly related to the residual receivable 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 €60,376 thousand €7,258 thousand, respectively) and receivables from the MIT for grants related to the Autostrada Ferroviaria Alpina project (non-current and current portion of €6,921 thousand and €1,795 thousand, respectively);
- VAT credits from the parent of €105,305 thousand. The €212,931 thousand decrease refers to the collection of the 2015 and 2016 VAT claims for reimbursement. The company applies the split payment regime in invoices to the public administration;
- other loans and receivables of €19,950 thousand which, in turn, include: receivables from social security institutions (€5,473 thousand), receivables from personnel (€1,821 thousand), sundry receivables from the distributors of regional transport tickets (€948 thousand), advances to suppliers (€1,256 thousand), receivables for POS collections in the subsequent year (€7,438 thousand) and other sundry receivables (€3,014 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 (€323 thousand).

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

	31.12.2017			31.12.2016			Differences		
	Non-current	**Current**	**Total**	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Italy	74,179	145,127	219,306	14,831	347,159	361,990	59,348	(202,032)	(142,684)
Eurozone countries		1,212	1,212		7,181	7,181		(5,969)	(5,969)
United Kingdom		92	92		44	44		48	48
Other European countries (EU, non-Euro)					754	754		(754)	(754)
Other non-EU European countries		707	707		1,939	1,939		(1,232)	(1,232)
Adjustment to assets held for sale				(42)	(2,777)	(2,819)	42	2,777	2,819
	74,179	**147,138**	**221,317**	**14,789**	**354,300**	**369,089**	**59,390**	**(207,162)**	**(147,772)**

11. Inventories

They can be analysed as follows:

	31.12.2017	31.12.2016	Differences
Raw materials, consumables and supplies	700,703	722,506	(21,803)
Allowance for inventory write-down	(143,746)	(146,459)	2,713
Carrying amount	**556,957**	**576,047**	**(19,090)**
Retired assets to be sold	15,990	19,745	(3,755)
Allowance for inventory write-down	(13,689)	(11,356)	(2,333)
Carrying amount	**2,301**	**8,389**	**(6,088)**
Total inventories	**559,258**	**584,436**	**(25,178)**

Inventories decreased by €25,178 thousand on the previous year-end balance, mainly due to raw materials, consumables and supplies (-€19,090 thousand). The decrease is the result of the purchasing efficiency plans and the launch of a progressive spare parts disposal plan (-€21,803 thousand), offset, in part, by the reduction in the allowance for inventory write-down (€2,713 thousand) following the combined effect of the utilisation of approximately of €34 million for scrapped spare parts and the approximately €31 million accrual in accordance with the company's write-down policies governing the measurement of rolling stock to be written down (roughly €10 million).

12. Current trade receivables

They can be analysed as follows:

	31.12.2017	31.12.2016	Differences
Ordinary customers			
- Customers	77,861	80,423	(2,562)
- Customers for travel irregularities	235,100	242,405	(7,305)
Government administrations and other public administrations	63,653	73,550	(9,897)
Foreign railways	9,533	9,798	(265)
Railways under concession	14,897	22,488	(7,591)
Agencies and other transport companies	23,616	25,135	(1,519)
and the regions	1,301,624	1,083,708	217,916
- Public service contracts from the regions	793,502	794,485	(983)
- Public service contracts from the government	508,122	289,223	218,899
Other receivables from group companies	169,545	107,952	61,593
Total	**1,895,829**	**1,645,459**	**250,370**
Allowance for impairment	(285,000)	(272,365)	(12,635)
Total net of the allowance for impairment	**1,610,829**	**1,373,094**	**237,735**

The €237,735 increase on the previous year was substantially due to:

- the increase in receivables generated by the service contract with the MEF (€218,899 thousand) due to fees accrued during the year but not yet collected;
- the decrease in receivables from the regions (-€983 thousand), due to better collection trends;

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 area, is as follows:

	31.12.2017	**31.12.2016**	**Differences**
Italy	1,871,217	1,802,731	68,486
Eurozone countries	7,197	36,781	(29,584)
United Kingdom	1,005	334	671
Other European countries (EU, non-Euro)	1,644	460	1,184
Other non-EU European countries	14,621	15,907	(1,286)
Other countries	143	133	10
United States	2		2
Reclassification to assets held for sale		(210,887)	210,887
	1,895,829	**1,645,459**	**250,370**

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

Allowance for impairment - trade receivables	**31.12.2016**	**Accruals**	**Utilisations**	**Reclassifications**	**31.12.2017**
Ordinary customers					
- Customers	11,695		(757)	(23)	10,915
- Customers for travel irregularities	238,900	32,317	(39,622)		231,595
Government administrations and other public administrations	3,816	20,829	(5)	(46)	24,594
Agencies and other transport companies	13,232		(76)	18	13,174
Other receivables from group companies	4,722				4,722
Total	**272,365**	**53,146**	**(40,460)**	**(51)**	**285,000**

The 2017 accrual refers to the increase in the allowance covering amounts receivable due to travel irregularities (€32,217 thousand) and those from public authorities whose recoverability is uncertain (€20,829 thousand).

13. Cash and cash equivalents

They can be analysed as follows:

	31.12.2017	**31.12.2016**	**Differences**
Bank and postal accounts	9,227	4,879	4,348
Cash and cash on hand	30,644	33,814	(3,170)
Total	**39,871**	**38,693**	**1,178**

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 2018.

"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.

14. Tax assets

Tax assets of €179 thousand were substantially zeroed (-€6,807 thousand). Indeed, the recognition of the IRAP (regional productivity tax) for the year (€25,772 thousand) resulted in the settlement of the receivable for IRAP advances (€15,942 thousand) and the recognition of a liability of €9,830 thousand.

15. Assets held for sale and liabilities associated with assets held for sale and profit on assets held for sale and liabilities associated with assets held for sale

This caption, recognised in the 2016 annual report, to which reference should be made for further details, coincides with the (current and non-current) assets/liabilities of the Cargo business unit demerged to Mercitalia Rail S.r.l., and the profit/loss of said business unit.

16. Equity

Changes in equity in 2016 and 2017 are shown in the statement of changes in equity at the beginning of the notes to the financial statements.

