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

Rete Ferroviaria Italiana S.p.A.

2018

ANNUAL REPORT

RETE FERROVIARIA ITALIANA – S.p.A. – Ferrovie dello Stato Italiane group

Single-member company, managed and coordinated by Ferrovie dello Stato Italiane S.p.A. pursuant to article 2497 sexies of the Italian Civil Code and Legislative decree no. 112/2015

Registered office: Piazza della Croce Rossa 1, 00161 Rome

Fully paid-up share capital: €31,528,425,067.00

Registered with the Rome company registrar

Tax code: 01585570581 and VAT number: 01008081000 - R.E.A. number: 758300

COMPANY MISSION

Rete Ferroviaria Italiana S.p.A. ("RFI") is the Ferrovie dello Stato Italiane group ("FS Italiane group") company responsible for managing the national railway infrastructure. With decree no. 138 – T of 31 October 2000, the Ministry of Transport and Navigation assigned the company a 60-year concession to operate the Italian railway infrastructure.
RFI owns the infrastructure consisting of the portion that belonged to the former public body, Ferrovie dello Stato (and which makes up the body's assets) and the portion acquired subsequently using own funds (obtained through third party financing and capital injections, first from the government and subsequently Ferrovie dello Stato Italiane) and, currently, through government grants related to assets.

To pursue its mission, RFI carries out the following main activities:

- designing, building, operating, managing and maintaining the Italian railway infrastructure pursuant to Legislative decree no. 112 of 2015, including passenger transport stations, modal and intermodal freight plant and the management of control and safety systems related to train operation, including HS/HC trains;
- promoting the integration of railway infrastructures and cooperation with other railway infrastructure operators;
- all other duties assigned to the infrastructure operator pursuant to current legislation, such as: access to the infrastructure and services, collecting the fee for the use of the infrastructure from railway companies, and any other activities necessary or useful to pursuing the institutional purposes assigned by the competent national and EU authorities.

Within this scope, the main functions relate to:

- ensuring that the railway lines and infrastructures are 100% usable and efficient at all times;
- managing investments to strengthen, technologically update and develop railway lines and plant;
- build the seaway railway connection joining the mainland of Italy with Sicily and Sardinia;
- monitoring the health of employees, workspaces, services and public areas;
- coordinating research on materials, products and the environment;
- promoting the integration of railway infrastructure and cooperation with other infrastructure operators, particularly throughout the European Union.

COMPANY OFFICERS AND INDEPENDENT AUDITORS

Board of directors(1):

Chairwoman	Claudia Cattani
CEO	Maurizio Gentile
Directors	Maurizio Mauri
	Fabiana Lungarotti(2)
	Luciano Grazzini

Board of statutory auditors(1):

Chairman	Mauro D'Amico
Standing statutory auditors	Giancarla Branda
	Francesco Marolda
Alternate statutory auditors	Gianpaolo Davide Rossetti
	Federica Silvestri

(1) Appointed by shareholder's resolution of 28 May 2017

(2) Co-opted pursuant to article 2386 of the Italian Civil Code during the board meeting of 21 November 2017 and confirmed during the shareholder's meeting of 4 April 2018

Manager in charge of financial reporting: Vera Fiorani

Independent auditors: KPMG S.p.A.

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CHAIRWOMAN'S LETTER

Dear Shareholder,

For the twelfth year in a row, Rete Ferroviaria Italiana ("RFI") recognised a profit for the year of €274 million, a slight increase on the previous year (+5%).

Against a 14% increase in operating costs, due largely to the greater cost of electrical energy used for traction pursuant to Law no. 167/2017 and personnel expenses, operating profit increased 6% on 2017, thereby contributing to the achievement of the budget targets.

RFI's investments aimed at developing and maintaining the railway network, together with various different works across the country, exceeded €4,500 million in 2018, with a €340 million (+8%) increase on the previous year.

The procedure to approve the new Government Programme Contract 2017-2021 – Investments continued in 2018, culminating in its signing by the Ministry of Infrastructure and Transport ("MIT") and RFI on 28 January 2019 and 20 December 2018, respectively. The structure of this Government Programme Contract was adjusted to take into account the Interministerial Committee for Economic Planning ("CIPE") recommendations, set out in resolution no. 66/2017, the observations formulated by the Courts of Auditors and the opinions of the parliamentary commissions.

In respect of the Government Programme Contract – Services 2016-2021, which took effect in 2017, Laws no. 136 and 145 of 2018 resulted in an addendum of €40 million for activities linked to people with reduced mobility (PRM), gates and first aid vehicles for 2018-2022.

The policies of the 2019-2023 business plan approved on 6 February 2019 - developed in line with the FS group's new strategic vision of a "greater focus on its railway core business" and an approach which places the customer at the centre of its operating and industrial processes - were presented to RFI's board of directors in December 2018.

This vision is underpinned by four strategic objectives - safety, punctuality and reliability, performance upgrade and efficiency, innovation and sustainability - while identifying a further five priority areas: stations (new station concept for modal integration and the redevelopment of the areas around the station), local public transport (upgrades, greater speed and more stations), long haul (upgrades and greater speed on the main European lines, and airport links), logistics (port connections, interports, production districts and greater international cooperation between infrastructure operators), and environmental and social aspects (water and energy efficiency, green procurement and the social use of assets not used in operations).

An unrelenting commitment to improving railway safety by allocating resources, means, processes, technology and research is crucial in this context, increasing the resilience of the infrastructure and the protection of the areas from hydro-geological and seismic risk caused by the increasing fragility of land.

As regards the key objective of punctuality and reliability of the railway service, RFI has deployed a suite of actions to ensure the improved management of train traffic in conjunction with works on the infrastructure, especially as regards technological equipment in the metropolitan hubs and sections of tracks with the greatest traffic. The focus has been equally intense on increasing the network's capacity and performance and the country's connectivity via various measures: building new lines, making medium to long-haul and local public transport services faster, connecting more ports, terminals and airports to the railways and upgrading the performance of freight lines, particularly of the core network.

In respect of stations, the reorganisation and enhancement of the "station network" continued in 2018 with a view to transforming a large number of stations into intermodal and service hubs, both travel-related and complementary. Specifically, the merger of Centostazioni S.p.A. into RFI S.p.A. was completed in July.

During the year, the parent contributed its 100% investment in GS Rail S.p.A. to RFI and the contribution of the business unit comprised mainly of the economic and commercial exploitation rights of the retail operations of the Naples Afragola and Turin Porta Susa stations to Centostazioni Retail S.p.A. was completed at year end, in order to promote their economic exploitation.

The "Easy Station" and "Smart Station" projects also continued, aimed at improving accessibility - particularly for people with reduced mobility -, ensuring information is provided to the public, reconfiguring the areas, rolling out the Wi-Fi Station project across Italy, creating a Smart Energy Management platform and ensuring greater safety. The installation of innovative technological solutions also means new services can be rolled out which transform the station into an appealing place to be.

The sustainability objectives which used to focus on the environment now also extend to the social aspects.
In May 2018, RFI was awarded a prize in the Ethical Purchases and Sustainability category of the third edition of the Procurement Awards Beyond Saving. The contest's scientific panel which examines the best practices implemented by companies in their purchasing process recognised RFI's strong results in promoting responsible global supply chain and CSR (Corporate Social Responsibility) practices in its purchasing processes in the railway sector. Already in October 2017, RFI introduced parameters that reward suppliers with strong environmental and sustainability performance in all tenders where the economically most advantageous offer was the award criterion.

Preliminary surveys continued in order to gather information on the reporting indicators for the 2018 sustainability report which, as in 2017, will cover approximately 200 Global Reporting Initiative indicators in various areas, such as energy, the environment, materials, infrastructure, noise mitigation, the supply chain, network safety, personnel and safety in the workplace, sanctions, the re-use of RFI S.p.A.'s disused assets for social purposes, customer satisfaction, complaints, product/service liability, the commercial offer, etc.. The reporting scope of RFI's sustainability information was broadened following Centostazioni S.p.A.'s merger into RFI in July 2018.

In April 2018, RFI's board of directors endorsed FS Italiane group's new code of conduct and its values and standards of conduct.
In order to contribute to genuine sustainable economic, social and environmental development, RFI is committed to carefully analysing the context in which it operates, identifying stakeholders and taking their expectations into account in the corporate decision-making processes. Operational safety is a fundamental pillar of RFI's business identity on which the trust of our stakeholders is based, helping to build the company's reputation and strengthen its ability to offer economically and socially sustainable transport services. To this end, RFI is committed to providing its customers and consumers transparent, accurate and complete information.

Lastly, as regards RFI's role in the community, making available its real estate assets not used in railway operations plays a crucial role in implementing the social policies supporting people undergoing social hardship (the Help Centres and shelters managed by small and large associations).

The free loan of disused stations (more than 450) to local bodies, foundations and associations across Italy for social activities and to enhance the area is an example of RFI's social commitment. The most successful experiences have been collected in a book entitled "*Stazioni Impresenziate. Un riuso sociale del patrimonio ferroviario*" (Disused stations. A social re-use of railway assets), launched in Milan in April 2018 during the "Fà la cosa giusta" fair of conscious consumption and sustainable lifestyles.

Improvement of the local area also takes place through the reassignment of disused railways which have been transformed into greenways for tourism purposes, evidence of RFI's commitment to the issues of sustainability and environmental protection.

Indeed, disused railways represent a unique, one-of-a-kind collection of infrastructures, works, stations and booths, whose reuse is part of a broader range of initiatives aimed at creating a network of sustainable mobility to enhance the local area and foster the development of a highly appealing tourist-naturalistic network. This path is supported by collaboration with the local public authorities in order to create shared value for both the companies and the local community.

The board of directors
The Chairwoman

DIRECTORS' REPORT

KEY AND GLOSSARY

Below is a description of the criteria used to calculate the most frequently used performance indicators for the purposes of this report. Such criteria differ from the criteria applied to the financial statements and which management finds 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 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 sum of gross operating profit and amortisation and depreciation, impairment losses (impairment gains) and provisions.
- **Net operating working capital:** this is the sum of inventories, contract assets, current and non-current trade receivables, current and non-current trade payables and advances to suppliers.
- **Other assets, net:** these reflect the sum of assets and advances from the Ministry of the Economy and Finance for grants, deferred tax assets, other current and non-current assets and other current and non-current liabilities.
- **Working capital:** this is the sum of net operating working capital and other assets, net.
- **Net non-current assets:** these reflect the sum of property, plant and equipment, investment property, intangible assets and equity investments.
- **Net assets held for sale:** these consist of assets whose carrying amount will be recovered principally through a sale transaction rather than through continuing use.
- **Net invested capital (NIC):** this is the sum of working capital, net non-current assets, other provisions and net assets held for sale.
- **Net financial debt (NFD):** this financial indicator consists of bonds, non-current bank loans and borrowings, the current portion of non-current bank loans and borrowings, current loans and borrowings from other financial backers, cash and cash equivalents and current and non-current financial assets.
- **Equity (E):** this is a financial statements indicator calculated as the sum of share capital, reserves, retained earnings (losses carried forward), current and non-current derivative liabilities and the profit (loss) for the year.
- **Gross operating profit margin:** this profitability indicator is calculated as the ratio of gross operating profit to revenue.
- **Operating profit margin – ROS (return on sales):** this sales profitability indicator is calculated as the ratio of operating profit to revenue.
- **Debt/equity ratio:** this indicator is used to measure the company's debt. It is calculated as the ratio between net financial debt and equity.

- **ROE (return on equity):** this is a profitability indicator for equity and is calculated as the ratio of profit/loss for the year and average equity (average of the opening and closing balances), net of the profit/loss for the year.
- **ROI (return on investment):** this is a profitability indicator for invested capital through core business operations. It is calculated as the ratio of operating profit to average NIC (average of the opening and closing balances).
- **Net asset turnover:** this is an efficiency indicator that expresses invested capital's ability to transform into sales revenue. It is calculated as the ratio of revenue to average NIC (average of the opening and closing balances).

The following terms are frequently used in relation to the company's operations:

- **Multistation Computerised interlocking system:** this is a central management system for control and signalling and station safety.
- **Transport Regulator (ART):** the body in charge of regulating transport and access to related infrastructure along with accessory services.
- **ATC:** Automatic train control. This system automatically controls the train's speed. It is the technological and functional evolution of the automatic train protection (ATP) system.
- **HS/HC:** High speed/High capacity. This is the system of lines and means specifically developed for high speed and/or high capacity transport.
- **Electricity Sector Adjustment Fund:** The public economic body that operates in the electricity, gas and water sectors.
- **Government Programme Contract - Services or Investments**: these are long-term contracts between the Ministry of Infrastructure and Transport ("MIT") and RFI defining investment projects and other terms and conditions, such as ordinary and/or extraordinary network maintenance, to encourage the development of the railway system.
- **Main line:** this is a particularly important series of railway lines in terms of traffic volumes and the transport role that it plays, as it joins major network centres or hubs.
- **European Railway Agency (ERA):** this is the EU agency establishing the mandatory requirements for European railways and builders in the form of technical interoperability specifications applicable to the European railway system. The ERA sets common safety targets, along with the related methods and common safety indicators, in compliance with Directive 2004/49/EC, as amended.
- **European Rail Traffic Management System (ERTMS):** this is the system that integrates the various railway networks in the EU from a functional and operational standpoint and provides for the European Train Control System.
- **European Train Control System (ETCS):** this is the overall network of the various national automatic train control (ATC) systems. ATC systems consist of traditional and innovative signalling systems.

- **Global System for Mobile Communication (GSM-R):** this is the European standard for public digital mobile telephony system with a transmission speed of 9.6 Kbps.
- **MAP:** minimum access package.
- **PRM:** person with reduced mobility.
- **APG:** Assirevi's preliminary guidance on the IFRS.
- **Hub:** this is a conventional term to define a railway area that generally coincides with major metropolitan destinations presenting highly dense and relatively complex medium to large-size stations and other railway plants that are interconnected by various lines, creating a continuation of the main routes into the same hub and other lines, built to manage various traffic flows and alternative routes, or service loops.
- **Doubling:** this is the transformation of a single track to a double track.
- **Terminal:** this is the intermodal transport infrastructure for the transfer of large load units between carriers, with or without warehouses of modest size.
- **CCS/CTC:** this command and control system/large network central traffic control system regulates traffic on the main lines and hubs, outperforming traditional centralised traffic control systems.
- **TSCS:** train speed control system. This is the first functional stage of the ATC system for constant control over train speed, making it possible to activate the emergency brakes if the train exceeds the maximum speed allowed on the line or if it proceeds past stop signals.
- **Intermodal transport:** this is transport using two or more modes of transport (road, rail, sea or river) with the transfer of load units from one mode to another without breaking up the load, i.e., using a roadway vehicle or intermodal transport unit (containers, swap bodies and semitrailers).
- **Train-km (tkm):** this is the number of train events per kilometre travelled.

FINANCIAL HIGHLIGHTS

		2018	2017
ROE	P/E*	**0.82%**	**0.79%**
ROI	OP/ANIC	**0.91%**	**0.87%**
ROS (OP MARGIN)	OP/R	**11.18%**	**11.53%**
GOP/R (GOP MARGIN)	GOP/R	**16.09%**	**18.89%**
NET ASSET TURNOVER (NAT)	R/ANIC	**0.08**	**0.08**
DEBT/EQUITY RATIO	NFD/E	**0.03**	**0.01**

KEY

ANIC*: Average net invested capital (average of the opening and closing balances)

OP: Operating profit (loss)

GOP: Gross operating profit (loss)

E*: Average equity (average of the opening and closing balances) net of the profit for the year

E: Equity

NFD: Net financial debt

R: Revenue

P: Profit for the year

THE COMPANY

Rete Ferroviaria Italiana S.p.A. (the “company” or “RFI”) carries out its operations and provides its services in compliance with the “principles governing the provision of public services” and the values shared by the entire FS Italiane group.