Share capital

At 31 December 2017, the company's fully subscribed and paid-up share capital was made up of 2,835,564 ordinary shares, with a par value of €500 each, for a total of €1,417,782 thousand. It decreased by €236,682 thousand (473,364 shares with a par value of €500 each) following the demerger of the Cargo business unit to Mercitalia Rail S.r.l. on 1 January 2017.

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 2017, it amounted to €52,168 thousand, following the allocation of 5% of the profit for 2016, equal to €5,841 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 2017, this reserve was negative by €21,445 thousand. Compared to the previous year, it decreased by a gross amount of €23,655 thousand, as a result of the changes in the fair value of derivatives (IRSs and collars) held in portfolio at 31 December 2017, offset by a €5,677 thousand change in deferred tax assets of the opposite sign.

Actuarial reserve

The actuarial reserve, which includes the effects of actuarial gains and losses on post-employment benefits and the free travel card, amounts to €134,374 thousand at 31 December 2017. An actuarial profit of €4,206 thousand (net of a tax effect of €2,481 thousand) was recognised in 2017, compared to an actuarial loss of €3,901 thousand in 2016. The increase mainly refers to the increase in the discount rate applied to liabilities for employee benefits at 31 December 2017 (0.88%), compared to the previous year end (0.86%).

Retained earnings

This caption increased by €110,979 thousand as a result of the allocation of the 2016 profit of €116,820 thousand, net of the portion allocated to the legal reserve (€5,841 thousand). No dividends were distributed in 2017.

Therefore, at 31 December 2017, retained earnings totalled €619,941 thousand, compared to €508,962 thousand at 31 December 2016.

Profit for the year

The company reported a profit for the year of €276,242 thousand, compared to €116,820 thousand for the previous year.

Availability of reserves

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

Origin	Balance at 31.12.2017 (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 capital	1,417,782	1,417,782	-	-	-	-	-	-	-
Equity-related reserves:									
Revaluation reserve (Decree law no. 185/2008)	177,084	-	**A B**	177,084	-	-	-	-	-
Unrealised gains and losses on CHF derivatives	(21,445)	(21,445)	-	-	-	-	-	-	-
Actuarial reserve	(134,374)	(134,374)	-	-	-	-	-	-	-
Income-related reserve:									
Legal reserve	52,168	52,168	**B**	-	-	-	-	-	-
Retained earnings (*)	619,941	43,054	**A B C**	576,887	576,887	-	-	45,000	-
TOTAL	**2,111,156**	**1,357,185**		**753,971**	**576,887**	**-**	**-**	**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 loans and borrowings

	Carrying amount		
Non-current loans and borrowings	**31.12.2017**	**31.12.2016**	**Differences**
Bank loans and borrowings	570,396	735,144	(164,748)
Shareholder loans	4,655,829	3,887,216	768,613
Total non-current loans and borrowings	**5,226,225**	**4,622,360**	**603,865**

Current portion of non-current loans and borrowings	**31.12.2017**	**31.12.2016**	Differences
Bank loans and borrowings	163,985	354,635	(190,650)
Shareholder loans	630,270	34,337	595,933
Total	**794,255**	**388,972**	**405,283**

Current loans	**31.12.2017**	**31.12.2016**	**Differences**
Shareholder loans	500,441	1,500,250	(999,809)
Total	**500,441**	**1,500,250**	**(999,809)**
Total current loans	**1,294,696**	**1,889,222**	**(594,526)**

Non-current loans	**6,020,480**	**5,011,332**	**1,009,148**
Total Loans	**6,520,921**	**6,511,582**	**9,339**

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 charges of €18,637 thousand at 31 December 2017 (€12,756 thousand at 31 December 2016).

In particular, the non-current portion of loans and borrowings, totalling €5,226,225 thousand (€4,622,360 thousand at 31 December 2016) is up by €603,865 thousand due to:

- new loans granted to the company by the parent (approximately €1,379,923 thousand) in order to meet non-current financial requirements;
- partially offset by the reclassification of loans and borrowings falling due in 2018 (€776,058 thousand) to current loans and borrowings. They consist of: Eurofima loans of €612,100 thousand from the parent, €123,333 thousand from Banca Infrastrutture Innovazione e Sviluppo (formerly Opi) and €40,625 thousand from the European Investment Bank.

The current portion of non-current loans and borrowings increased by €405,283 thousand as a result of the difference between the above reclassifications of portions of loans falling due in 2018 (€776,058 thousand) and the repayment of the principal on the loans that fell due in 2017. They consist of: the Eurofima loans from the parent of €21,833 thousand, €123,333 thousand from Banca Infrastrutture Innovazione e Sviluppo (formerly Opi) and €231,250 thousand from the European Investment Bank.

Current loans, which total €500,441 thousand (31 December 2016: €1,500,250 thousand), decreased by €999,809 thousand, mainly due to the reduction in the current portion of the loan from the parent (€1 billion), offset by new non-current loans.

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

Creditor	Currency	Nominal interest rate	Year of expiry	31.12.2017		31.12.2016	
				Nominal amount	Carrying amount	Nominal amount	Carrying amount
BANCA EUROPEA DEGLI INVESTIMENTI	€	6 m Euribor +/- Spread	2017	€ -		€ 150,000	€ 150,000
BANCA EUROPEA DEGLI INVESTIMENTI	€	6 m Euribor +/- Spread	2018	€ 40,625	€ 40,625	€ 121,875	€ 121,875
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2018	€ 200,000	€ 200,000	€ 200,000	€ 200,000
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2018	€ 200,000	€ 200,000	€ 200,000	€ 200,000
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2018	€ 149,400	€ 149,400	€ 149,400	€ 149,400
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2018	€ 62,700	€ 62,700	€ 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	€ 300,076	€ 300,000	€ 300,238
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	€ 506,871	€ 500,000	€ 506,000
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2020	€ 150,000	€ 150,090	€ 150,000	€ 150,105
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2020	€ 150,000	€ 150,086	€ 150,000	€ 150,084
FERROVIE DELLO STATO ITALIANE	€	3.70%	2021	€ 100,000	€ 99,863	€ 100,000	€ 99,784
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	€ 416,667	€ 416,690	€ 500,000	€ 500,027
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2022	€ 350,000	€ 350,212	€ 350,000	€ 350,175
FERROVIE DELLO STATO ITALIANE	€	1.075%	2023	€ 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	€ 280,000	€ 280,003	€ 320,000	€ 320,026
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2025	€ 42,500	€ 42,601	€ 42,500	€ 42,619
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2025	€ 300,000	€ 300,017	€ 300,000	€ 300,012
FERROVIE DELLO STATO ITALIANE	€	1.70%	2025	€ 700,000	€ 703,848	€ -	€ -
FERROVIE DELLO STATO ITALIANE	€	6 m Euribor +/- Spread	2025	€ 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	€ 50,194	€ 50,000	€ 50,181
Total non-current loans - €				**€ 5,987,592**	**€ 5,984,691**	**€ 4,942,175**	**€ 4,948,926**
FERROVIE DELLO STATO ITALIANE	CHF	2.900%	2017	CHF -	CHF -	CHF 23,500	CHF 24,007
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 68,500**	**CHF 69,325**
Euro equivalent				**€ 38,455**	**€ 38,726**	**€ 63,786**	**€ 64,554**
Adjustments to loans for FVH derivatives					**€ (2,937)**		**€ (2,148)**
Non-current loans				**€ 6,026,047**	**€ 6,020,480**	**€ 5,005,961**	**€ 5,011,332**