The main areas of operations carried out by RFI within the scope of the Concession Act and on the basis of the specific sector regulations are:

- the safe management of railway traffic, including via the train speed control and command systems;
- maintaining the efficiency of the national railway infrastructure so that it can be fully used by the transport companies, via ordinary and extraordinary maintenance. Since 2014, together with safety, security and the railway ferry to Sicily and Sardinia, this has been governed by the Government Programme Contract – Services between RFI (as national railway infrastructure operator) and the government;
- the planning and implementation of investments to upgrade the existing infrastructure and its technological equipment, as well as for the development and construction - including via investees - of new railway lines and plants as agreed with the government in the Government Programme Contract - Investments;
- the annual drafting of the railway timetable based on the requests put forward by the passenger and freight railway companies in line with the regulations of the Network Prospectus (“PIR”), the official document through which the national railway infrastructure operator notifies its direct customers of the criteria, procedures, methods and timing for the allocation of the infrastructure capacity and for the provision of the related services;
- ascertaining the mental and physical suitability of personnel - both its own and of the railway companies and other transport sector operators - involved in activities related to the safety of train traffic and railway management, as well as the safety of waterway and land public transport;
- the accessibility of stations and of the station services offered to passengers and, in general, all users in line with the principles and values that guide RFI in its dealing with customers and the public;
- providing assistance at stations to passengers with reduced mobility in line with the Station Manager role the company took on in December 2010 in implementation of Regulation (EC) no. 1371/2007 on “Rail passengers' rights and obligations”;
- the accessibility of the freight terminals it owns, including through the integrated offer of access to the infrastructure and the last railway mile services provided via the subsidiary Terminali Italia S.p.A., with a network throughout Italy of 16 terminals;
- the sea link ensuring the continuity of railway services to Sicily by ferrying passenger and freight trains between Villa San Giovanni and Messina, and to Sardinia carried out exclusively at the request of the railway companies for freight trains or transport services;
- integrating the Italian network with the trans-European transport networks in line with the plans and standards defined at supra-national level and as per the programmes carried out in conjunction with foreign infrastructure operators, including as part of the European Economic Interest Grouping (EEIG) and International associations for network interoperability and the development of freight corridors.

The following table sets out RFI's key figures at the reporting date:

THE COMPANY	
Number of employees	26,479
Share capital	€31,528,425,067
Local Production Units	15
Workshops	5
Local Sales Units	6
Investment Programme Units	5
OPERATING RAILWAY LINES (16,781 km) (1)	
CLASSIFICATION	
Main lines	6,469 km
Complementary lines	9,360 km
Hub lines	952 km
TYPE	
Double-track lines	7,721 km
Single-track lines	9,060 km
POWER	
Electrical lines	12,018 km
- double track	*7,644 km*
- single track	*4,374 km*
Diesel fuel lines	4,763 km
TOTAL TRACK LENGTH (24,502 km)	
traditional line	23,035 km
HS line (2)	1,467 km
RAILWAY PLANT	
Stations that can serve passengers	2,243
Ferrying facilities	3
Freight plants	194
INNOVATIVE TRAIN SPEED PROTECTION TECHNOLOGIES (4)	
Remote control systems for traffic	12,953 km
TSCS - train speed control system	12,273 km (of which: 175 km with TSCS-SSC double equipment)
SSC - steering support controls	3,831 km (of which: 175 km with TSCS-SSC double equipment)
ERTMS - for interoperability on the HS/HC network	709 km
GSM-R - for mobile communications	11,580 km

Notes

(1) 70 km of which on the foreign network

(2) referring to sections equipped with ERTMS (excluding Treviglio-Brescia) and their connections to other service locations

(3) plants with intermodal centres, hubs, connections, etc.

(4) all network lines are equipped with one or more train speed protection systems

Business plan

The policies of the 2019-2023 business plan were presented to the board of directors in December 2018. They were developed in line with the company's new strategic vision of a "greater focus on its railway core business" and an approach which places the customer at the centre of its operating and industrial processes with a view to greater transport, logistics and infrastructure services quality and for the creation of sustainable and shared value for the company and its stakeholders.

The plan is underpinned by four key drivers - safety, punctuality and reliability, performance upgrade and efficiency, innovation and sustainability - and identifies a further five priority areas: stations, local public transport, long haul, logistics, and environmental and social aspects.

There is a substantial focus on the stations plan and the network's technological evolution. The former involves reconfiguring the stations as intermodal hubs and centres of services and of value for the local area, offering greater quality, security and accessibility for all, from PRM, to commuters and tourists. The latter is aimed at speeding up the roll out of the ERTMS system to 100% of the network to provide Italy with one of the most advanced railway systems in the world.

The unrelenting commitment to improving railway safety by allocating resources, means, processes, technology and research is crucial in this context, increasing the resilience of the infrastructure and the protection of the areas from hydro-geological and seismic risk caused by the increasing fragility of land.

The most important of the measures to increase the railway service quality is the commitment to improving punctuality with short and medium-long term actions on train traffic management in conjunction with works on the network, especially as regards technological equipment in the metropolitan hubs and tracks with the greatest traffic.

There has also been a strong commitment to increasing the network's capacity and performance and the country's connectivity via various measures to build new lines, make medium to long-haul and local public transport services faster, connect more ports, terminals and airports to the railways and upgrade the performance of freight lines, particularly of the core network.

There was also a strong commitment to and expected benefit from measures undertaken for greater efficiency in the use of public resources, with the expansion of the should cost/clean cost model in order to implement a purchasing policy of excellence which also involved a new warehouse business model. This involved infrastructure digitalisation deploying innovative technologies for its representation (the MUIF project) and management (Optima, SEM, Wi-Life, etc.), developing the innovation and integration of business sustainability through the design and piloting of innovative product and process solutions, more efficient use of water and energy, the re-use of materials, the social use of assets not used in operations, worker protection and training and stakeholder awareness and involvement.

The pursuit of the plan's strategic targets represents a renewed commitment by the infrastructure operator in all business areas and sees the availability of an adequate level of public resources as the enabling factor, both in terms of the operating aspects and in relation to the roll out of the investment plan.

TRANSACTIONS WITH THE GOVERNMENT

Downstream from the extensive discussion initiated with the competent Ministries and in accordance with that established by CIPE in Resolution no. 4 of 2012, transactions between the company and the government have been - since 2013 - governed by two contracts:

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

The Government Programme Contract – Investments

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

Subsequently, the Italian Ministry of Infrastructure and Transport (MIT) forwarded an outline of the Government Programme Contract 2017-2021 – Investments, updated in light of the recommendations of the above-mentioned Resolution no. 66/2017 and the observations of the Court of Auditors at the time of its filing, to the Italian Parliament on 5 September 2018 for the opinion of the relevant Commissions, pursuant to Law no. 238/1993.

Considering the opinions of the parliamentary commissions, the MIT and RFI signed the Government Programme Contract 2017-2021 - Investments, on 28 January 2019 and 20 December 2018 respectively, adding specific notes to the works subject to the conditions and observations of such commissions.

Pending the completion of the process for the issue of the MIT/MEF (Ministry of the Economy and Finance) decree approving the contract and the related filing by the Court of Auditors, the current Government Programme Contract 2012-2016 - Investments will remain in force, pursuant to article 3.1 "Term and updates".

On 22 February 2018, with Resolution no. 12, the CIPE approved the second addendum to the MIT's Infrastructure operating plan, allocating additional resources totalling roughly €935 million (FSC 2014-2020), including €100 million for railway investments.

Decree law no. 119 (the "Tax decree") was issued on 23 October 2018, containing "Emergency tax and financial measures", converted into Law no. 136 of 17 December 2018, which authorised the expenditure of €600 million for 2018 to finance the Government Programme Contract 2017-2021 - Investments between the MIT and RFI.
On 30 December 2018, Law no. 145 "Government budget for the 2019 fiscal year and three-year budget for 2019-2021" (the 2019 Budget) was issued, article 1 of which provides for:

- the establishment, under section 7557, of a specific fund for the relaunch of the investments by the government's central authorities and the country's development, with a total budget of €43.6 billion for the 2019-2033 period. The use of this fund is subject to one or more decrees of the Prime Minister, upon the MEF's proposal, in conjunction with the relevant ministers, according to the sector plans presented by the government's central authorities;

- the establishment, under section 7558, of a specific fund for the relaunch of the local bodies' investments, with a total budget of €36.6 billion;
- the granting of a one-off €5 million contribution to the Piedmont region in 2019 to guarantee the electrification works of the Biella-Novara railway line;
- the allocation of total annual ordinary grants related to assets proportionate to the relevant population (34%) of the Abruzzo, Molise, Campania, Basilicata, Calabria, Puglia, Sicily and Sardinia regions, or in compliance with another criterion related to the specific critical issues identified by the law, in the Government Programme Contracts between the MIT and RFI;
- a restriction on the annual allocation of the Government Programme Contract 2017-2021 - Investments resources to €100 million for 2019 and 2020 each, for the development of railway connections of at least supra-regional level eligible for European funding which enhance mobility hubs, prioritising those connected with the port or airport system;
- the full definancing of the contractual resources of €225 million on the "Andora - Finale Ligure" works.

The cash disbursements for 2019 under the 2019 Budget total €1,815 million, €161 million of which recognised in the Budget sections of the MIT and €1,654 million related to the MEF.

The company has fully met the disclosure requirements provided for by articles 4.2.i, 4.3.b, 6, 7.2.c and 8 of the 2012-2016 Government Programme Contract - Investments.

Government Programme Contract - Services

The 2016-2021 Government Programme Contract - Services took full effect on 2 October 2017 following the Court of Auditors' registration of Ministerial decree no. 359 of 12 July 2017 whereby the MIT approved the deed. With this step, the authorisation process that began in August 2016 was completed with the presentation of the Contract for the CIPE's examination.

The new 2016-2021 Government Programme Contract - Services governs the funding of ordinary and extraordinary railway infrastructure maintenance to ensure safe and reliable network conditions and the funding of other railway operating costs, including safety, security and railway ferry operations.

The financial resources under the contract are structured as follows:

- €5,853 million grants related to income (section 1541) allocated under Law no. 209 of 28 December 2015, for the 2016-2021 period (approximately €976 million for each year). Laws no. 136 and 145 of 2018 resulted in an addendum of €40 million for assistance to people with reduced mobility, gates and first aid vehicles for 2018-2022;
- grants related to assets (section 7122/MP5) allocated under Law no. 190 of 23 December 2014 to be used for extraordinary network maintenance totalling €3,750 million for 2016-2020;
- grants related to assets (section 7122/MP2) allocated under Law no. 208 of 28 December 2015, totalling €241 million, including €220 million to cover the reduced funds for extraordinary maintenance in 2015 and €21 million to cover the definancing under CIPE resolution no. 36/2016 applied to the extraordinary maintenance that had originally been scheduled with CIPE resolution no. 33/2012 in section 7514.

Integration of the railways under concession

During 2018, RFI began a series of activities to begin the process of integration with some of the main railways formerly under concession throughout Italy. Specifically:

- Ferrovia Centrale Umbra (FCU) S.r.l.: RFI carried out a complete overhaul of the tracks on the Umbertide-Città di Castello (around 23 km), Umbertide-Ponte Felcino (also around 23 km) and the Ponte Felcino-Perugia Ponte San Giovanni (approximately 5 km) sections in September 2018. These works are necessary for the resumption of train traffic management by the current operator, Umbria TPL e Mobilità. A letter of intent was subsequently signed between the Umbria Region, Umbria TPL e Mobilità S.p.A. and RFI in November identifying certain key steps necessary to RFI's taking over of the operation of the Umbrian regional railway infrastructure and to seal the transaction's closing;
- Ferrovia Emilia Romagna (FER) S.r.l.: preliminary activities to identify the procedure to take over the management, as well as due diligence procedures and a valuation of the business unit to be purchased (business plan) were carried out with the assistance of sector experts, in order to establish the initial technical and economic assessments. Reiterating the intention to finalise FRI's taking over of the management of the regional network, an agreement was signed between the Emilia Romagna region, FER and RFI at the end of the year, which postponed the date of RFI S.p.A.'s taking over to 31 December 2020 (it was initially set for 1 January 2019 in the agreement of December 2017);
- Gruppo Torinese Trasporti (GTT): an agreement was signed between the MIT, the Piedmont region, GTT S.p.A. and RFI in May 2018 governing the relationships between the above parties for the disbursement of the funding, i.e., timeframes, procedures and obligations related to the implementation of the technological works to upgrade to safety standards of the Canavese regional lines. The agreement governing the relationships between the Piedmont region, GTT S.p.A. and RFI was signed in November 2018, in order to implement the above agreement for the performance and implementation of the safety works on the line.

LEGISLATIVE AND REGULATORY FRAMEWORK

In 2018, the regulatory context in which the infrastructure operator and the railway companies operate was characterised by the issue of various resolutions by the relevant sector authorities as well as the issue of Legislative decree no. 139 of 23 November 2018 which introduced the Fourth Railway Package into Italian legislation.

TRANSPORT AUTHORITY

With **resolution no. 152** of 23 December 2017, following the completion of the regulatory proceedings commenced under resolution no. 77/2017, the ART adopted measures containing "integrations to the principles and criteria regulating the national railway system in relation to the findings of the survey to gather the information referred to in resolution no. 127/2016 - impact of innovative methods introduced for train operation on the passenger transport services retail market within the open access premium segment".

Under this resolution, RFI is to: a) report on its five-year network development and upgrade plans and on every pilot commenced or scheduled to begin on the railway network in every annual update of the PIR; b) identify the

improvements needed in the infrastructure clearing system, especially those used by double-trains (that carry the greatest number of passengers) and disclose them in the 2018 and 2019 PIR; c) adopt new fee pricing criteria related to the minimum access package (MAP) to distinguish between the electrical traction services with greater or lower usage of the overhead contact line and the number of seats offered for passengers.
The provision regarding the pricing of electrical traction energy which required RFI to adopt a tariff modulation scheme in order to better reflect each individual train's actual energy consumption has had a significant impact on the market.
On 26 January 2018, in line with the timeframes established by the ART, RFI promptly complied with all the above provisions, reporting the outcome of the tariff remodulation in an extraordinary update to the 2019 PIR, as expressly requested by the ART.
The choices made by the infrastructure operator were approved, with some requirements, by the ART with resolution no. 33/2018.

With **resolution no. 16** of 8 February 2018, the ART established the "minimum service quality levels for national and local passenger railway transport with public service funding". The qualitative and quantitative minimum service levels are identified in relation to the quality factors stated in the resolution and mainly relate to the relationships between the granting body and the railway companies governed by Service Contracts.
The measures also directly affect RFI in ways that will be identified in the master agreements or in other deeds governing the relationships of the railway companies with the regions, the autonomous provinces or other public bodies (the granting body).

With **resolution no. 43** of 18 April 2018 containing "measures concerning the minimum content of specific rights that users of railway transport with public service funding may demand from railway service and infrastructure operators", the ART published a regulation framework aimed at resolving certain critical issues related to the exercise of the rights of users of railway transport services with public service funding.
The main parties impacted by the resolution framework are the concession managers (i.e., the railway companies) and the railway infrastructure operators in their role as Station Managers. The framework's individual measures mainly cover the information to be provided to passengers at stations and on board trains and the various ways in which this is provided.