The table below analyses net financial debt at the reporting date compared to that at 31 December 2016:

Net financial debt	31.12.2017	31.12.2016	Change
Current net financial debt	**1,660,470**	**2,105,873**	**(445,404)**
Loans and borrowings from other financial backers (parent)	500,000	1,500,000	(1,000,000)
Current portion of non-current loans and borrowings (parent)	612,100	21,883	590,217
Current portion of bank loans and borrowings	163,958	354,583	(190,625)
Intercompany current account	424,968	254,043	170,924
Other (including accruals)	(40,556)	(24,636)	(15,920)
Non-current net financial debt	**5,224,936**	**4,621,225**	**603,711**
Loans and borrowings from other financial backers (parent)	4,655,829	3,887,216	768,613
Bank loans and borrowings	570,396	735,143	(164,747)
Other	(1,290)	(1,135)	(155)
Total	**6,885,405**	**6,727,098**	**158,307**

18. Post-employment benefits and other employee benefits

	31.12.2017	31.12.2016
Present value of post-employment benefit obligations	689,773	751,836
Present value of CLC obligations	18,271	15,844
Total present value of post-employment benefit and CLC obligations	**708,044**	**767,680**
Other employee benefits	86	85
Total post-employment benefits and other employee benefits	**708,130**	**767,765**

Changes in the present value of liabilities for defined benefit obligations for post-employment benefits and the free travel card ("CLC") are shown in the table below:

Post-employment benefits	**2017**	**2016**
Opening balance	751,836	900,821
Interest cost (*)	7,051	9,326
Actuarial (gains) losses recognised in equity	(7,203)	3,545
Advances and utilisations	(61,911)	(44,410)
Reclassification to liabilities associated with assets held for sale	-	(117,446)
Closing post-employment benefits liabilities	**689,773**	**751,836**
CLC		
Opening balance	15,844	17,858
Service cost (**)	163	202
Interest cost (*)	258	285
Actuarial losses recognised in equity	2,999	522
Advances and utilisations	(993)	(945)
Reclassification to liabilities associated with assets held for sale	-	(2,078)
Closing CLC liabilities	**18,271**	**15,844**

(*) through profit or loss

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

The use of the provision for post-employment benefits (€61,911 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 €7,203 thousand during the year, compared to the actuarial loss of €3,545 thousand in 2016. This change is mainly due to the increase in the discount rate applied to the liability for post-employment benefits (0.88% at 31 December 2017, compared to 0.86% at 31 December 2016) 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 €18,271 thousand at 31 December 2017, compared to €15,844 thousand at 31 December 2016. The free travel card generated an actuarial loss of €2,999 thousand, compared to the actuarial loss of €522 thousand in 2016.

Other employee benefits at 31 December 2017 amount to €86 thousand (31 December 2016: €85 thousand) and are made up of a supplementary insurance policy for employees.

Actuarial assumptions

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

	31.12.2017	31.12.2016
Discount rate (post-employment benefits)	0.88%	0.86%
Discount rate (CLC)	1.67%	1.31%
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.

31.12.2017	Post-employment benefits	CLC
Turnover rate +1%	686,888	-
Turnover rate -1%	692,965	-
Inflation rate +0.25%	696,608	19,532
Inflation rate -0.25%	683,039	17,071
Discount rate +0.25%	678,984	17,775
Discount rate -0.25%	700,885	18,789

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.

31.12.2017	Post-employment benefits	CLC
Service cost	-	188
Term of the plan (years)	7.0	12.0
Estimated future payments		
First year	74,238	1,047
Second year	34,746	1,050
Third year	67,199	1,056
Fourth year	67,608	1,067
Fifth year	91,319	1,083

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.

	31.12.2016	Accruals	Utilisations and other changes	Reclassifications	31.12.2017
Restructuring provision	24,000	21,272	(9,272)	-	36,000
Other provisions:					
Provision for workshop charges	14,366	-	(8)	(8)	14,350
Provision for risks and charges	70,218	21,251	(15,546)	-	75,923
Total non-current portion	**108,584**	**42,523**	**(24,826)**	**(8)**	**126,273**
Provision for workshop charges - current portion	4,461	-	(8)	8	4,461
Total current portion	**4,461**	**-**	**- 8**	**8**	**4,461**
Total provisions for risks and charges	**113,045**	**42,523**	**(24,834)**	**-**	**130,734**

The restructuring provision amounting to €36 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). €9,272 thousand of the provision was used for projects launched during the year, and €21,272 thousand was accrued additional benefits expected in 2018 which should affect approximately 250 employees.

The provision for workshop charges (€18,810 thousand) is substantially unchanged from the previous year. The current portion amounts to €4,461 thousand.