With **resolution no. 56** published on 30 May 2018, the ART issued the regulation framework containing "measures for fair and non-discriminatory bus station access conditions that respond to passengers' mobility needs via intermodal and intramodal service connections". This framework provides for the adoption of suitable measures regulating access to bus stations as a crucial factor in ensuring a level playing field for all carriers, safeguarding competition between the companies and promoting the development of the market and ease of use of the services.
The direct scope mainly includes those bus stations where there is a connection between medium and long-haul services and other modes of transport, located near metro and train stations, ports and airports.
The indirect scope of the resolution is limited to the bus station manager (i.e., the public or private party that operates the bus station and ensures access thereto), which is required to adopt a Bus Station Prospectus containing a full description of the bus station's infrastructure features, equipment, areas and the technical/economic conditions for its use by carriers, as well as the access conditions for PRM.

ART resolutions no. 110 of 20 November 2018 and no. 11 of 15 February 2019.

ART resolutions nos. 75 and 80 (implementing resolution nos. 96/15) in which the ART confirmed the compliance of the new 2016-2021 tariff system proposed by RFI related to the MAP and sundry services, were independently appealed against by a number of railway companies operating in the freight transport sector.

In this respect, the rulings of the Piedmont regional administrative court were issued on 5 October 2017, partly rejecting and partly upholding the appeals.

Specifically, the regional administrative court upheld the following two claims of unlawfulness raised by the freight companies concerned:

1. the ART's incorrect identification of the planned inflation rate for 2016 (1% instead of 0.2%);
2. the illegitimacy of the ART's approval of the tariff plans submitted by RFI "without acknowledging the compliance of the regulatory accounts with the aforesaid criteria and without correctly identifying and allocating the costs related to the assets/infrastructure".

By upholding this claim, it followed that the ART should have "revalued the tariff plans, acknowledging their compliance with the cost criteria as shown by the regulatory accounts and the consistency and correctness thereof in light of the critical issues raised by the claimants".

Although only partial, the upholding of the above appeals also led to the annulment of the deeds implementing ART resolutions nos. 75 and 80/16, i.e., the 2017 PIR (December 2016 edition) and the 2018 PIR (December 2017 edition), thereby making it necessary for the ART to perform a reassessment, so as to set out the tariffs that are actually applicable in the timeframe in question in order to avoid a "regulatory gap".

With resolution no. 138/2017 of 22 November 2017, the ART set out provisions aimed at remedying the aforesaid situation and complying with the ruling of the Piedmont regional administrative court, and established that a procedure would have to be commenced (initially due to end on 30 June 2018) for the reassessment of the tariff plans referred to in resolutions nos. 75/2016 and 80/2016 in order to comply with the aforesaid rulings of the Piedmont regional administrative court and, therefore, acknowledge the compliance of the railway companies' tariff plans with the cost criteria as shown by the regulatory accounts.

Pending the conclusion of this procedure, the ART provisionally confirmed the contents of resolutions nos. 75/2016 and 80/2016, as it was necessary to maintain the tariff plans established for the MAP services and those not included in the MAP.

The procedure referred to in resolution no. 138/2017 involved intense and in-depth communication between the ART's offices and the relevant departments of RFI aimed at reconstructing and checking the process to allocate the operating costs to the regulated and unregulated services (MAP and other services to the railway companies). The complexity of the transactions - and considering the need which arose during the preliminary activities to look into the issue with other group companies such as Trenitalia S.p.A. and Ferservizi S.p.A. - resulted in an extension of the timeframe for the completion of the procedure to 31 December 2018.

The findings of the assessment (involving intense and in-depth communication between the ART's offices and the relevant departments of RFI which resulted in an extension of the timeframe for the completion of the procedure to 31 December 2018) carried out by ART's offices resulted in the adoption of **resolution no. 110/2018**, published on 20 November 2018, requiring RFI to:

- adjust the operating costs for the purposes of calculating the MAP fees and the fees for the services not included in the MAP based on the identification of ineligible costs (specifically, the Free Travel Card costs, brand royalties and donations) of €36 million p.a. for the 2016-2021 regulatory period;
- adjust the regulatory net invested capital for the purposes of calculating the MAP fees for a total of approximately €54 million.

In relation to the above provisions, RFI filed observations within the timeframe of 19 December 2018.
Considering the need to examine the observations received, the ART extended the term for concluding the proceedings to 28 February 2019 with resolution no. 142/2018.

ART resolution no. 11/2019 was subsequently issued on 15 February 2019 in which the ART gave the infrastructure operator a series of indications.
Specifically:
1. in implementation of the Piedmont regional administrative court's ruling no. 1097 of 2017, the full compliance of the 2016-2021 tariff system for the MAP with the criteria for the determination of railway infrastructure access and use fees, approved with ART resolution no. 96/2015, is subject to RFI applying the following corrective actions:
   a) cutting 2014 operating costs by €34,464,067, to calculate the related MAP fees;
   b) reducing the 2014 carrying amount of net non-current assets by €20,280,572, to calculate the cost of capital to determine the MAP fees;
   c) increasing the 2014 net working capital by €72,805,101, to calculate the cost of capital to determine the MAP fees;
2. in implementation of the Piedmont regional administrative court's ruling no. 1098 of 2017, the full compliance of the 2016-2021 tariff system for the services not included in the MAP approved with ART resolution no. 96/2015, is subject to RFI applying the following corrective actions:
   a) cutting 2014 operating costs by €1,862,205, to calculate the fees related to services not included in the MAP, with specific allocation to individual services;
   b) reducing the 2014 carrying amount of net non-current assets, used to calculate the cost of capital to determine the fees related to the services not included in the MAP, by €45,664.

Following the above corrective actions, RFI is then required:
a) to prepare an updated tariff system for the period from 1 January 2019 to 9 December 2021 to be submitted to the ART for a compliance check within 28 February 2019 - to be carried out within 40 days - for the purposes, *inter alia*, of the publication of the consequent extraordinary update of the 2019 and 2020 PIR;
b) with reference to the impact arising from the implementation of the above corrective actions on the (i) MAP fees (for 2018) and (ii) the fees for the services not included in the MAP (for 2017 and 2018), to pay the parties to commercial relationships affected by rulings nos. 1097 and 1098 of 2017 of the Piedmont regional administrative court (second section), agreeing the rules for implementation with the entitled parties.
Considering the above, the timeframe for the completion of the procedure has been extended to 28 June 2019.
Without prejudice to the above, investigations are underway to ascertain whether the resolution is illegitimate and, consequently, whether it can be appealed.

Legislative decree no. 139/2018

Legislative decree no. 139 of 23 November 2018 - "Implementation of directive 2016/34/EU of the European Parliament and of the Council of 14 December 2016 amending directive 2012/34/EU as regards the opening of the market for domestic passenger transport services by rail and the governance of the railway infrastructure" was published in the Italian Official Journal on 22 December 2018.

This decree, which implements directive 2016/2370/EU (Fourth Railway Package - Market pillar), introduced amendments and integrations to Legislative decree no. 112/2015, the domestic legislation implementing the previous EU regulation for the sector (directive 2012/34/EU, so-called recast).

The most important amendments for RFI are:

- the new definition of Infrastructure operator, specifying the four activities for which it is responsible (operation, maintenance, renewal and development of rail infrastructure);
- the introduction of the notion of a vertically integrated business in the railway sector;
- the greater independence of the Infrastructure operator, particularly as regards the performance of the essential functions (allocation of the infrastructure capacity and fee setting) achieved via the following measures: (i) the mandatory legal unbundling between the infrastructure operator and the railway companies and, in the vertically integrated businesses, all other legal entities in the group; (ii) specific provisions regarding the appointment, removal and mobility of personnel in charge of decisions on the essential functions, as well as in relation to the prevention of conflicts of interest that could compromise the impartiality of the infrastructure operator's board of directors and of the managers that report directly to them; (iii) specific provisions as regards the incompatibility of appointments and performance bonuses for members of the infrastructure manager's board of directors and personnel involved in decisions on the essential functions; (iv) protection of the confidentiality of sensitive information on the essential functions in the event IT systems are shared among the various group companies;
- specifically as regards the regional railways, if there is no legal unbundling between the infrastructure operator and the railway companies, the performance of the essential functions is to be assigned to a third party (the allocation body) independent of any railway company.
- specific legislation governing financial transparency based on the general principle of the accounting separation of the infrastructure operator and the railway companies, as well as the ban on financial transfers between such parties, and in vertically integrated businesses, between all group entities, if they could distort market competition. Specific provisions govern the management of revenue, loans, intragroup services and liabilities of the infrastructure manager;
- the introduction of specific coordination mechanisms for the infrastructure operator aimed at consulting with the railway companies and the applicants in relation to the various activities it carries out;
- full liberalisation of domestic passenger transport (high speed and traditional services) after which access to the railway networks can only be limited if the financial balance of the Public Service Agreements is compromised;
- the expansion of the ART's powers.

PARTNERSHIP BETWEEN THE EUROPEAN RAILWAY INFRASTRUCTURE OPERATORS

In 2018, RFI took part in several international meetings for the development of the European freight corridors. The following updates are noted:

Rhine-Alpine Rail Freight Corridor

The annual meeting between the CEOs of the members of the Rhine-Alpine freight corridor was held in Leipzig on 23 May 2018, during which discussion took place about the progress of activities on the corridor and the coordinated management of international freight transport crises following the accident in Rastatt (Germany) in August 2017.

Scandinavian-Mediterranean Rail Freight Corridor

On 25 September 2018, the management board of the Scandinavian-Mediterranean Corridor association appointed the candidate put forward by RFI as the new Corridor Director. The mandate has a three-year term of office starting from 1 January 2019.

Baltic-Adriatic Rail Freight Corridor

On 30 August 2018, the board of directors of the Baltic-Adriatic Corridor EEIG appointed RFI's candidate as its new executive director. The mandate has a three-year term of office starting from 1 January 2019. On 19 December 2018, the EEIG's board of directors resolved to transfer the EEIG's office from Warsaw to the RFI offices in Mestre.

Mediterranean Rail Freight Corridor

On 20 July 2018, RFI's steering role was confirmed with the appointment of the new Director and the signing of a memorandum of understanding between Italy and Slovenia with the aim of defining the work procedures to support the installation of ETCS in the cross-border sections of the line.

Brenner Corridor Platform

On 13 June 2018, the transport ministers of Italy, Austria and Germany signed a declaration of intent for the implementation of infrastructure and related measures for the construction of the Scandinavian-Mediterranean corridor in the TEN-T core network and the Brenner corridor between Munich and Verona in particular.
With the declaration of intent, the above parties confirm their commitment to continue the design and construction works for the national sections of the corridor and to upgrade the railway lines at the northern and southern entrances of the Brenner base tunnel, in order to develop an efficient, fully interoperable corridor between Munich and Verona.

The company also participated in High-Level Infrastructure Meetings (HLIM) and Platform of Rail Infrastructure Managers in Europe (PRIME) initiatives. The annual meeting between the CEOs of the European infrastructure managers held in Amersfoort (the Netherlands) on 14 June 2018 was a High-Level Infrastructure Meeting, coordinated by the Community of European Railways (CER) and the European Rail Infrastructure Managers (EIM) trade associations. During the meeting, two hot issues were brought to the attention of the CEOs - cyber-security and the prospects of developing rail traffic between Europe and Asia.

The two six-monthly plenary meetings of PRIME (Platform of Rail Infrastructure Managers in Europe), of which the European Commission is a member, were held on 15 June 2018 in Amersfoort (the Netherlands) and on 15 November 2018 in Brussels. The most important issues dealt with regard operators' strategies in terms of research and innovation, European multimodal transport best practices, the discussion of the new multiannual financial framework (MFF 2021–2027) proposed by the European Commission, the steps needed to increase the operators' appeal as employers for the new generation and the strategies necessary to identify the operators' new commercial services.

Lastly, in 2018, the Rail Net Europe (RNE) General Assembly approved three documents having particular relevance for international railway transport:

- the Temporary Capacity Restrictions (TCR) guidelines, governing the publication of capacity restrictions pursuant to Commission Delegated (EU) Decision 2017/2075 replacing Annex VII to the recast directive. The guidelines describe how the various infrastructure operators should coordinate capacity restrictions and the involvement of the Freight Corridors in the event of conflicts, in order to ensure the competitiveness of international freight transport;
- the Time Table Revision (TTR) implementation project for the new international railway timetabling process that will come into effect with the 2024 timetable. The aim of the project is to coordinate the European-level implementation of the TTR, with RNE's support in aligning the national processes and IT systems;
- the International Contingency Management Guidelines which define the process for the harmonised international management of traffic disruptions of more than three days.

CUSTOMER RELATIONS

General information

As national railway infrastructure operator pursuant to Legislative decree no. 112/2015, RFI operates on a market that consists of railway companies and applicants. The latter, in addition to the railway companies, the regions and autonomous provinces, also include "the competent authorities under the European Parliament and Council regulation no. 1370/2007, loaders, shipment agents and combined transport operators, with a public service or business interest in acquiring infrastructure capacity for the purposes of providing railway transport services (article 3 of Legislative decree no. 112/2015)." The contract concerns, in the case of the former, train path hours and services – Contract to use the infrastructure with a term not exceeding the validity of a timetable, and in the case of the latter, the infrastructure's capacity in general terms or overall volumes, rather than in detail – Long-term framework agreement.

Infrastructure use contracts

Between 1 January and 31 December 2018, the MIT revoked two licences (59 and 18) and issued two licences (25/N and 72).

With the coming into force of the timetable from 9 December 2018 to 14 December 2019, 39 infrastructure use contracts with specific reference to the period from 9 December 2018 to 31 December 2018 were signed, broken down as follows:

- 18 for passenger traffic;
- 20 for freight traffic;
- one for technical train traffic in order to test the rolling stock.

Infrastructure access and PIR

During 2018, specifically in the first half of the year, pursuant to the provisions of ART resolution no. 152/2017, the 2018 PIR and the 2019 PIR underwent an extraordinary update in January 2018 and March 2018, respectively, supplementing the tariff system for the MAP with the greater fees provided for trains prepared for tandem movement, with speeds of over 250 km/h and which offer a greater number of seats (over 700). Moreover, as regards double trains, the aforesaid extraordinary updates also introduced regulations governing the management of emergencies.

The new updated PIR WEB was also published, including the supplementary information required by ART resolutions nos. 140/2017 and 152/2017.

Following the consultation process provided for by article 14 of Legislative decree no. 112/2015 and acknowledging the ART's guidance and requirements set out in resolution no. 118/2018, the 2020 PIR applicable to the 2019/2020 timetable and the extraordinary update of the 2019 PIR were published on RFI's website in the second half of the year.