At year end, other provisions for risks and charges amount to €75,923 thousand (31 December 2016: €70,218 thousand), comprised as follows:

- provision for labour litigation of €11,195 thousand (31 December 2016: €14,493 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 of €5,640 thousand (31 December 2016: €6,543 thousand) in relation to the quality of the transport services rendered under the public service contract;
- provision for civil litigation, disputes and other risks relating to relationships with customers and third parties of €49,967 thousand (31 December 2016: €47,760 thousand), the outcome of which could be unfavourable for the company;
- provision for risks on equity investments of €9,121 thousand (31 December 2016: €1,422 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 €21,383 thousand in 2017, with accruals for: (a) labour litigation (€986 thousand); (b) possible penalties to be paid to the regions (€5,561 thousand); (c) disputes and any other risks relating to relationships with customers and third parties (€7,006 thousand); and (d) risks on equity investments (€7,699 thousand).

Finally, the provisions for risks and charges decreased by €25,975 thousand in 2017, due to penalties due to the regions for public service contracts (€6,464 thousand), charges arising on disputes in court or out of court concerning labour issues pertaining to the company (€4,284 thousand) and disputes with other third parties that were settled unfavourably for the company (€4,799 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)

	31.12.2017			31.12.2016			Differences		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Hedging derivatives	17,483	14,690	32,173	46,241	7,056	53,297	(28,758)	7,634	(21,124)
Other financial liabilities		424,970	424,970	-	258,480	258,480	-	166,490	166,490
	17,483	**439,660**	**457,143**	**46,241**	**265,536**	**311,777**	**(28,758)**	**174,124**	**145,366**

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 €32,173 thousand, was calculated for all transactions in place at 31 December 2017 and decreased by €21,194 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 market value calculation models.

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

Specifically, the swap vs. 3M Euribor curve figures were used, as well as those related to the swap vs. 6M Euribor curve, the Eur interest rate volatility curve 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 intragroup current account held with the parent, amounting to €424,969 thousand (31 December 2016: €254,045 thousand). This caption increased on the previous year by €170,924 thousand (€4,435 thousand at 31 December 2016) due to the different source of funds, while the intragroup current account held with Thello has a credit balance.

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 2016	**5,011,332**	**1,500,250**	**(5,095)**	**311,777**	**6,818,264**
Net cash flows as per the statement of cash flows	1,009,148	(999,809)	(15,586)	169,020	162,774
Fair value loss		-		(23,655)	(23,655)
Total financial liabilities at 31 December 2017	**6,020,481**	**500,441**	**(20,681)**	**457,142**	**6,981,037**

21. Other non-current and current liabilities

They can be analysed as follows:

	31.12.2017			31.12.2016			Differences		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Social security charges payable	-	128,733	128,733		152,903	152,903		(24,170)	(24,170)
VAT payables	-	6,067	6,067		16,049	16,049		(9,982)	(9,982)
Other payables to group companies	-	16,404	16,404		10,090	10,090		6,314	6,314
Payables for tax consolidation	-	11,710	11,710			0		11,710	11,710
Other payables and accrued expenses and deferred income	1,067	373,101	374,168	756	425,058	425,814	311	(51,957)	(51,646)
Total	**1,067**	**536,014**	**537,081**	**756**	**604,100**	**604,856**	**311**	**(68,086)**	**(67,775)**

Other current liabilities are down by a total of€67,775 thousand on 31 December 2016, essentially due to:

- the decrease in VAT liabilities (€9,982 thousand), following the reduction in the deferred VAT liability on invoices issued to the public administration, due to the application of the split payment regime as from 1 January 2015 pursuant to article 1.b) of Law no. 190/2014;
- the decrease in "social security charges payable" (€24,170 thousand) following the settlement of expenses related to the amounts accrued in the prior year due to the renewal of the national labour agreement;
- the increase in "Other liabilities with group companies" (€6,314 thousand);
- the increase in the liability for the tax consolidation scheme against 2017 IRES; the liability is netted by the IRES advances;
- the decrease in "Other liabilities and accrued expenses and deferred income" (€51,646 thousand) mainly due to the reduction in payables to personnel following the payment of the one-off bonus and the 2016 national labour agreement renewal bonus (€70 million), offset, in part, by the increase in deferred income on bank orders and Carta Freccia (€9 million).

22. Current trade payables

They can be analysed as follows:

	31.12.2017	31.12.2016	Differences
Suppliers	854,631	997,042	(142,411)
Payments on account	2,141	676	1,465
Group companies	349,841	823,770	(473,929)
Total trade payables	**1,206,613**	**1,821,488**	**(614,875)**

The €614,875 thousand decrease on the previous year-end balance is due to current trade payables for lower investments recognised in the second half of the year, compared to the same period of the previous year, the successful actions implemented to shorten past due payment periods and the application of the VAT split payment regime.

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

23. Tax liabilities

They amount to €9,830 thousand and reflect the balance of the IRAP liability of the year, net of the related payments on account.

Income statement disclosure

24. Revenue from sales and services

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

	2017	2016	Changes
Revenue from transport services	**4,969,254**	**4,691,940**	**277,314**
Market revenue	2,960,404	2,768,807	191,597
Passenger traffic products	*2,960,404*	*2,768,807*	*191,597*
Public service contract fees	2,008,850	1,923,134	85,716
Revenue from services provided to the railway companies and services in connection with railway operation	**169,531**	**166,250**	**3,280**
Total	**5,138,785**	**4,858,191**	**280,594**

This caption amounts to €5,138,785 thousand, up by €280,594 thousand on the previous year.

Market revenue rose by €191,597 thousand on the previous year, mainly related to long haul passenger transport revenue (approximately +€115 million) which, during the year, benefited from the recovery in mobility demand following the progressive improvement of the macroeconomic context and the expansion of the commercial "Freccia" products' offer, in addition to the rise in revenue from international and charter trains (+€2.5 million). Revenue from regional traffic also improved by approximately €75 million on 2016, in part thanks to the company's significant measures to prevent ticket evasion.

Revenue from public service contract fees comprises the fees from public service contracts with the government for medium and long haul services and for undivided regional services of €342,498 thousand (€246,900 thousand in 2016) and fees from public service contracts with the regions of €1,666,352 thousand (€1,676,234 thousand in 2016). The overall growth (€85,716 thousand) is due to the increase in the fees from the new 2017-2026 service contract with the government, offset by the decrease in service contracts with the regions (approximately €9.9 million), essentially due to the settlement of prior year fees.