The main changes of the 2020 PIR compared to the March 2018 version of the 2019 PIR were:

- **Introduction of the procedure to request capacity for lines involved in the TTR pilot project.** Rail Net Europe (RNE) and Forum Train Europe (FTE), in conjunction with the European Rail Freight Association (ERFA), launched the Time Table Redesign (TTR) project in order to achieve greater harmonisation of timetabling procedures in the various European countries. The basic idea is to better respond to the needs of the various applicants through an optimised timetabling procedure that provides capacity for specific purposes and reserves some of it for requests made close to the time of use of the train path (Rolling Planning). The TTR project will be gradually rolled out through pilot projects starting with the 2019-2020 timetable, with the aim of assessing how well the new process actually responds to the objectives, offering the possibility of adjusting any critical issues and making further adjustments before its full roll-out in Europe;
- **Request for train path hours and services for the purposes of agreeing the infrastructure use contract.** As regards infrastructure access requirements, pursuant to measure 2.1.3.1. of ART resolution no. 118/2018, railway companies which do not already have a security certificate extension for the train paths for which the request is being made at the time they lodge their request for standard hours for the period subsequent to the one in force, may now produce such extension to the certificate at the time the documentation necessary for the agreement of the contract is filed (late October) instead of the previous requirement to forward it together with the railway companies' observations on the draft timetable (early August);
- **Clearance of the infrastructure using spare trains.** RFI and the railway companies are now required to jointly plan and run regular emergency drills for trains stopped due to irregularities on the line or critical station tracks, using spare trains and/or materials and on the basis of ad hoc scenarios. This requirement derives from a requirement of the ART contained in resolution no. 118/2018 and is designed to minimise the time needed to clear the infrastructure and resume service;
- **Infrastructure clearance service using specially-equipped vehicles.** As the previous operator of this service notified it no longer intended to provide it, also in light of the provisions included in measure 4.6.1. of ART resolution no. 70/2014, RFI took over responsibility for the emergency service using specially-equipped vehicles as from 1 July 2018;
- **Information on capacity restrictions provided by the infrastructure operator before and during train traffic management.** The regulations governing capacity restrictions due to works have been thoroughly overhauled. They set out the new consultation and publication process for capacity restrictions, pursuant to the Commission's Delegated Decision (EU) 2017/2075 in Annex VII to Directive (EU) 2012/34, also

taking into account requirements 2.2.4 and 2.3.5 of ART resolution no. 140/2017. The objective of the new scheme is to limit the impact of capacity restrictions on railway services.

- **Rules for managing train traffic.** Given their general nature which does not consider the potential disruptive events on the line, the criteria to be observed for the routing of HS/HC and similar trains are included in the section covering the rules for managing train traffic without disruptions. This criterion was reviewed as it could lead to a restrictive interpretation of the operator's train traffic regulation powers, which remains focussed on minimising the total train minutes of delay. Although the aim is to maintain the HS trains on their planned path as far possible, the new scheme offers the operator greater flexibility in traffic regulation and an opportunity for the railway companies, again with the aim of minimising delays at hubs and on the tracks. Again with regard to management rules, ART resolution no. 118/2018 requires the operator to include the commitment to publish punctuality indicators for each market segment in the PIR, used to measure RFI's traffic management performance.
- **Use of the network.** The level of infrastructure use is the parameter the operator uses to respectively identify limited capacity and saturated routes, separate to the capacity allocation process. RFI has identified a percentage of use of the commercial capacity beyond which a route is classified as limited capacity (with economic relevance only), and a percentage of use of the commercial capacity (85%) beyond which a plant is defined as saturated. The aim is to achieve "pre-emptive" saturation as per ART resolution no. 140/2017. Moreover, pursuant to measure 3.2 of ART resolution no. 118/2018, benchmarks for the theoretical hourly capacity, the hourly and daily commercial capacity, and hourly and daily limited capacity and saturation thresholds have also been introduced for the various network types. If the number of daily train paths on a route exceeds the daily limited capacity threshold, it will be declared limited capacity. If the number of train paths in a given time slot exceeds the hourly limited capacity threshold, that time slot will be declared limited capacity. The limited capacity time slots are subject to the penalties provided for in the event the train paths on limited capacity routes are not used. If the number of daily train paths on a route is equal to or exceeds the daily saturation threshold, or if the number of train paths in a time slot is equal to or exceeds the hourly saturation threshold, the route will be declared saturated. The saturated routes are subject to the penalties provided for in the event the train paths on limited capacity routes are not used and an analysis of capacity and the plan to upgrade the route is carried out.
- **Areas, plant and buildings for stay, shed and depot services for rolling stock and freight.** The new tariff structure for stay services has been included, in compliance with a new time-based tariff model developed in accordance with ART resolutions nos. 96/2015, 80/2016 and 119/2018. Subject to the ART's approval, the new tariffs for this service will be published by March via an extraordinary update of the 2020 PIR.
- **Supply of electricity for traction.** Pursuant to the requirements of resolution no. 33/2018, the algorithm used to calculate the tariff was changed, replacing the "weighted train*km" coefficient (as defined in the 2019 PIR) with the "Kwh" coefficient which will be defined using the virtual measuring system, based on an algorithm that calculates the energy used by a train on a given train path depending on the train's features, which RFI implemented by 31 December 2018 as provided for by ART resolution no. 33/2018.
- **Passenger stations and the systems providing travel information, ticketing areas and other structures necessary for railway operation.** Following their notification to and approval by the ART, the

service tariffs may vary as a result of the extension of the scope of RFI's stations following the merger of Centostazioni S.p.A. into RFI which took effect on 1 July 2018.

- **Performance regime.** Requirement 6.3.4 of ART resolution no. 140/2017 required RFI to commence technical talks with the railway companies by 26 January 2018, to facilitate how delays are recorded and the related causes attributed. The purpose of the talks was to prepare proposals for the content, procedures and timeframes for communications between the infrastructure operator and the railway companies on delays and cancellations, the amount of the penalties for delays, determining a reasonable correlation with the actual financial damage caused to those affected by the delay. Accordingly, RFI held various meetings which led to a proposal for the review of the performance regime which was forwarded to the ART and a first draft was made available for consultation in the 2020 PIR. ART resolution no. 118/2018 required RFI to restore the regulations in effect to date with the 2019 PIR and to commence the process for the review of operating communication no. 269 by January 2019 in order to finalise the new performance regime.

The 2019 PIR (March 2018 edition) underwent an extraordinary update to include the regulation governing the infrastructure clearance service using specially-equipped vehicles, the level of use of the network and the requirement to publish punctuality indicators.

The update of the new PIR WEB was also published, including the supplementary information required by ART resolution no. 118/2018. The update involved the following amendments:

- publication of the internal procedures for the allocation of the causes of delays and the resolution of related disputes (organisation communication no. 269/2010);
- the inclusion of station floor plans with access gates to the platforms.

SERVICES PROVIDED BY THE INFRASTRUCTURE OPERATOR

Specific yet concise details follow of the services provided by the infrastructure operator, grouped as per article 13.2 and following articles of Legislative decree no. 112/2015.

Minimum access package (MAP)

The infrastructure operator receives access fees for use of the infrastructure and ensures all railway companies that have been allocated train hourly path hours are provided with the following services comprising the MAP, at fair and non-discriminatory conditions:

a) processing of the requests for railway infrastructure capacity in order to sign the infrastructure use contracts: this includes all preliminary activities necessary for the signing of contracts with the railway companies;

b) right to use assigned capacity;

c) use of the railway infrastructure, including interchanges and connectors;

d) control and regulation of train traffic, signalling and routing, as well as the communication of any information on train traffic management;

e) use of the electrical system for train traction, where available;

f) all other necessary information to provide or manage the service for which capacity has been granted;

g) the sea link to/from Sicily (Villla S. Giovanni - Messina) and Sardinia (Villa S. Giovanni/Messina – Golfo Aranci);

h) infrastructure connecting to the service plant.

Plant with guaranteed access and related services

As the service plant manager, RFI provides all railway companies with fair, non-discriminatory and transparent access, including to the railway lines, the following service plants, where applicable, and related services:

a) passenger stations, to the extent of the systems providing travel information, ticketing areas and other structures necessary for railway operation;

b) freight terminals;

c) areas for composition/decomposition of trains, including space for shunting;

d) areas, plant and buildings to keep, shed and store and depot rolling stock and freight;

e) maintenance centres, except for the heavy maintenance centres reserved for high-speed trains and other types of rolling stock that require specialised centres;

f) washing sidings;

g) refuelling areas;

h) infrastructure clearance using specially-equipped vehicles.

Complementary services

If, as service plant manager, RFI provides the services listed below, they are provided at the request of the railway companies at fair, non-discriminatory and transparent conditions:

a) supply of electrical energy for traction;

b) pre-heating, air conditioning and use of onboard plant supply the maintenance and cleaning of passenger trains and water supply services;

c) traffic control for trains carrying freight classified as dangerous in the PIC WEB information system;

d) special assistance for trains transporting exceptional loads requiring the relevant authorisations to transport them, adjustments to the infrastructure, etc.;

e) shunting services at border plants and at the plants functional to the ferrying of trains, passengers and freight;

f) assistance to people with reduced mobility;

g) parking;

h) fast track.

Auxiliary services

As service plant manager, RFI can, at the request of the railway companies, provide the following auxiliary services at fair, non-discriminatory and transparent conditions:

a) supply of complementary information such as loudspeaker announcements and the production of posters;

b) access to the GSM-R telecommunications network for ground/train service connections.

MAIN EVENTS OF THE YEAR

March

Institutional Development Contracts (IDC)

The Coordination Committees pursuant to article 6 of the Institutional Development Contracts for the “Naples-Bari Lecce/Taranto”, “Messina-Catania-Palermo” and “Salerno-Reggio Calabria” railway lines met on 12 March 2018, during which the amendment to the financial framework of the IDCs was acknowledged and RFI gave a progress update on the scheduled works. Moreover, tasks were delegated to the Implementation and Oversight Committees, provided for by article 7 of the IDC, for the subsequent phases, which include, in particular, incorporating the works funded with CIPE resolutions over time into the IDCs and updating the project scheduling and frameworks, and the simultaneous review of the annexes to the IDCs.

April

Law decree no. 50/2017 - Article 47 "Measures for railway transport"

On 16 April 2018, in implementation of the provisions of article 47.3 of Legislative decree no. 50/2017 (converted into Law no. 96 of 21 June 2017) containing "Emergency measures on financing, initiatives for local bodies, additional projects for areas affected by earthquakes and development initiatives", a decree was issued by the MIT, in conjunction with the MEF, identifying the initial list of regional railway lines of relevance for the national railway network which, as such, may be eligible for government funding for investments in such lines.

This list also includes some regional lines subject to two agreements RFI has signed with the Emilia Romagna region and the Umbria region and the respective regional operators, covering RFI's takeover of management of the related regional railway infrastructures.

Project for the laying of double tracks and update to HS for the Cancello - Benevento section

Ordinance no. 34 was issued on 6 April 2018 regarding the reformulation of the financial framework for the "laying of double tracks and update to HS for the Cancello - Benevento section" project, pursuant to the provisions of article 1 of Law no. 164 of 11 November 2014, as amended.

Second last/last mile project

On 10 April 2018, with the sponsorship of the MIT, RFI commenced the new second last/last mile project designed to increase national railway network links with ports, interports, terminals and logistics platforms and to develop functional, reliable intermodal services that generate a structural benefit for Italy's logistics system. This is in line with FS group's 2017-2026 business plan, which considers integrated logistics, improved freight transport and intermodality a fundamental pillar for development.

May

Project to lay double tracks on the Apice-Orsara line and project for the laying of double tracks and update to HS for the Cancello - Benevento section (Naples-Bari line)

Ordinance no. 35 was issued on 5 May 2018, approving, pursuant to the combined provisions of article 1 of Law no. 164 of 11 November 2014 (as subsequently amended) and articles 166 and 167.5 of Legislative decree no. 163/2006 (as subsequently amended), as well as pursuant to articles 10 and 12 of Presidential decree no. 327/2001 (as subsequently amended), the definitive project for functional Lot 1 Apice -Hirpinia of the project for the laying of double tracks on the Apice – Orsara line.

Ordinance no. 36 was issued on the same date, approving, pursuant to the combined provisions of article 1 of Law no. 164 of 11 November 2014 (as subsequently amended) and articles 166 and 167.5 of Legislative decree no. 163/2006 (as subsequently amended), as well as pursuant to articles 10 and 12 of Presidential decree no. 327/2001 (as subsequently amended), the definitive project for Lot 1 Frasso Telesino-Telese of the project for the laying of double tracks and update to HS for the Cancello - Benevento section (Naples-Bari line).

July

RFI/Centostazioni S.p.A. merger

The deed for the merger of Centostazioni S.p.A. into RFI S.p.A. was signed on 10 July 2018 (filed with the company registrar on 16 July 2018), approved by RFI's shareholder in the extraordinary meeting on 4 April 2018. This merger commences the transformation of a large number of stations into intermodal hubs, whereby RFI will take on the role of single manager of the approximately 620 medium and small-size Italian railway stations. The effects of the merger are set out in the notes to the financial statements.

August

Incorporation of Blu Jet S.r.l.

RFI set up Blu Jet on 1 August 2018. This transaction is part of the organisational restructuring of the waterway services under concession, following the change to the legislative framework introduced by Law decree no. 50 of 24 April 2017, converted with amendments into Law no. 96 of 21 June 2017.

November

Acquisition of Grandi Stazioni Rail S.p.A.

RFI acquired 100% of Grandi Stazioni Rail on 13 November 2018 following the contribution by the previous sole shareholder Ferrovie dello Stato Italiane. The transaction is part of the comprehensive reorganisation of the station business, aimed at the integrated development of the network stations as intermodal hubs serving mobility. The company's object is to redevelop, improve and manage the fourteen largest Italian railway stations.

ART resolution no. 110/2018

ART resolution no. 110 requiring RFI to adjust the operating costs for the purposes of calculating the MAP fees and the fees for the services not included in the MAP based on the identification of ineligible costs and to adjust the regulatory net invested capital was published in the Italian Official Journal on 20 November 2018. Reference should be made to the Legislative and regulatory framework section for further information.

December

Legislative decree no. 139/2018

Legislative decree no. 139 of 23 November 2018 - "Implementation of directive 2016/2018/EU of the European Parliament and of the Council of 14 December 2016 amending directive 2012/34/EU as regards the opening of the market for domestic passenger transport services by rail and the governance of the railway infrastructure" was published in the Italian Official Journal on 22 December 2018.

This decree, which implements directive 2016/2370/EU (Fourth Railway Package - Market pillar), introduced amendments and integrations to Legislative decree no. 112/2015, the domestic legislation implementing the previous EU regulation for the sector (directive 2012/34/EU, so-called recast). Reference should be made to the Legislative and regulatory framework section for further information.

Contribution of the Retail business unit to CS Retail S.p.A.

The contribution of the business unit comprised mainly of the economic and commercial exploitation rights of the retail operations of the Naples Afragola and Turin Porta Susa stations to Centostazioni Retail S.p.A. took effect on 28 December. Following this transaction, RFI became the owner of a 21.65% investment in Centostazioni Retail

S.p.A.. The contribution forms part of the broader project to restructure the station network and to enhance the non-core businesses on the market.

HUMAN RESOURCES

The company's organisational structure underwent a significant overhaul in 2018 to increase the controls set out in the organisational model on the core processes, including station management, investments and traffic management.

A new department was set up in February 2018 to oversee the process to identify strategies to develop, redevelop and upgrade all network stations - those currently in operation as well as those that will be opened in the future and/or acquired - in line with the new concept.

Operational management processes for the stations - investments, services operation and implementation - have been grouped by asset type. The Grandi Stazioni Rail vehicle (of which RFI gained control in December) was maintained for the large stations with the management of those stations forming part of the Centostazioni scope being absorbed by RFI (Centostazioni was merged into RFI in July). In this regard, 120 Centostazioni resources were reassigned to RFI based on the activities performed.

As regards the investment process, the organisational model was revised to optimise the implementation timeframes for the works and standardise and streamline the resolution of technical and management issues arising from the implementation of investment projects.

Lastly, a new organisational model for train traffic management was identified, with RFI centralising train traffic management within the newly-established Traffic Control Department. Based on the commercial inputs, this department organises train traffic and manages it through the hierarchical coordination of the operation rooms and the train traffic controllers located at the station plants.

HR management saw incoming/outgoing trends among employees to improve the generational mix and to ensure greater protection of the maintenance process.

Specifically, new hires numbered 170, including recent graduates and experts with a degree, 1,031 apprentices in the infrastructure maintenance area (specialist maintenance operators), 321 apprentices in the train traffic management area (station manager), 103 technicians and 30 specialised operators for the "station access control" security project.

As regards employees leaving the company, both leaving incentives were used (for workers who are eligible to receive pension benefits), as were the extraordinary benefits under the Bilateral fund for income assistance (accompanying employees until they retire within a maximum of five years), on the basis of agreements reached with the local trade union, involving approximately 140 employees.

Below is the development in the RFI workforce from 1 January to 31 December 2018:

- number of RFI employees at 31.12.2017: 26,025 employees (including 228 managers and 25,797 white collars and junior managers);
- number of RFI employees at 31.12.2018: 26,479 employees (including 240 managers and 26,239 white collars and junior managers);

The balance is due to 2,117 incoming employees (1,895 from the market and 222 from within the group) and 1,663 outgoing employees (19 of which for intragroup transfers), including the effects of employees of the waterway services with a fixed-term contract.

New data protection legislation

On 27 April 2016, the European Parliament and the Council approved a reform of the legislative framework governing the protection of personal data, adopting a reform package which includes Regulation (EU) no. 679/2016 "General Data Protection Regulation" (GDPR), which became fully effective within the member states on 25 May 2018. To update the domestic legislation, the national legislator subsequently issued Legislative decree no. 101 of 10 August 2018, which took effect on 19 September.

To comply with all requirements of the applicable legislation and so that the company does not receive penalties, RFI prepared a Data protection framework.

Specifically, the board of directors appointed an internal and external Data Protection Officer. The procedure then commenced to bring RFI into line with the data protection guidance issued by the parent in 2018 and the activity commenced in 2017 to identify and survey the personal data processed by the company, the supporting systems (digital and hard copy) and the technical/organisational security measures using special Processing Forms, was completed.

All sections of tender documentation and new contracts where personal data is processed are accompanied by a data protection agreement. A survey was also conducted of the contracts underway at the date the GDPR took effect, initially focussing on activities with potential high-risk processing and terminating after 1 January 2019.

An e-learning course was run for 15,899 employees to complement the classroom training provided to RFI's top managers and managers.

Training

There was a further increase in training activities in 2018, with a 17% increase on the previous year and involving a total of 162,833 participants and 280,686 man/days. This rise is mainly related to the increase in new hires, which impacts induction and qualification courses, and the overall increase in all training areas.

Three aspects characterised the training strategy in 2018:

- the focus on the new hires, both in terms of their specific activities and as staff members in general;
- the Safety Culture initiatives, starting with the apprentices;
- the pilot development of non-technical skills (NTS) courses that complement technical and conduct skills.

As regards the first point, training focussed on the new hires with the aim of consolidating - even before the technical expertise - their sense of belonging and ownership of their role and the added value that each can bring to the company through their work and commitment.

Moreover, as relates to the safety culture, all personnel operating in this field were provided with an ad hoc training programme.

SUSTAINABILITY REPORT

The 2017 sustainability report for the group was completed in the first quarter of 2018, both for RFI and its subsidiaries Bluferries S.p.A and Terminali Italia S.p.A., in compliance with the GRI Standards defined by the Global Reporting Initiative.
RFI reported around 300 qualitative/quantitative indicators in the 2017 sustainability report, including around 40 central and local operating structures and production units. The subsidiaries Bluferries S.p.A. and Terminali Italia S.p.A. each reported around 100 indicators at central level only.

In this regard, the following should be noted in relation to RFI's 2017 quantitative figures for the energy and environment topics:

- energy: an approximately 8% increase over 2016 in electric energy consumption for uses other than railway traction, mainly due to the new computerised interlocking system roll-outs; the substantial stability of the consumption of diesel and natural gas, consistent with the decreases recorded in 2016 over 2015; 6% growth in diesel consumption for work vehicles and cars, linked to the gradual replacement of petrol-fuelled vehicles; a 15% decrease in diesel consumption for heating on 2016 due to the retirement of certain power stations to be replaced with systems using heat pumps, natural gas and district heating, confirming the growing trend already recorded in 2016;
- water: a decrease of approximately 7% due mainly to less water being withdrawn from wells and springs, which is gradually being phased out;
- waste: an increase of approximately 31% compared to 2016, largely due to the increase in maintenance activities on the railway network carried out in 2017, mostly related to track renovation. Specifically, non-hazardous special waste, mainly consisting of iron, steel and cement, increased by 28%, while hazardous waste increased by 44%. The portion of waste sent for recycling remained unchanged (99%).

Moreover, RFI did its part in 2018 to support its parent's activities to develop the group's new sustainability governance model. FS Italiane S.p.A.'s intention is that this model will incorporate sustainability into business operations, also through the issue of a specific Sustainability Policy.

ENVIRONMENTAL POLICY

In line with "RFI's Integrated Safety Policy" and its mission, RFI pursues a balanced approach between stakeholders' social, environmental and economic needs. It hinges on an unrelenting focus on preventing environmental damage and the opportunities offered by environmental-conscious operations, which also promotes the shift in mobility towards more environmentally friendly and sustainable modes of transport.
In the regulatory area and as regards institutional affairs, the company continued to take part in the following work groups at Confindustria or the competent ministries proposing specific legislative and technical deeds:

- BusinessEurope's work groups set up to review the EU Water Framework Directive governing water discharges and the daughter directives covering the individual aspects of water management, especially the management of withdrawals and discharges;
- Confindustria's work groups on air quality, reclamation and reindustrialisation, international activities, land consumption, dangerous substances and environmental assessment procedures;
- work groups on copper traceability.
- As regards noise mitigation activities:
- the update and review of RFI's noise mitigation plan drawn up pursuant to the Law decree dated 29 November 2000 continued, based on the observations, opinions and requests received from the public and private bodies affected by the noise emissions generated by the railway infrastructure (around 30 revisions have been made) continued;
- the action plan for the main railway lines with more than 30,000 transits per year drawn up to comply with the requirements imposed on the infrastructure operator by Legislative decree no. 194 of 19 August 2005 "Implementing directive 2002/49/EC of 25 June 2003 relating to the assessment and management of environmental noise" was published on RFI's website and in two major national newspapers on 15 May 2018 and filed with the Ministry for the Environment, Land and Sea on 18 July 2018;
- the update of RFI's noise mitigation plan was filed as required by the decree dated 29 November 2000 of the Ministry of the Environment, Land and Sea for the approval of the subsequent years covered by the plan.

MACROECONOMIC CONTEXT

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

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

International trade figures		2017	2018
GDP		*(% change on previous year)*	
	World	**3.7**	**3.7**
	Advanced countries	**2.3**	**2.1**
	USA	2.2	2.9
	Japan	1.9	0.7
	Eurozone	2.5	1.9
	Emerging countries	**4.6**	**4.6**
	China	6.8	6.6
	India	6.4	7.8
	Latin America	1.0	0.9
Oil (Brent price in US$ per barrel)		54.9	72.0
International trade		4.8	4.1
Source: Prometeia, December 2018			

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

	2017	2018	2017	2018
GDP			**Inflation**	
	(% change on previous year)		*(% change on previous year)*	
Eurozone	**2.5**	**1.9**	**1.5**	**1.7**
Germany	2.5	1.5	1.7	1.8
France	2.3	1.5	1.2	2.1
Italy	1.6	0.9	1.2	1.2
Spain	3.0	2.5	2.0	1.8
Source: Prometeia, December 2018				

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

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

Due to the drop in car production, GDP declined in **Germany** compared to 2017, posting 1.5% growth, mainly as a result of consumption and domestic demand. In **France**, the economy (+1.6%) was impacted by both weak domestic demand and the negative impact of the recent protests of the yellow vest movement. **Spain** was again the most buoyant of the Eurozone economies in 2018, continuing its growth trend (+2.5%), although there are signs its growth may be slowing.

The dampening of the growth drivers of 2017 - international economic growth, low oil prices and an expansionary monetary policy - chipped away at the growth of the Italian economy in 2018, which was particularly hard hit by the slowdown in world trade. The increase in GDP led to a 0.3% growth in the first quarter, driven by domestic demand, with a slightly lower +0.2% recorded in the second quarter, reflecting the slowdown in industrial production. The economy continued to soften during the summer months, resulting in an albeit slight 0.1% contraction in GDP in an external context impacted by protectionist pressures, uncertainties as to the effects of the UK leaving the EU and the rise in oil prices. This slowdown was mainly due to the contraction in domestic demand, against a slight uptick in exports. The economic context did not improve in the final months of the year although the gradual normalisation of the automotive sector contributed - according to the most recent estimates - to a modest recovery of economic growth in the fourth quarter (+0.1%). Considering the economic trends, GDP is predicted to grow by 0.9% thanks to the resilient domestic demand and investment spending, despite the negative effect of net foreign demand.

GDP and main components	Q1	Q2	Q3	Q4
GDP	0.3	0.2	-0.1	0.1
Domestic demand	0.3	0.7	-0.2	0.1
Spending by households and private not-for-profits	0.4	0.0	-0.1	0.1
Public administration spending	0.0	0.2	0.0	0.1
Gross fixed investments	-0.8	2.8	-1.1	0.7
- construction	0.1	0.7	0.5	0.4
- other durable goods	-1.4	4.5	-2.2	1.0
Imports of goods and services	-2.6	2.4	0.8	1.2
Exports of goods and services	-2.3	0.6	1.1	1.2

Source: Prometeia, December 2018

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

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

FINANCIAL POSITION AND PERFORMANCE

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 FS Italiane group (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 its financial results. Reference should be made to the section "Key and glossary" for a description of the methods used to calculate these indicators.

Reclassified income statement

millions of Euros

	2018	2017	Change	Changes %
REVENUE	**2,790**	**2,538**	**252**	**10%**
Revenue from sales and services	2,633	2,406	227	9%
Other income	157	132	25	19%
Operating costs	**(2,341)**	**(2,058)**	**(283)**	**14%**
Personnel expense	(1,497)	(1,445)	(52)	4%
Other costs, net	(844)	(613)	(231)	38%
GROSS OPERATING PROFIT	**449**	**480**	**(31)**	**(6%)**
Amortisation and depreciation	(106)	(108)	2	(2%)
Net impairment gains	(5)	(39)	34	(87%)
Provisions	(26)	(40)	14	(35%)
OPERATING PROFIT	**312**	**293**	**19**	**6%**
Net financial expense	(38)	(31)	(7)	23%
PROFIT FOR THE YEAR	**274**	**262**	**13**	**5%**

The main changes in these captions between 2018 and 2017 are shown below. The reasons for such changes are detailed in the specific notes to the financial statements, to which reference should be made.

Revenue from sales and services increased €227 million, mainly due to the following factors:

- the increase in fee revenue (+€72 million), mainly due to the cost-of-living adjustment to prices and the increase in production volumes;
- the decrease in revenue from ferry services due to the change in how the trips made are reported (-€8 million);
- the increase in revenue from services provided to railway companies and traffic-related services (+€127 million), mainly due to the rise in revenue from sales of electrical energy for traction (+€126 million), and from traffic-related services (+€1 million);
- the increase in revenue from other services (+€3 million) due to the rise in revenue from health services (+€4 million) and other real estate services (+€1 million), partly offset by lower revenue from GSMR (-€2 million);
- the increase in revenue from the sale of materials (+€2 million);

- the increase in revenue due to the increase in the Government Contract Programme grants allocated under Laws nos. 136 and 145 of 2018 for assistance provided to people with reduced mobility, gates and first aid vehicles (+€40 million);
- the increase in revenue from property management (+€4 million), mainly due to the rise in lease revenue (+€5 million), the increase in revenue from recharging of building expenses (-€3 million) and the increase in revenue from the sale of advertising spaces (+€2 million).

Other income increased by €25 million, mainly due to the following:

- the increase in income from performance regime (+€6 million) and other penalties (+€11 million);
- the increase in revenue from the release of advances on insurance compensation collected in previous years (+€6 million);
- the decrease in reimbursements of legal expenses (-€2 million);
- the increase in revenue from the sale of materials no longer in use and removed from production (+€4 million).

Personnel expense increased by €52 million over 2017, mainly due to the rise in personnel expense for employees (+€56 million) and an increase in other costs (+€3 million), offset by lower accruals and releases (-€7 million).

Other costs, net rose by €231 million, mainly as the combined effect of the following factors:

- total increase of €393 million in "Raw materials, consumables, supplies and goods", mainly due to the following changes:
  - the increase in electrical energy and fuel costs for traction of trains (+€188 thousand) due to the effect of Law no. 167 of 20 November 2017;
  - the increase in consumption of materials (+€206 thousand), both for the significant investments of the year (+€178 thousand) and for operations (+€28 thousand) due to the increase in ordinary maintenance activities;
  - the increase in lighting and driving force costs (+€3 million);
  - the decrease in accruals to the allowance for inventory write-down (-€9 million) following the analysis of obsolete and slow-moving items to be disposed of;
  - the increase in revenue from internal work (+€18 million) due to greater production by the Officina Nazionale Infrastrutture e Apparecchiature elettriche workshops (Bari, Pontassieve and Bologna plants);
  - the increase in costs for consumables (+€12 million);
  - the increase in the price to purchase materials in stock (+€11 million);

- the increase in service costs (€12 million), mainly due to the combined effect of:
  - the increase in costs to maintain and repair property and chattels (+€19 million) related to the extraordinary maintenance of lines (+€19 million), buildings (+€5 million) and chattels (+€3 million), offset by lower ordinary line maintenance costs (-€8 million).
  - the increase in costs for property services and utilities (+€7 million), due to higher utilities (+€8 million) offset by lower fees (-€1 million);
  - the increase in costs for cleaning and other contracted services (+€8 million);
  - the increase in costs for IT services (+€5 million), mainly due to hardware and software maintenance (+€6 million) offset by lower other IT services (-€1 million);

- the increase in costs for pilots (€4 million);
- the increase in facilities costs (+€2 million);
- the decrease in insurance costs (-€8 million);
- the decrease in accruals to the provisions for risks and charges net of releases (-€25 million);

• the increase in the use of third-party assets (+€1 million), mainly due to the higher lease instalments;

• the increase in operating costs (+€3 million), mainly due to the compensation paid to Bluferries S.r.l. for the fact the bridges could not be used, as described in greater detail in the notes to the financial statements;

• the increase in internal work capitalised (+€178 million) as a result of the greater withdrawals of materials linked to the significant technological upgrade and safety overhaul activities.

Amortisation/depreciation for 2018 decreased (-€2 million) due to the change in the rate applied to the HS/HC network (Line G).

Net impairment gains decreased (-€34 million), mainly due to the lower impairment losses recognised on plant and machinery (-€34 million).

An accrual of €26 million was made in 2018 to the fund for the pursuit of pro-active policies to support income and employment, down €14 million on the 2017 accrual.

Net financial expense deteriorated by €7 million, due to the decrease in financial income (-€14 million), mainly due to the lower interest income on the VAT asset (-€11 million) following the application of the split payment, and lower default interest income (-€2 million), partly offset by lower financial expense (-€7 million) due to the decrease in accruals and releases (-€4 million) and lower interest cost and interest payable to other financial backers (-€3 million).