Revenue from services provided to the railway companies and services in connection with railway operation is increase €3,280 thousand, substantially in line with 2016.

25. Other revenue

This caption can be analysed as follows:

	2017	2016	Changes
Revenue from property management	9,730	9,192	538
Gains	2,961	1,420	1,542
Other revenue	166,885	209,910	(43,026)
Total	**179,576**	**220,522**	**(40,946)**

Other revenue decreased by €40,949 thousand on 2016. The reduction is essentially due to the decrease in fines charged to suppliers for breach of contract (€25.3 million), the settlement of prior year amounts in connection with the free travel card (€5.5 million) and the revision of the new contracts for free travel card contributions.

26. Personnel expense

This caption can be analysed as follows:

	2017	2016	Changes
Employees	**1,619,627**	**1,591,912**	**27,715**
Wages and salaries	1,208,567	1,196,471	12,096
Social security charges	327,857	322,856	5,001
Other expense for employees	2,041	(2,114)	4,155
Post-employment benefits	80,392	69,726	10,666
Provisions/Releases	769	4,973	(4,204)
Consultants and freelancers	**78**	**70**	**8**
Wages and salaries	55	44	11
Social security charges	23	27	(4)
Other costs	**58,181**	**55,838**	**2,343**
Temporary workers, seconded employees and work experience	2,649	2,456	192
Post-employment benefits/CLC service costs	(830)	(657)	(173)
Other costs	56,362	54,038	2,324
Total	**1,677,885**	**1,647,820**	**30,065**

Personnel expense amounts to €1,677,885 thousand and is up by €30,065 thousand on 2016. The increase is mainly due to the rise in the average unit cost following the application of the new employment contract which is now fully applicable.

The table below gives a breakdown of the company's average number of employees by category. The 2016 workforce did not include the resources of the demerged business unit:

PERSONNEL	2017	2016	Change
Managers	203	215	(12)
Junior managers	3,181	3,343	(162)
Other	24,433	24,803	(370)
TOTAL	**27,817**	**28,361**	**(544)**

27. Raw materials, consumables, supplies and goods

They can be analysed as follows:

	2017	2016	Changes
Raw materials, consumables and supplies	276,697	275,266	1,432
Electrical energy and fuel for traction	28,028	149,857	(121,830)
Lighting and driving force	10,636	10,074	562
Total	**315,361**	**435,197**	**(119,835)**

Raw materials and consumables, amounting to €315,361 thousand, decreased by €119,835 thousand on the previous year due to the substantial effect of the reduction in the unit cost of electrical energy for traction (IMU) for market services as per the new legislative measures implemented at year end (of which: €78,877 thousand related to prior years).

28. Services

This caption can be analysed as follows:

	2017	2016	Changes
Transport services	**923,743**	**867,956**	**55,786**
Toll	788,339	754,040	34,299
Cargo transport services	14,953	16,111	(1,159)
Other transport-related services	80,967	63,356	17,611
Shunting services	29,279	23,961	5,318
Ferry services	10,205	10,488	(283)
Maintenance, cleaning and other contracted services	**538,894**	**508,930**	**29,964**
Contracted services and work	244	895	(650)
Contract cleaning and other services	230,140	227,983	2,157
Maintenance and repair of intangible assets and property, plant and equipment	308,510	280,053	28,457
Property services and utilities	**28,324**	**24,334**	**3,990**
Administrative and IT services	**108,927**	**105,312**	**3,615**
External communication and advertising expense	**20,703**	**20,028**	**674**
Other	**317,716**	**300,915**	**16,800**
Professional services	8,200	5,737	2,463
Prize competitions and fees to other railway companies	10,464	11,239	(775)
Group common costs	4,098	2,362	1,736
Insurance	17,866	18,037	(171)
Night security escort	22,660	22,061	599
Catering	91,164	83,815	7,349
Consultancies	763	429	334
Agencies' fees	45,444	44,418	1,026
Other	117,056	112,817	4,239
Total	**1,938,305**	**1,827,475**	**110,830**

Costs for services rose by €110,830 thousand.

The most significant changes refer to the following:

- an increase in transport services (€55,786 thousand) due to the rise in the commercial offer. Indeed, the increase is mainly attributable to costs for tolls (€34,299 thousand), shunting costs (€5,318 thousand) and other transport-related services (€17,611 thousand);
- higher maintenance and cleaning costs (€29,964 thousand) following the roll out of new rolling stock.

29. Use of third-party assets

This caption, which is analysed in the following table, is substantially in line with 2016:

	2017	2016	Changes
Lease payments, condom. expenses and registration tax	67,922	67,289	633
Leases and indemnities for rolling stock and other	15,337	16,352	(1,015)
IT and other services	14,032	13,611	421
Total	**97,291**	**97,252**	**40**

30. Other operating costs

This caption can be analysed as follows:

	2017	2016	Changes
Other costs	44,889	31,866	13,023
Losses	9,681	1,868	7,813
Provisions/Releases	5,621	6,431	(810)
Total	**60,191**	**40,165**	**20,026**

The increase in other operating costs (+€20,026 thousand) is due to the higher costs incurred for the €5 million penalty charged by the Antitrust Authority on electronic ticket purchases (€3,132 thousand) and performance regime penalties (€2,651 thousand) for domestic traffic indemnity and losses on the disposal of rolling stock no longer used in the production cycle (€7,455 thousand).

31. Internal work capitalised

Internal work capitalised, amounting to €356,328 thousand (2016: €363,678 thousand), mainly relates to the cost of materials, personnel and transport expense capitalised in 2017 against value-increasing maintenance of rolling stock carried out at the company's workshops.

32. Amortisation and depreciation

This caption can be analysed as follows:

	2017	2016	Changes
Amortisation of intangible assets	44,641	40,746	3,895
Depreciation of property, plant and equipment	1,041,109	996,932	44,177
Total	**1,085,749**	**1,037,678**	**48,072**

Amortisation and depreciation increased by €48,072 thousand mainly as a consequence of the new investments in rolling stock.