Reclassified statement of financial position

millions of Euros

	31 December 2018	31 December 2017	Changes
ASSETS			
Net working capital	(1,674)	(1,750)	76
Other assets, net	2,065	1,308	757
Working capital	**391**	**(442)**	**833**
Non-current assets	35,271	35,266	5
Equity investments	136	132	4
Net non-current assets	**35,407**	**35,398**	**9**
Post-employment benefits	(595)	(674)	79
Other provisions	(525)	(515)	(10)
Post-employment benefits and other provisions	**(1,120)**	**(1,189)**	**69**
Net assets held for sale	**3**	**–**	**3**
NET INVESTED CAPITAL	**34,681**	**33,767**	**914**
Net current financial position	(708)	(1,219)	511
Net non-current financial debt	1,859	1,622	237
Net financial debt	**1,151**	**403**	**748**
Equity	**33,530**	**33,364**	**166**
COVERAGE	**34,681**	**33,767**	**914**

The main changes in these captions in 2018 are shown below. The reasons for such changes are detailed in the specific notes to the financial statements, to which reference should be made.

The €914 million increase in net invested capital is the result of the €833 million increase in working capital, the €9 million increase in net non-current assets, the €3 million increase net assets held for sale and the €79 million decrease in post-employment benefits, partly offset by the €10 million increase in other provisions.

Working capital improved by €833 million due to the €76 million increase in net working capital and the €757 million increase in other assets, net.
In particular, net working capital increased mainly as a result of the €114 million rise in current trade receivables, the €97 million increase in inventories, the €57 million increase in advances to suppliers and the €16 million decrease in non-current trade receivables, partly offset by the €197 million increase in current trade payables, the €9 million decrease in contract assets and the €2 million decrease in non-current trade receivables.

Other assets, net increased by €757 million, mainly due to the €1,829 million increase in amounts due from the MEF, MIT, EU and others, net of the €339 million increase in the related payments on account, the €8 million decrease in other current and non-current liabilities, the €7 million decrease in deferred income, the €7 million decrease in current and non-current social security charges payable, the €3 million decrease in other tax liabilities and the €1 million reduction in interest on derivatives, partly offset by the negative effect of the €757 million decrease in other current and non-current assets and the €2 million decrease in prepayments.

The €9 million increase in net non-current assets is due to the €91 million increase in intangible assets and the €3 million rise in equity investments, partly offset by the €18 million decrease in investment property and the €67 million reduction in property, plant and equipment.

At 31 December 2018, post-employment benefits decreased by €79 million, while other provisions are up by €10 million due to the combined effect of new provisions (+€71 million) and sundry utilisations, releases and transfers (-€61 million).

Coverage increased by €914 million as the net effect of the worsening of the current net financial position (-€511 million), the non-current net financial debt (+€237 million) as well as the €166 million increase in equity.
In detail, net financial debt worsened (by €748 million) mainly due to the following:

- the deterioration of the net current financial position (-€511 million), due to the decrease in the treasury current account (-€129 million), the decrease in the interest-bearing intragroup current account (-€417 million), the decrease in bank loans and borrowings (-€2 million) and the increase in the current portion of non-current loans and borrowings (+€3 million), partly offset by the decrease in current loans and borrowings (-€30 million), and current loans (-€3 million) and the increase in other current financial assets (+€7 million);
- net non-current financial debt worsening (+€237 million), mainly due to the combined effect of the decrease in amounts due from the MEF (-€532 million) and restricted current accounts (-€4 million), partly offset by the decreases in the non-current bank loans and borrowings (-€191 million), financial liabilities to the parent (-€79 million) and loans and borrowings from other financial backers (-€29 million).

Equity recognised in the reclassified statement of financial position includes hedging derivatives. Therefore, the following reconciliation schedule is provided for greater disclosure:

millions of Euros

	31 December 2018	31 December 2017	Change
Reclassified equity	**33,530**	**33,364**	**166**
Hedging derivative included in equity	**(18)**	**(23)**	**5**
TOTAL EQUITY	**33,512**	**33,341**	**171**

INVESTMENTS

NETWORK DEVELOPMENT

The main activities carried out during the year to strengthen the railway network are described below.

Progress of investments

In 2018, infrastructural investments totalled €4,549 million, up by €340 million (roughly 8.1%) on the previous year.

The financial progress used as a reference only considers production for the RFI investment plans.

Investments of approximately €1,017 million were allocated to large-scale infrastructural projects (including €34 million for technological development projects) and roughly €3,532 million to maintain the efficiency of infrastructure and for work throughout Italy (including €456 million for technology-related projects).

Main investments delivered

In 2018, work continued to complete and roll out planned railway operation investments to develop better links between the cities and the air terminals.

the double tracks on the Castelplanio – Montecarotto (6 km) section of the Orte-Falconara line was inaugurated in June 2018, including the new computerised interlocking system at Castelplanio.

The Falcone Borsellino airport link resumed operation in October via the double tracks between Carini and S. Lorenzo Colli, which is part of the double tracks of the Palermo bypass, which was rolled out also on the Palermo Centrale - Orleans section in December 2018. Works on the Bicocca-Catenanuova section of the Messina-Catania-Palermo line also commenced in Sicily.

In December 2018, the connection of the Treviglio-Brescia HS/HC line with the Brescia hub with high speed services on dedicated tracks and the laying of double tracks north of Ortona, helping to expand the commercial offer for the transport of semi-trailers and high cube containers on the Adriatic line, was being finalised.

The technological activities commenced in 2018 related to the new computerised interlocking system at Pavia, as well as the technological upgrade of the Rho-Novara section (in its final stage) which forms part of a broader project underway to upgrade the Turin-Padua line.

Fifteen new computerised interlocking systems were rolled out during the year (Stradella, Broni, Castelplanio, Momo, Fortezza, Pavia, Pontecagnano, Lamezia Terme and Brescia Est, Casoria, Pinerolo, Piscina di Pinerolo, Pescara, Falciano and Belluno).

The hand-operated electric block was eliminated and replaced with the axle-counter block on the following sections - Casteggio-Arena-Po' (20 km), Guidonia - Valle dell'Aniene Mandela Sambuci (28 km), Trieste Campo Marzio – Villa Opicina (15 km) and Aprilia – Padiglione (9 km).

Lastly, 62 level crossings were eliminated.

Moreover, in light of the situation created by the collapse of the Morandi bridge, the Fegino intersection line was reopened earlier than scheduled to connect the new HS/HC line to the existing lines (branch line via Sampierdarena and Granarolo).

Key technological design

Definitive projects were commenced in 2018 for the technological upgrade and improvement of the Jonica and Adriatica lines. Preliminary project works have commenced for the “Laying of quadruple tracks next to the previous line at the Brescia hub” on the Brescia - Verona section of the Milan - Verona HS/HC line. Definitive planning began for the laying of quadruple tracks on the Rogoredo-Pieve Emanuele-Pavia section of the Milan - Genoa line. CIPE resolution no. 84 was published in July approving the definitive plans for the Verona-Vicenza-Padua HS/HC line and authorising the start of construction on the Verona – Bivio Vicenza construction lot 1.

Definitive planning also commenced for the infrastructural investments for the laying of double tracks on the Empoli-Granaiolo line and the new Ferrandina-Matera La Martella line, including the Ferrandina “lunette”, as well as the planned works at the Orbassano hub, the civil works on the Latisana-Trieste section and repairs under the Rome Tuscolana general zoning plan.

The main investment projects commenced in 2018 are the new links with the Brindisi port and airport, the completion of the technological upgrade of the Rome hub, the complete overhaul and upgrade of the Jonica Metaponto - Sibari - Melito line and the implementation of the strategic new general zoning plan for the Lambrate station at the Milan hub.

IMPLEMENTATION

As regards works on the Naples-Bari line, the works on the Naples – Cancello variation were delivered in November 2018 and definitive planning commenced for the works to lay double tracks on the Bovino-Orsara and Hirpinia-Orsara sections (lot 2 of the project to lay double tracks on the Apice-Orsara line). Moreover, the definitive project for lot 1 of the Cancello-Benevento section was approved. The Naples-Bari line is a strategic infrastructure and is under administrative management. In 2014, the company’s CEO was appointed Commissioner for the construction works for the Naples-Bari and Messina-Catania-Palermo railway lines.

In December 2018, construction lot 5 of the HS/HC Milan - Genoa - Giovi third railway crossing was delivered to the COCIV consortium.

INTEGRATED TECHNOLOGIES

Work continued on two main projects in 2018: interoperable corridors and ERTMS migration.
In relation to **interoperable corridors**, stage 1 Premosello (e) - Orta (i) of the project to overlap the Level 1 ETCS equipped with Infill radio on the TSCS along the Domodossola – Novara section on the interoperable Alpine Rhine Corridor was completed. In October 2018, the section at the border with Switzerland, the Domodossola - Iselle line, with Limited Supervision Level 1 was rolled out, and AMIS authorisation for the roll out of the Luino - Pino Tronzano section was requested in December 2018. The initial works were completed for land/train integration in the field and in the laboratories between the on-board Baseline 3 and the Baseline 2 land systems as part of the project to develop computerised interlocking systems (multistation) and Level 2 ETCS on the super-direct Rome - Florence line, to replace the TSCS and the automatic block system with codified currents. RFI also signed a memorandum of understanding with the Slovenian railways, similar to that agreed with the Swiss railways, for the management of the transition of the ERTMS and domestic signalling systems at the border.
Lastly, the winners were selected for the definitive but not effective awarding of the EU tender co-funded by the Connecting Europe Facility 2016 (CEF-2016) for the development of ETCS Levels 1 and 2 for four lots on the Novara – Venice Mestre, Vicenza – Villa Opicina, Milan – Genoa (via Mignaneco) and Verona – Brenner lines, forming part of the ERTMS interoperable corridors, in line with the 2020 Breakthrough Program scheduling.

In relation to the **ERTMS migration**, pursuant to Regulation (EU) 2016/919, the MIT has been sent progress updates on the activities of the ERTMS National Implementation Plan (NIP), which provides for the equipping of the Italian TEN-T railway network (approximately 10,000 km) with ERTMS by 2050. In this regard, considering the performance, maintenance and safety advantages offered by the ERTMS system compared to the current Class B protection system, RFI has performed a cost-effectiveness analysis to identify the best of the various methods for the migration from the current train speed protection systems to the ERTMS technology. The analysis compared several technological development scenarios, assuming different scopes of work and timeframes, in relation to which the technical-economic commitment of the investment and the effectiveness of the works for the Italian railway system as a whole were assessed, considering the needs and restrictions of all the players involved. RFI then prepared a concept which has already been filed with the MIT, providing for the acceleration of the above ERTMS project in order to equip the entire Italian railway infrastructure (16,800 km) by 2035 and simultaneously phase out, starting from 2022, the previous signalling system (TSCS and the automatic block system with codified currents, as well as light signals) and the coherent and progressive onboard equipment (around 5,000 currently in circulation) which will be suitably shared under the aegis of the MIT with all stakeholders in 2019.

EU FUNDING OF INVESTMENTS

ERDF – 2007-2013 NETWORK AND MOBILITY NATIONAL OPERATING PROGRAMME

On 31 March 2017, the management authority issued the final execution report defining the implementation progress of all projects cofinanced under the programme. The eligible costs under the program amount to €1,289 million.

The “Caserta-Foggia: completion project” Grandi Progetti plan was later approved, which will result in a curtailment of around €9 million.

The definitive allocation of the grants is still subject to the final outcomes of the audits carried out by the European Court of Auditors and the European Commission.

ERDF – 2014-2020 NATIONAL OPERATING PROGRAMME

The new “2014-2020 infrastructure and network national operating programme” was approved with the EU decision on 29 July 2015.

Following this programme, RFI requested financing to complete the previous 2007-2013 programme (€554 million) and for new projects entirely covered by the current programme (€496 million) totalling approximately €1,050 million.

In response to these requests, the national operating programme management authority approved 19 projects for cofinancing with the issue of acknowledgement deed no. 2710 dated 19 February 2018, allocating around €1,104 million, corresponding to a grant, net of the funding gap already calculated, of €1,027 million.

Various reimbursement claims were filed in 2017 and 2018, leading to total collections of €216 million, €167 million of which was collected in 2018.

Trans-European Network (“TEN-T”) resources

2007-2013 plan

The company received total funds of approximately €228 million at 31 December 2018, unchanged from 31 December 2017.

This amount can reasonably be considered definitive as the INEA (Innovation and Networks Executive Agency) audits of May 2018 on two TEN decisions had a positive outcome.

Connecting Europe Facility (CEF)-2014-2020 plan

The financed amount currently comes to €132 million. In 2018, the company collected grants of €5 million.

On 17 May 2018, another tender was published for the assignment of CEF financing for around €450 million for various priorities, including railways.

RFI participated in the tender with bids for financing totalling €11 million.

INFRASTRUCTURE

STATIONS

In line with the objectives of the business plan, the stations are a key success factor for the company. Inadequate ease of access to stations was the leading reason why people chose alternative means of transport to trains last year.

An organisational model for station management was rolled out in 2018, focussing on the role of railway stations as intermodal hubs in the urban and territorial mobility system and services hubs for passengers and the community. Under this policy, the identification of development strategies for all stations and related services, the governance and monitoring of the commercial conceptual upgrades and the identification of standard layouts for stations and services was centralised with RFI S.p.A..

This new vision sees station growth as parallel to the local surrounding area. To this end, although the stations will continue to operate independently in terms of train operations, new joint planning tools will gradually be introduced, involving institutions and local bodies with a view to co-designing certain key services such as:

- integrated mobility services in order to increase station connectivity through the development of local public transport, car/bike/scooter sharing and electrical vehicle recharging;
- travel-related services which better respond to users' needs on arrival and departure, with sales of through-ticketing, infopoints and wi-fi services;
- complementary services, with areas redesigned and reorganised to save time and for co-working, b&b, post offices, etc., in order to improve the quality of the time spent at the station.

In this context, a special focus is RFI's participation in municipal round tables for the preparation and update of urban sustainable mobility plans, contributing data and information so that the stations are at the heart of passenger mobility strategies and integrated with other transport systems.

Stations' integration with means of transport other than trains is a particularly important quality factor for passengers.

As relates to the progress of the station investment plan, and in line with the investments of recent years in local public transport, two macro projects have been identified for closely integrated stations so as to standardise and expand on works already underway or scheduled. These are the Easy Station project already underway to improve the quality of station areas and public information systems and the Smart Station project to equip the stations with digital technologies:

- the Easy Station project will improve accessibility and usability (with the creation of lifts/ramps, signage, tactile walkway, improved lighting, etc.); functionality, appearance and safety (with works to upgrade internal and external station areas, improving the extra services on offer, restricted access to platform, the creation of park and ride car parks, areas for car and bike sharing, etc.); public information (with the large-scale implementation of new public information systems meeting the most advanced quality standards);
- the Smart Station project will develop a digital infrastructure inside stations and involve the roll-out of three new initiatives: a) the "Wi-life station" service, a virtual station portal for travel and other information (such as maps, weather forecasts, etc.); b) the Smart Energy Management platform for the remote monitoring and management of station utilities (electricity, natural gas and water) and to reduce consumption, and; c) the "Turnstiles 2.0" project to validate e-tickets and to automatically control access to platforms, including for

security purposes. The smaller, less busy stations located throughout Italy and which are often monitored by remote technology are also covered by these projects, with RFI developing initiatives dedicated to the creation of shared value, for instance by increasing the number of areas granted on free loan to local bodies and non-profit organisation for social projects, which have a positive impact on the quality of the station experience and the surrounding areas. Over the course of the Smart Station Project, work will be carried out on the 620 stations identified as the busiest, i.e., those serving approximately 80% of the passengers in the entire network, and with the greatest development potential in terms of infrastructure and services.