33. Impairment losses

This caption can be analysed as follows:

	2017	2016	Changes
Impairment losses on non-current assets	58,749	24,267	34,482
Impairment losses on current assets	20,829	-	20,829
Total	**79,578**	**24,267**	**55,311**

2017 impairment losses mainly relate to rolling stock to be demolished (€56,852 thousand) and trade receivables (€20,829 thousand). The significant increase in the impairment losses on non-current assets mainly refers to rolling stock no longer in use and no longer included in the 2017 fleet, in line with the new asset allocation policy governing regional and long haul transport.

34. Provisions

The €21,272 thousand accrual refers to the continuation of the extraordinary benefits under the bilateral fund for income assistance for employees. Reference should be made to note 19 for additional information.

35. Financial income

This caption can be analysed as follows:

	2017	2016	Changes
Other financial income	21,079	6,363	14,716
Financial income from derivatives	-	3,830	(3,830)
Dividends	1,900	-	1,900
Exchange rate gain	3,465	37	3,428
Total	**26,444**	**10,230**	**16,215**

Financial income amounts to €26,444 thousand and is up by €16,215 thousand. The increase is due to other financial income for the gain on the sale of the investment in Serfer (€7,305 thousand), interest income from the Liguria region (€4,212 thousand) on the 24-year extension of the grant for investments to purchase rolling stock and interest income from the parent (€3,255 thousand), the Trenord dividend (€1,900 thousand) and greater exchange rate gains of the year (€3,463 thousand).

36. Financial expense

This caption can be analysed as follows:

	2017	2016	Changes
Financial expense on payables	79,319	86,832	(7,512)
Financial expense on post-employment benefits (TFR and CLC)	9,395	10,662	(1,267)
Financial expense on derivatives	2,871	-	2,871
Impairment losses on financial assets	7,702	16,387	(8,685)
Exchange rate loss	373	625	(252)
Total	**99,661**	**114,505**	**(14,844)**

Financial expense is down by €14,844 thousand on 2016, 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 €7,699 thousand are essentially due to the accrual on the investment in Thello S.a.s., as described in paragraph 8.

37. Current and deferred taxes

Income taxes can be analysed as follows:

	2017	2016	Changes
IRAP	26,735	19,523	7,212
IRES	22,122	13,625	8,497
Deferred taxes	740	2,914	(2,174)
Total	**49,597**	**36,062**	**13,536**

Income taxes amount to €49,597 thousand, up by €13,536 thousand on the previous year. The increase is mainly due to greater income taxes (IRES (corporate income tax) and IRAP) attributable to the higher pre-tax profit.

For additional information about the income statement effect of deferred taxes (€740 thousand), reference should be made to note 7.

The table below shows the reconciliation of the effective tax rate:

	2017	%	2016	%
Profit for the year	276,242		228,261	
Total income taxes	49,597		36,062	
Pre-tax profit	**325,839**		**264,323**	
Theoretical IRES (24.00%)	**78,201**	**24.0%**	**72,697**	**27.5%**
Lower taxes:				
Utilisation of the provisions for risks and charges and company restructuring	(5,473)	-1.7%	(6,634)	-2.5%
IRAP portion related to personnel expense deductible from IRES	0	0.0%	0	0.0%
Dividends recognised in the income statement	(433)	-0.1%	(67)	0.0%
Other changes	(6,146)	-1.9%	(25,387)	-9.6%
Higher taxes:				
Impairment losses and accruals that cannot be deducted in whole or in part	31,686	9.7%	28,812	10.9%
Other changes	19,488	6.0%	18,785	7.1%
Total current income taxes (IRES)	**117,323**	**36.0%**	**88,207**	**33.4%**
Income from participation in the tax consolidation scheme and other adjustments	(95,201)	-29.2%	(74,582)	-28.2%
IRES	**22,122**	**6.8%**	**13,625**	**5.2%**
IRAP	**26,735**	**8.2%**	**19,523**	**7.4%**
Total deferred taxes	**740**	**0.2%**	**2,914**	**1.1%**
TOTAL INCOME TAXES	**49,597**	**15.2%**	**36,062**	**13.6%**

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

38. Contingent assets and contingent liabilities

Proceedings commenced by the Antitrust Authority against Trenitalia

Proceedings for unfair business practices

- ***PS/4656 - Sanctions for travel irregularities***

On 25 January 2016, Trenitalia was notified of the appeal by the Antitrust Authority before the Council of State to reform/nullify decision no. 12179 of the Lazio Regional Administrative Court dated 26 October 2015.

With such ruling, the Lazio regional administrative court admitted Trenitalia's appeal and cancelled the Antitrust Authority's order no. 25175 of 12 November 2014, which imposed sanctions. In particular, the Judge admitted the arguments in the appeal, confirming: (i) the legitimacy of Presidential decree no. 753/1980 as the legislation justifying Trenitalia's right to impose fines, regardless of the company's nature and corporate role; and (ii) the fact that the company's commercial decision to require passengers to book their seats on medium and long haul journeys, as defined by Trenitalia, cannot be challenged. In addition, the court confirmed that some commercial practices were non-compliant, which Trenitalia promptly resolved once the ruling was made. Moreover, the Lazio regional administrative court ordered the full revision of the original fine considering the ruling.

At present, the date of the hearing to discuss the merits of the appeal has not yet been set.

In compliance with the first-level ruling, on 10 February 2016, the Antitrust Authority notified Trenitalia of proceedings no. PS4656B brought about to recalculate the fine imposed with measure no. 25175 of 12 November 2014 (that was promptly paid) more favourably for the company.

The result of such proceedings to recalculate the fine, during which Trenitalia presented its reasons why the fine should be decreased significantly, led to a reduction of the fine from €1 million to €360 thousand (Antitrust Authority measure no. 26005 of 4 May 2016).

- ***PS/10578 - Trenitalia sales systems***

On 15 November 2016, the Antitrust Authority notified Trenitalia of the beginning of preliminary proceedings, alleging that its sales systems violate Consumers' Rights Code regulations protecting against unfair business practices. At the same time, it conducted inspections at the Trenitalia offices in Rome.

In short, the Antitrust Authority claimed that the "All trains" section in the search function on the www.trenitalia.com website (the default option) does not show all the travel solutions that are, instead, available in the specific "Frecce" and "Regional" sections and excludes some cheaper travel solutions offered by regional services. Therefore, customers are induced to buy more expensive travel solutions (e.g., on Freccia trains), thus using unfair business practices. Moreover, the Trenitalia App and automatic ticket machines do not allow customers to choose trains from the three different "All trains", "Frecce" and "Regional" sections, as the latter option is not available.