The Service Charter

Again in 2018, RFI published its Service Charter (as per the Prime minister's directive and Prima ministerial decree dated 27 January 1994 and 30 December 1998, respectively) on its website, which officially reports the 2017 results and 2018 targets for the quality of the services provided to the public in the areas identified by legislation (the quality factors), based on the characteristics of the company.

All of the objectives for 2018, covering the 17 indicators representing the company's various fronts of action and focus of the greatest relevance for the public, were substantially reached. These include those referred to perceived quality, linked to customer satisfaction surveys, and those referring to the quality offered, checked via internal/third-party monitoring (still being finalised in certain cases).

The main quality factors of 2018 are analysed below.

Environment and social commitment

RFI's environmental and social commitment is a strategic part of its business mission, which covers all the company's productive activities. Not only does it aim to protect the environment, but also to create shared value with a view to corporate responsibility and a commitment to the country's sustainable development.

Like in the previous year, the energy saving and efficiency target, involving the replacement of traditional lamps with LED lighting in at least 40 stations, was reached.

Moreover, in 2017, RFI piloted the possibility for companies bidding in tenders called by RFI to be allocated a score for Corporate Social Responsibility (CSR) performance, evaluating all the practices and behaviours voluntarily adopted by a company to achieve outcomes that benefit both the company itself and the area in which it operates, meeting stakeholder expectations in terms of environmental friendliness, safety, and the wellbeing of employees and the community. The aim of extending this possibility to all tenders was achieved in 2018.

The goal introduced in 2018 of improving the local area through the re-use of the company's disused buildings and other assets for social purposes - for instance by allocating areas of the stations for non-profit activities of social value, and reassigning disused lines or paths running along secondary lines in operation for the creation of cycle paths and greenways so that sections of lines no longer in use can be used for tourist purposes in areas of strong historical interest or natural beauty - was also achieved.

Train traffic safety

Of the services provided by RFI, the safe management of train traffic and railway operations throughout the national network used by the railway companies that provide passenger and freight transport services is paramount. In 2018, safety was of prime importance in assessing the quality of the national railway infrastructure operator's core services. Above all, it is achieved through the granular involvement of its human capital, using technological, organisational and legislative controls and measures designed to minimise the risk of accidents.

So that the infrastructure is always at peak efficiency and to ensure maximum train traffic safety, RFI is committed to the constant protection, maintenance and upgrade of the infrastructure and its technological equipment, as well as the development of new lines and plants and fine-tuning increasingly effective production and management procedures.

RFI conducts all business activities that have an even indirect impact on train traffic safety within the framework of the corporate safety management system. Authorised by ANSF's (the national authority for railway safety) issue to RFI of the safety authorisation referred to in Legislative decree no. 162/2007 in 2014, the corporate safety management system is one of the three components of the integrated safety management system which also comprises the environmental management system and the health and safety in the workplace management system, certified under the ISO 9001 standard, and ISO 14001 and OHSAS 18001 standards respectively.

Assistance to people with disabilities and reduced mobility

To facilitate mobility and access to station services by all passengers, RFI is committed to progressively eliminating architectural barriers in stations. Since 2011, when it acquired the role of Station Manager under Regulation (EC) no. 1371/2007 on "Rail passengers' rights and obligations", it has provided assistance at stations to passengers with reduced mobility and has bolstered its commitment to accessible information for all.

RFI began providing these services in an initial circuit of roughly 250 stations throughout Italy, which increased to 280 in 2018. The stations are selected on the basis of accessibility, the type of trains that stop there (whether the trains are equipped for wheelchairs) and whether there is demand from station users for this type of assistance services.

In relation to assistance to people with disabilities and reduced mobility, three targets were achieved:

a) completing at least 100 works to improve the physical accessibility of areas in the station (train-side platforms raised to the standard height of 55 cm, escalators, lifts, etc);
b) rolling out at least 120 next generation lifts to help wheelchair users on and off the train at stations in the Sale Blu circuit;
c) activating a messaging channel on www.rfi.it for hearing-impaired passengers to request additional assistance services, in addition to the other request methods available.

RFI provides free assistance 24 hours a day, 365 days a year to passengers of any railway company with physical, sensory or motor disabilities that temporarily or permanently affect their mobility.

To ensure the mobility of these passengers, RFI launched a specific plan to improve the accessibility of the areas open to the public, standardised and harmonised with other specific initiatives to improve station services as part of the Easy Station project involving the more than 600 busiest stations in the network, prioritising those in metropolitan areas with local public transport services.

Security

With regard to security, the company achieved its objective of keeping the number of thefts experienced by passengers in stations (excluding shops) below standard numbers.

A fundamental component of the usability and comfort perceived by passengers in the stations, security is pursued through a suite of actions carried out in conjunction with the law enforcement authorities, designed to protect both the areas open to the public and all other railway assets, which must be protected from external risks also in order to maintain infrastructure availability and regular traffic management, and the consequent quality of the services provided to end users, the passengers.

Numerous measures have already been successfully implemented and are continually being expanded to a growing number of stations: the installation of CCTV systems, intrusion sensors and other security measures; a greater security presence at times of the heaviest flows (holidays, sporting events, etc.); information campaigns for passengers on precautions to take and, specifically, the new methods to manage access to the platforms in order to avoid the presence of unauthorised persons or persons that plan illicit activities in the areas expressly dedicated to railway services. The new flow management method introduced at Milan Centrale for the 2015 Expo and later adapted and rolled out at the Rome Termini and the Florence Santa Maria Novella stations - with the installation of gates allowing the access to passengers with valid tickets only, supervised by security personnel - is moving towards the deployment of new digital technologies with the “Turnstiles 2.0” project, already in place at the Rome Termini and Fiumicino Airport stations, which monitors access from the standpoint of both security and ticket validation.

Overall station quality

As regards the perceived quality objectives, in terms of the percentage of passengers satisfied (those that gave a score from 6 to 9) with the services offered in the stations, the findings were basically unchanged from those of 2017 for almost all macro-factors across the entire network, all remaining above 90%. The greatest increases were recorded in the *security* (77% fully satisfied; +13.1% over 2017) and *public information under critical conditions* (83.9%; +5.8%) macrofactors, with a particularly large increase in the *overall station quality* macrofactor (+21.3%). Public information always plays a key role in the usability of railway services by passengers, particularly at times of critical conditions affecting operations such as bad weather, breakdowns, etc.. With its link to intelligent technologies able to “translate” the information received from the network’s traffic control systems into sound and/or visual alerts, the accuracy and speed of the information provided to passengers is due to the use of increasingly evolved technological systems and tools, together with more effective methods to both manage and provide information.

Given its close link to network operation, RFI is increasingly investing in resources and expertise, both in terms of technology and equipment, as well as organisational and communication strategies.

Excellent scores were again reported for the Sala Blu quality levels in 2018, with 99.5% of users satisfied with the services and a 2.4% increase in the percentage of passengers fully satisfied (scoring between 7 and 9), which practically overlaps with the percentage of passengers satisfied (99.2%), with the average scope rising from 8.6% to 8.7%.

RFI’s 2018 Service Charter covers all customer satisfaction targets and results for all network stations, unlike in the past when they were differentiated by category in order to monitor and report on the performance of the external management companies. With Centostazioni’s merger into RFI in July 2018, the company has set more ambitious quality targets common to all network stations in line with the higher targets of the platinum and gold category stations in previous years.

Punctuality

Train punctuality represents the quality of RFI’s product.

The punctuality KPIs are defined as the ratio of trains that arrived within the permitted punctuality threshold (based on pre-set parameters) and the total number of trains in circulation for a given segment.

RFI sets the punctuality targets at the beginning of each year, pursuing constant improvement.

A new train traffic management model was rolled out in 2018, using more challenging punctuality thresholds (5 minutes), rather than the 15 minutes used in previous years, for certain segments.
The 2018 punctuality KPIs are as follows:

PUNCTUALITY KPI	Punctuality - Overall	Punctuality - RFI	2018 punctuality targets - RFI
Mainline trains - market service (within five minutes)	52.3%	89.64%	87.40%
Mainline trains - Universal service (within five minutes)	55.7%	89.48%	86.80%
Regional trains (within five minutes)	86.7%	97.67%	97.85%
Freight trains (within 30 minutes)	54.6%	94.06%	94.05%

The actual punctuality was affected by certain factors:

- increased traffic volumes due to the increased services requests from the railway companies, with shorter traffic management margins at hubs and on mixed traffic lines;
- extraordinary events with a strong impact on operations (particularly the weather events of February and March 2018 and the collapse of the Morandi Bridge in Genoa);
- the impact of delays due to extraordinary maintenance and the upgrade of the national railway infrastructure.

RFI set up a permanent Punctuality task force towards the end of 2018 for the analysis and strategic and operational resolution of the main critical conditions arising during the year.

RAILWAY OPERATING AND INFRASTRUCTURE SAFETY

Safety (rate of railway accidents)

Safety targets are monitored for the national railway infrastructure that RFI manages using the indicators identified in accordance with current legislation and the data stored in its specific database (the “dangers database”) and the current international criteria endorsed by the ERA (the European Railway Agency).
The main indicators used to monitor safety performance are as follows:

- common safety targets;
- significant accidents (train collisions, train derailings, accidents at level crossings, fires on board rolling stock, injuries to people involving moving rolling stock, except for suicides and attempted suicides, other);
- significant accidents for which RFI is responsible;
- benchmarking of overall accidents (UIC);
- overall safety index for accidents (UIC).

For some of these indicators, the EUAR has prepared and assigned common safety targets ("CST"[1]) at European level and national reference values ("NRV"[2]), based on historical data.

The table below compares the infrastructure operator's cumulative performance in each risk category[3] and for each indicator defined (measured in FWSI4 related to the "Basis of calculation") with the CST and specific NRV for Italy.

Risk category	**Measurement unit**	**Basis of calculation**	**OBJECTIVES**		**RECORDED VALUES**
			CST	**NRV**	**Cumulative**
			Shared (x10-9-9)	ITALY (x10-9-9)	RFI (x10-9-9)
1. Passengers	1.1 No. of FWSI passengers per year due to serious accidents/no. of ptk per year	PTK per year	170.00	38.10	31.94
	1.2 No. of FWSI passengers per year due to serious accidents/no. of passenger-km per year	Km-passengers per year	1.65	0.257	n.a.
2. Employees or contracting companies	No. of FWSI employees per year due to serious accidents/no. of ptk per year	Km-train per year	77.90	18.90	10.48
3. Level crossing users	No. of FWSI railroad crossing users per year due to serious accidents/no. of train-km per year	Km-train per year	710.00	42.90	8.28
4a. Other people on the pavement	Annual number of FWSI involving people classified as "Other" due to serious accidents /no. train-km per year	Km-train per year	14.50	6.70	0.28
4b. Other people not on the pavement					
5. People unduly crossing the railway tracks	No. of FWSI involving people per year due to serious accidents/no. of train-km per year	Km-train per year	2,050.00	119.00	182.63

[1] Common safety targets;

[2] National reference values ("NRV"): these are, for each of the CSTs considered at European level, the specific value assigned to the railway system in each member state.

[3] Category of people who could potentially be harmed in a railway accident.

The above analysis shows that the only target that was not achieved was that of people on or crossing the railway tracks in violation of rules (a safety violation by people external to the railway system).
In order to identify more effective methods to mitigate this critical issue, an in-depth investigation on the possible initiatives was carried out as part of a broader railway safety education strategy that will be pursued in conjunction with the railway police. Since last year, the railway police have been working with schools on various projects so that also children can learn the basics of safety, such as organising school excursions to the main stations by train, during which the importance of complying with safety rules is covered, or the creation of multimedia content such as cartoons or comics containing safety messages to be distributed by schools.

There were 110 significant accidents[4] in 2018, classified under ERA criteria, 85% of which were due to events external to the railway system (exogenous), up 10% over 2017, compared to 15% which were due to internal events (endogenous), with an increase limited to just one event (+1). They are broken down below by amount and type in the following table which shows the events that occurred in 2018, compared with those of the previous year.

CSI accidents (ERA classification)	**Accidents (number)**	
	2018	*2017*
Train collisions	6	1
Train derailings	4	4
At level crossings	3	11
Fires involving rolling stock	2	2
Other	5	6
Injuries to people involving moving rolling stock	90	75
total	**110**	**99**

In addition to safety performance monitoring based on ERA classification, international monitoring takes place in accordance with UIC criteria.
"Typical" accidents according to the UIC are: collisions, derailing, fires involving rolling stock, accidents involving dangerous goods and involving at least one rail vehicle in motion (train, shunting vehicle, work vehicle) during operations and that caused a significant accident.
In 2015, the UIC prepared a global safety index, whereby it weighs accidents (individually) against certain parameters, such as:

- the type of accidents (train on train, train on people, train on vehicles, etc.);
- the extent of the injuries to people (number of deaths or injuries);
- the category of people who suffered injuries (whether the person was in violation or not);
- responsibility for the accident (internal or external).

[4] ERA's definition of significant accident: any accident involving at least one rail vehicle in motion, resulting in at least one killed or seriously injured person, or in significant damage to stock, track, other installations or environment, or extensive disruptions to traffic. Accidents in workshops, warehouses and depots are excluded.

Based on the monitoring carried out by UIC and officially published in October 2018 (i.e., referring to 2017 figures), the accident rate (per train-km) in Italy is lower than the average for the other European countries and RFI is one of its top performing members.

To boost train traffic safety, RFI is committed to the constant protection, maintenance and upgrade of the infrastructure and its technological equipment, as well as the development of new lines and plants and fine-tuning increasingly effective production and management procedures.

RFI conducts all business activities that have an even indirect impact on train traffic safety within the framework of the corporate safety management system. Authorised by ANSF's (the national authority for railway safety) issue to RFI of the safety authorisation referred to in Legislative decree no. 162/2007 in 2014, the corporate safety management system is one of the three components of the integrated safety management system which also comprises the environmental management system and the health and safety in the workplace management system, certified under the ISO 9001 standard, and ISO 14001 and OHSAS 18001 standards respectively.

Integrated safety management system

With respect to the activities related to the integrated safety management system, the audit commenced in June by the certification body, SGS Italia S.p.A. (which took over from RINA Services S.p.A.), for the renewal of the integrated safety management system under the ISO 9001, ISO 14001 and BS OHSAS 18001 standards, was successfully completed in July.

During the audit, which included the checks for the transition to the 2015 editions of the ISO 9001 and ISO 14001 certifications, various RFI central and local divisions and production units were involved for a total of approximately 50 audit days.

The 2017 annual safety report and 2018 annual integrated safety plan

The company prepared the 2017 annual safety report in the first half of 2018 and sent it to ANSF, as provided for by article 13.4 of Legislative decree no. 162/2007 concerning the national infrastructure operator's obligations.

The annual train traffic and operating safety plan (ANSF decree no. 10/2009) and the annual workplace safety and environmental protection plan are company tools to plan and monitor initiatives in place to maintain and improve safety. Together, they make up RFI's integrated safety plan.

Safety authorisation

In 2018, RFI continued as national railway infrastructure operator with the safety authorisation issued by ANSF in June 2014, pursuant to Directive 2004/49/EC, implemented in Italy with Legislative decree no. 162 of 2007.

ANSF issues the safety authorisation after the analysis and approval of the infrastructure operator's safety management system. In RFI's case, this is one of the three components (together with the environmental and occupational safety systems) of the broader integrated safety management system.

In May 2018, RFI received the safety authorisation from the French authority for railway safety (EPSF) for the "Bardonecchia - Modane (excluded)" sections at the border. Train traffic management and maintenance of this section is currently carried out by RFI, even though it is partly in France.