According to the Antitrust Authority, this practice impacted the public service obligations imposed on Trenitalia in the regional transport segment and, partly in the medium and long haul transport segment, with the Authority claiming this practice was "aggressive" under articles 24 and 25 the Consumers' Rights Code.

Within the deadlines established in the proceedings, Trenitalia has: *(i)* filed petitions for the confidentiality of the documents that were gathered during the inspection, in order to protect any sensitive information from third parties; *(ii)* provided a response with respect to the Antitrust Authority's request for information when the preliminary proceedings began; and *(iii)* submitted briefs and documents to justify that its conduct was appropriate.

Furthermore, with two notes dated December 2016 and January 2017, while confirming that its conduct was legitimate, Trenitalia formulated a series of commitments to remedy the practices that the Antitrust Authority deemed were improper in the preliminary evaluations when the proceedings began.

In its resolution dated 7 February 2017, the Antitrust Authority denied the company's proposed commitments, ordering the continuation of the proceedings.

Following the completion of the preliminary stage and given the substantial confirmation of the charges raised at the beginning of the proceedings (Antitrust Authority's communication dated 23 May 2017), on 12 June 2017, Trenitalia sent the Antitrust Authority a defence brief which showed the lack of grounds supporting the unfair business practices pursuant to the Consumers' Rights Code.

In the meeting of 19 July 2017, the Antitrust Authority passed the final regulation confirming the unfair business practices subject to the preliminary proceedings pursuant to articles 20, 21.1.b) and 22 of the Consumers' Rights Code and imposed a pecuniary administrative sanction equal to the maximum legal amount (€5 million).

With the same regulation, the Authority also: a) prohibited Trenitalia from continuing the unfair business practices, requiring it to report to the Authority the measures taken in respect of this obligation within 90 days of the notice of the regulation; b) ordered the publication of a rectifying statement informing consumers of its compliance with the regulation.

On 30 August 2017, Trenitalia, which appealed against the regulation, paid the pecuniary administrative sanction.

In accordance with the provisions of the final regulation under letter *(a),* on 23 October 2017, Trenitalia sent the Antitrust Authority a report on the measures to be adopted to overcome the unfair business practices identified the Antitrust Authority, which was further supplemented on 2 November 2017.

According to the Antitrust Authority, the proposed measures were deemed suitable to overcome the unfair business practices identified in the regulation dated 16 November 2017. Following the regulation, Trenitalia removed the rectifying statement published pursuant to letter *(b)* from its sales channels.

Proceedings commenced by the Transport Regulator ("ART") following the breach of (EC) regulation no. 1371/2007 on rail passengers' rights and obligations ("European regulation")

- ART resolution no. 70 of 31 October 2014 - Regulation for fair and equal access to railway infrastructures and commencement of proceedings to define the criteria for the definition of the toll to use railway infrastructures. 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 State Council.

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 unfortunately 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 Turin regional administrative court declared the appeal against resolutions nos. 70/14 and 76/14 partly inadmissible due to a lack of legal interest and, partly, grounds. Grandi Stazioni Retail S.p.A. and Grandi Stazioni Rail S.p.A. filed an appeal on 30 November 2017 and 12 December 2017, respectively.

- 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 toll 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 2016 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 2018, 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. The company is waiting the filing of the ruling.
- ART resolution no. 80/2016 of 15 July 2016 - 2017-2021 *toll 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 toll 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 toll 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 2017". Instructions for the preparation of the "2019 network prospectus 2019""* adopted by the ART on 30 November 2016. The case was discussed at the hearing of 7 November 2017. 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.

- ART resolution no. 54/2016 of 11 May 2016 - Measures concerning the minimum content of specific rights that passengers with passes may demand from HS railway service operators. Trenitalia lodged an extraordinary appeal with the President of Italy to cancel ART resolution no. 54/2016 published on 11 May 2016 containing "Measures concerning the minimum content of specific rights that passengers with passes may demand from HS railway service operators". The appeal was lodged on 7 September 2016. On 25 October 2016, the ART transferred the appeal to the Piedmont regional administrative court and the hearing has yet to be scheduled. The hearing of the arguments was held on 28 June 2017 (together with the individual appeal filed by Federconsumatori against the same ruling) and the judge reserved the decision. Ruling no. 1181 was filed on 9 November, rejecting both appeals. However, it upheld the principle argued by Trenitalia that railway companies are not obliged to provide passes.

39. Directors' and statutory auditors' fees

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

RECIPIENTS	2017	2016	Change
Directors	848	792	56
Statutory auditors	63	63	(0)
	911	**855**	**56**

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

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.

40. Audit fees

Pursuant to article 37.16 of Legislative Decree no. 39/2010 and letter 16-bis of article 2427 of the Italian Civil Code, the total fees due to the independent auditors amount to €633 thousand and include those paid during the year for other non-audit services (€335 thousand).

41. Management and coordination

The highlights of the parent, Ferrovie dello Stato Italiane S.p.A., shown in the summary schedule required by article 2497-bis of the Italian Civil Code, are derived from its financial statements at 31 December 2016. For an adequate and complete understanding of the financial position of Ferrovie dello Stato Italiane S.p.A. (the parent) at 31 December 2016 and its results of operations for the year then ended, reference should be made to the separate financial statements that are available as required on the company's website www.ferroviedellostato.it and at its registered office in Rome, Piazza della Croce Rossa 1.

thousands of Euros

	31.12.2016	31.12.2015
Assets		
Total non-current assets	42,539,698	41,564,011
Total current assets	5,268,296	4,728,356
Total assets	**47,807,994**	**46,292,367**
Equity		
Share capital	36,340,433	36,340,433
Reserves	7,120	(99,643)
Retained earnings (losses carried forward)	0	0
Profit for the year	638,773	137,380
Total equity	**36,986,326**	**36,378,170**
Liabilities		
Total non-current liabilities	7,299,976	6,569,168
Total current liabilities	3,521,692	3,345,029
Total liabilities	**10,821,668**	**9,914,197**
Total equity and liabilities	**47,807,994**	**46,292,367**

	2016	2015
Revenue	156,691	146,961
Operating costs	(167,266)	(145,146)
Amortisation and depreciation	(19,994)	(23,672)
Net impairment losses	(1,055)	(13,300)
Provisions		(2,969)
Net financial income	565,905	176,921
Income taxes	104,492	(1,415)
Profit for the year	**638,773**	**137,380**

42. Related parties

Transactions with key managers

Key managers' fees are as follows:

	2017	2016
Short-term benefits	3,618	4,462
Post-employment benefits	232	278
	3,850	**4,740**

The benefits relate to the fees paid to key managers, plus MBOs, if any. In addition to short-term benefits of €3,618 thousand paid out in 2017, a variable portion is to be paid in 2018, for an amount not exceeding €930 thousand (€780 thousand in 2016).

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:

	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	
Jointly controlled entities		
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
Associates	**Receivables**	**Payables**
Pol Rail S.r.l.		Lease of rolling stock
Parent		
Ferrovie dello Stato Italiane S.p.A. (a)	Transport of employees and relatives Training services Tickets ***Financial:*** Interest income on the VAT asset from the pool	Supply and management of personnel services Seconded personnel Company positions 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 Infrastruttura	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 Condominium 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
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	
Finmeccanica 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
Sogin Group	Tickets	

(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

(thousands of Euros)

	31.12.2017		2017		
	Receivables	Payables	Purchases	Costs	Revenue
Subsidiaries	**5,630**	**2,052**	**-**	**1,158**	**23,511**
Soc.Fer.Provv.Emilia Rom.Scarl	133				133
Thello S.a.s.	4,802	2,052		1,158	22,684
Trenitalia Uk	695				695
Jointly controlled entities	**63,739**	**39,544**	**-**	**8,926**	**108,474**
Trenord S.r.l.	63,739	39,544		8,926	108,474
Associates	**-**	**-**	**-**	**34**	**-**
Pol Rail S.r.l.				34	
Parent	**110,328**	**18,856**	**-**	**47,421**	**1,589**
Ferrovie dello Stato Italiane S.p.A. (a)	110,328	18,856		47,421	1,589
Other related companies	**99,973**	**311,551**	**18,831**	**1,186,005**	**254,955**
Rete Ferroviaria Italiana S.p.A. (b)	52,088	163,617	1,853	983,076	184,390
BBT Se	22				68
Blueferries S.r.l.		13		16	
Mercitalia Intermodal S.p.A.		25			
FSE Infrastruttura	2,105				2,112
FSE Trasporto Ferro	177				196
Terminali Italia S.r.l.	1				15
Mercitalia Logistics S.p.A. (b)	7	94		687	40
Mercitalia Shunting & Terminal (formerly Serfer)	822	12,031	13,264	31,221	1,894
Mercitalia Transport e Service S.r.l.	74	5,652		15,418	436
Mercitalia Terminal S.p.A.		14		14	
Mercitalia Rail S.r.l. (b)	41,322	8,492		5,303	55,618
Ferservizi S.p.A. (b)	388	15,135		65,667	2,216
Metropark S.p.A.		67		147	
GS Rail	60	2,711		22,296	114
GS Immobiliare	2	319		1,485	2
Centostazioni S.p.A. (b)	63	1,101		10,283	172
Busitalia - Sita Nord (b)	571	3,198		6,494	470
Busitalia Veneto (b)	12	57		53	12
Busitalia Rail Service (b)	74	37,740		43,035	699
Fercredit S.p.A. (b)	15	60,156		192	1

Italferr S.p.A. (b)	1,129	457	3,426		1,321
Infrastructure Eng. Services			103		
Netinera Deutschland GmbH	986				5,029
Italcertifer Soc.Cons.p.A. (b)	38	650	186	392	122
Trainose SA Ellenic	11				11
FS Sistemi Urbani S.r.l. (b)	6	22		226	17
Other related parties	**1,306**	**58,217**	**6,544**	**55,819**	**5,855**
Pension funds		10		23,567	
Enel Group	135	(2,119)	173	(342)	16
Eni Group	(35)	462		868	553
Finmeccanica Group	35	44,883	6,371	28,887	3,496
GSE Group	1	3		18	22
Invitalia Group	10			2	124
CDP Group	314	14,934		133	124
IPZS Group	65	1		1	121
Poste Group	13	29		352	2
Fondazione FS	768	14		2,333	1,397
TOTAL	**280,976**	**430,219**	**25,375**	**1,299,363**	**394,384**

Financial transactions

(thousands of Euros)

	31.12.2017				2017	
	Receivables	Payables	Guarantees	Commitments	Expense	Income
Subsidiaries	**16,474**	**-**	**-**	**-**	**166**	**71**
Trenitalia Uk					166	
Thello S.a.s.	16,474					71
Jointly controlled entities	**2,166**	**-**	**-**	**-**	**-**	**-**
Trenord S.r.l.	2,166					
Parent	**684**	**6,211,508**	**-**	**-**	**48,370**	**8,200**
Ferrovie dello Stato Italiane S.p.A.	684	6,211,508			48,370	8,200
Other related companies	**-**	**-**	**-**	**-**	**57**	**-**
Fercredit S.p.A.					57	-
TOTAL	**19,324**	**6,211,508**	**-**	**-**	**48,593**	**8,271**

43. Guarantees

Guarantees total €2,307,792 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 (€2,157,897 thousand);
- guarantees issued in favour of the regions for public service contracts and other bodies by banks and the Post (€149,895 thousand).

44. Events after the reporting date

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 tenders for the railway franchises in the East Midlands and the West Coast, which will be presumably awarded in 2018.
- In January, the 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 to perform passenger national transport services.
  - Licence no. 1 to perform passenger and cargo international transport services.

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 minimum quality 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".

ALLOCATION OF PROFIT FOR THE YEAR

The company's financial statements as at and for the year ended 31 December 2017 show a profit for the year of €276,241,638.08, which we propose allocating as follows:

- €13,812,081.90 to the legal reserve;
- €262,429,556.18 to retained earnings.

The board of directors

The Chairman

trenitalia.com

TRENITALIA
GRUPPO FERROVIE DELLO STATO ITALIANE