Integrated safety policy

RFI uses the integrated safety policy to express its formal commitment to managing the railway operation safety, worker safety and environmental protection, which it believes are fundamental values in the pursuit of its mission. This policy is periodically evaluated to ensure that it is always in line with the type and volume of RFI's services. It defines the strategies and macro-objectives to pursue.

The general guidelines in the integrated safety policy are specified in the train traffic and railway operation safety policy, the occupational health and safety policy and the environmental protection policy.

These policies were formalised in May 2017 with organisational communication no. 449/AD of 11 May 2017.

Infrastructure safety

Tunnel safety

RFI drafted the annual report on safety in railway tunnels for 2017 pursuant to article 14 of Ministerial decree of 28 October 2005 and sent it to the MIT and ANSF on 8 August 2018, communicating the results of recalculation of the railway risk curves updated in line with new traffic data and infrastructural modifications carried out on 315 tunnels and 31 back-to-back tunnels in use and over 1,000 metres in length (article 11 of Ministerial decree of 28 October 2015).

Activities continued for the issue of emergency and rescue plans for tunnels that are more than 1,000 metres long.

Support was provided to the Bologna local production department to update the authorisations and the emergency and rescue plans for the introduction of freight traffic on the Bologna-Florence HS section.

The opinion of the Safety Commission was sought, pursuant to the Ministerial decree of 28 October 2005, in relation to the tunnels of Section B Notarbartolo - La Malfa of the Palermo hub and for the San Giacomo tunnel on the Spoleto-Campello section.

2018 saw the completion of the technical talks at the MIT to harmonise the legislative framework covering tunnel safety and the work group at CER and ERA for the revision of the Safety Railway Tunnels (SRT) technical interoperability specifications to introduce the functional approach for the evaluation of the safety level of the railway tunnels and which will be approved by the Railway Interoperability and Safety Committee (RISC) in January 2019.

Moreover, the Ansaldo portal has been implemented at Villafranca km 90+750, on the single-track line, in order to protect the tunnels in both directions and the variation to the MerMec portal contract covering the unexpected activities was agreed.

Seismic vulnerability, hydro-geological risk and areas subject to landslides

With regard to seismic vulnerability testing on infrastructural works along large national railway lines pursuant to article 2.3 of Civil Protection Ordinance no. 3274 of 2003:

- the testing of 234 bridges was completed, in addition to the 826 already tested in previous years;
- seismic improvement works were commenced for 65 of the 228 bridges for which planning works were carried out in 2016 and 2017;

- definitive and executive planning commenced for seismic improvement works on a further 96 bridges found to be seismically vulnerable;
- activities related to investigations of land, materials and surveys of 900 works were completed out of the approximately 3,000 works related to the strategic national lines.

Moreover, general inspections were carried out of 207 bridges under the "Inspections of bridges, tunnels and other railway infrastructure works" procedure.

With reference to works to mitigate hydro-geological risks, maps that have already been completed and the priority lists of works to protect the railway track bed, as part of the hydro-geological risk mitigation plan, works related to the third tranche of works commenced in 2017 are being completed, and works related to the fourth tranche of works financed in 2018 have been commenced and are around 50% complete. The works of the fifth tranche of were have been defined.

As part of the design and construction activities using the standard alarm netting for falling masses, the activities scheduled in the Ancona area are coming to a close.

The tender procedure is underway for the development of RAMSES, an experimental real-time monitoring system of the development of thundershowers in small catchment areas in the sample area of Reggio Calabria.

The contract is underway with the Department of Civil Engineering, Chemistry, the Environment and Materials of the University of Bologna to develop a simplified procedure to establish a priority list for sections of the railway infrastructure subject to flooding. Specifically, a methodology based on the Geomorphic Flood Index has been proposed, enabling the determination of the probability of each part of the area of being flooded with a specific return time.

Increase in the safety at level crossings

Activities to increase the safety of the operation of level crossings on RFI's network continued, with 27 protection systems supplied for private level crossings, one of which is already in use in the Palermo area.

RESEARCH AND DEVELOPMENT

Research

Various application contracts under master agreements were agreed in 2018 for research in the fields of embedded systems, software engineering for railway applications, mechanical and diagnostics and electrical traction solutions and, in the field of IT and electronics, with the inter-university consortium CINI, involving 24 of the most distinguished Computer Engineering Departments of Italy's premier universities for a five-year period.

The research activities covered by the master agreements mean the infrastructure innovation and safety upgrade requirements can be identified and conveyed to technological partners and suppliers, and the technological upgrade processes within RFI can take shape, with positive flow-ons of acquiring skills within the company and the possibility of future patents for technological equipment and devices. During 2018, 21 application contracts were signed under research master agreements in the various sectors.
RFI also takes part in the Tesys Rail research and development project funded by the Ministry of Education, Universities and Research (MIUR) aimed at reducing the environmental impact of the railway system, both in terms of the vehicle and the infrastructure, and proposing improvements to the interconnected operating and management systems, as well as upgrading vehicle parts.

RFI also takes part in several international research projects on various issues, such as the development of digital standards, more efficient infrastructure diagnostics, and the satellite observation of infrastructure, etc..

Technological network plan

The 2018 update to the network technology plan was issued in December, reviewing the reference standards for the design and construction of currently available technological systems and products or that are being built on all lines and hubs to meet design requirements with respect to safety, capacity, regularity, faster speeds, obsolescence, technological integration and interoperability.

Technological development

In 2018, spending for investments in innovation approximated €27.2 million. The following table analyses the amount of these investments by the main operating segments:

millions of Euros

Operating segment	2018	2017	2016	2015	2014
Safety technologies	21.9	28.9	36	44.7	7.0
Innovative diagnostics	-	-	0.1	0.8	0.8
Studies and tests on new parts and systems	4.0	3.7	10.2	18.4	2.6
Environmental and land protection	0.5	0.3	-	-	-
Other	0.8	0.3	-	-	-
TOTAL	**27.2**	**33.2**	**46.3**	**63.9**	**10.4**

Spending for technological development varies over time due to the very nature of the developments, which may enter production or because additional pilots are carried out for a limited number of locations/categories/plants.
Activities related to works that began in 2018 related to the following main areas:

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

The following works were completed:

- development of the value management IT tool to assess the fairness of the base prices of the tenders before their publication, evaluating the fairness of the bids, as well as for the resolution of issues generated in the assessment of specific services or supplies during the tendering process;
- pilot installation of a tool to measure the local scour around bridge piers (Bless +: Bed LEvel Seeking System); observations of the measurements commenced in order to validate the tool.

Technical and Monitoring Committee

In 2018, the Technical and Monitoring Committee continued its development and analysis activities to review the policies for the purchase of new products/asset systems, examining their functional, operating and maintenance impacts on the railway system. Specifically, the Committee: a) reviews the actual need to begin development of new systems and products for the railway infrastructure through an examination of the requirement sheets submitted by the Contractor Department; b) provides support and guidance in the roll-out of innovative products and systems, after the authorisation procedure has been completed and the investment project commenced, in line with current corporate procedures; c) carries out monitoring functions and facilitates the necessary analyses in the case of deviations, in order to identify any further production/application development needs.

During the year, the committee examined 22 requirement sheets, 20 of which were approved and two cancelled. It examined 18 preliminary research projects, 16 of which were authorised and two are being processed.

PERFORMANCE OF SUBSIDIARIES

Bluferries S.r.l. (wholly owned)

RFI set up this company on 4 November 2010 in accordance with Anti-Trust legislation (Law no. 287/90) through the contribution of RFI's navigation business with effect from 1 June 2012. The company has a quota capital of €20.1 million, which is entirely held by RFI. Its purpose is the transport of people, vehicles and goods by sea, the management and sale of its sea transport lines and the management of related services, the performance and provision of all port operations and services for ships at dock, the management, fitting out and lease and rental of its own and third party ships and the purchase and sale of ships and navigation and towing operations for its own and third party ships.

Bluferries reported a profit of €2.3 million for 2018, up 3% on the previous year. Revenue was higher than in the previous year due to the rise in traffic revenue, due to the increase in turnover for both road transport (€1 million, €0.7 million of which in the "heavy" segment and €0.3 million in the "car" segment) and passenger transport (€2.4 million, €2.2 million of which due to the new Messina-Reggio Calabria fast link).

Other revenue and services also increased, mainly due to the combined effect of the decrease in revenues from the lease of ships and insurance compensation (€0.5 million) and non-recurring income (€3.4 million), such as the penalties charged to the builder for the delay in delivering TRINACRIA (€1.1 million) and the compensation from the quotaholder RFI for the disposal of the right to use the car decks of the railway ships included in the initial contribution of the business unit (€2.3 million). Operating costs are higher than those of the previous year, mainly due to the new Reggio Calabria service, with this business leading to a €0.8 million increase in personnel expense and a €1.2 million increase in other costs (fuel, services and ship lease costs).

Finally, the difference in amortisation, depreciation and impairment losses is mainly due to the impairment losses recognised on the right to use the decks of RFI's railway ships for an amount matching its residual carrying amount of €2.3 million, as the asset could no longer be used due to the unavailability of the connected Villa S. Giovanni vehicle overpass. However, as stated earlier, the quotaholder will pay compensation of the same amount, thereby offsetting the impacts on operating profit.

Terminali Italia S.r.l. (89%)

This company was set up on 16 May 2008 to optimise the capacity to access to public freight plants and to optimise their use based on the concepts of fairness, transparency and non-discrimination initially provided for by Legislative decree no. 188/2003, and later replaced by Legislative decree no. 122 of 15 July 2015. RFI holds 89% of its quota capital and 11% is held by Mercitalia Intermodal (formerly Cemat). The company's business object is to manage and operate centres equipped for intermodal transport, including those serving interports or similar national and international infrastructures and providing terminal services, as well as managing and operating railway hubs for national and international transport, and the construction, purchase, rental, use, repair and maintenance of means and equipment of any kind and technique, functional to intermodal transport, including on behalf of third parties.

The company reported a profit of €2.2 million for 2018, in line with the previous year, despite the slight dip in operating profit (by approximately €123 thousand) due to the decrease in revenue from terminal services which was largely offset by the positive impact of the decrease in income taxes.

Total operating costs for 2018 are in line with those of 2017. An increase in personnel expense was offset by a decrease of the same amount in other operating costs for shunting and handling services at the terminals managed under the network contract (Bari, Bologna, Brescia, Livorno and Parma).

The comparison of loads handled with the previous year shows a decrease of 6.7%, which reduces to around 1% if the volumes of the Milan Smistamento terminal are excluded, which are impacted by the termination of the lease for the terminal areas with effect from 1 January 2018.

Tunnel Ferroviario del Brennero - Società di partecipazioni S.p.A (88.20%)

The business object of this company is to "manage the investment in Galleria di Base del Brennero BBT SE and any other entity promoting the railway tunnel at the base of the Brennero".
The main events of the year refer to equity transactions and the increase in the investment in BBT SE.
In particular, during the extraordinary meeting on 20 December 2017, the shareholders approved the ninth capital increase up to a maximum of €140 million, which was then carried out in one tranche on 22 February 2018. At 31 December 2018, the company's share capital totals €705,790,910 and consists of 705,790,910 shares with a nominal amount of €1 each. Following the subscription of the ninth capital increase, RFI's interest increased from 87.92% to the current 88.20%, which at 31 December 2018 corresponds to €623 million. The company has contributed €90 million to its associate BBT SE to finance Phase III.
TFB reported a profit for the year of approximately €79 thousand, due exclusively to the financial income generated by bank accounts.

Blu Jet S.r.l. (wholly owned)

RFI's set up of Blu Jet on 1 August 2018 forms part of the organisational restructuring of the waterway services under concession, following the change to the legislative framework introduced by Law decree no. 50 of 24 April 2017, converted with amendments into Law no. 96 of 21 June 2017. The reorganisation will be implemented through the partial demerger in 2019 of the business unit comprised of Bluferries' high-speed craft in favour of the newco, Blu Jet. The purpose is to separate the waterway activities carried out under concession (railway ferrying via sea using railway ships and high-speed vessels) carried out by RFI, from those on the free market (heavy and light road transport) carried out by Bluferries. At 31 December 2018, the company's share capital came to €200 thousand, unchanged from at the time of its incorporation. The company was inoperative in 2018 and posted a loss for the year of approximately €16 thousand due to the costs for services provided by the company bodies and the independent auditors.

Grandi Stazioni Rail (wholly owned)

RFI acquired the 100% of Grandi Stazioni Rail on 13 November 2018 following the contribution by the previous sole shareholder FS Italiane S.p.A.. The transaction is part of the comprehensive reorganisation of the station business, aimed at the integrated development of the network stations as intermodal hubs serving mobility. The company's object is to redevelop, improve and manage the fourteen largest Italian railway stations.
The company reported a profit for 2018 of €5.3 million, an increase of approximately €1 million over the previous year.

Revenue increased by approximately €2.9 million (2%) over 2017, mainly due to the higher revenue resulting from the agreement of new contracts with FS group companies (Italcertifer and Trenitalia), higher revenue from car park management, following the increase in the average usage levels of the new car parks that are now fully up and running, and the increase of the year in revenue from the reimbursement of lease costs for the real estate complexes managed (in line with the higher related costs).

Operating costs of the year increased by approximately €1.4 million (1%), mainly as a result of the increase in the lease costs for the real estate complexes managed in line with the increase in the respective revenue, the increase in the repurchase instalments related to the higher revenue from car park management and the combined effect of higher taxes and duties and greater provisions for risks.

Amortisation and depreciation increased by €413 thousand due to the transfer of assets under construction to the relevant asset category, mainly related to works for the extraordinary maintenance of the network stations.

In relation to the first strategic infrastructures plan (Law no. 443/2001) referred to in CIPE resolution no. 121 of 21 December 2001, 21 requests were filed for the direct disbursement of grants for a total of €42.3 million. The MIT disbursed €27.4 million in relation to these requests. Moreover, €7.5 million was collected in relation to requests filed in 2017. The total amount received in 2018 was therefore €34.9 million.

TREASURY SHARES

The company does not own any treasury shares or shares of its parent either directly or through trustees or nominees, pursuant to article 2357 of the Italian Civil Code.

OTHER INFORMATION

LITIGATION AND DISPUTES

Introduction

This section details the most significant court and criminal proceedings pending at the reporting date. Unless otherwise indicated, up to the date of preparation of this report, no information had arisen that would indicate that the 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 financial position, financial performance or cash flows. Furthermore, where necessary, the companies have joined the criminal proceedings as a civil party.

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

- particularly serious crimes with wilful intent entailing substantial damage to the company or leading 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.

Litigation and significant proceedings pending with employees, third party service providers and/or contractors, the tax authorities, regions, etc., for which, where the relevant conditions are met, accruals have been made to specific provisions for risks and charges, are detailed in the notes to the financial statements, to which reference should be made. Similarly, contingent assets and liabilities are reported in the notes to the financial statements to which full reference should be made.

Reference should be made to the corresponding section of the 2017 Annual Report for information on proceedings and disputes that did not change during the year.

Investigations, criminal proceedings and proceedings pursuant to Law no. 231/2001

With respect to the most significant judicial investigations and court proceedings that certain Public Prosecutor's offices have initiated against former RFI representatives, as there are no indications that the company may be exposed to significant liabilities or losses and no information is presently known with a material impact on its financial position, financial performance or cash flows, no accruals have been recognised.

Litigation pursuant to Legislative decree no. 231/2001

There were no developments in 2018 in connection with:

- criminal proceeding no. 2554/2013 in the general register of crimes, in the hearing phase before the Foggia Court in relation to the company's administrative liability for the fatal workplace accident on 5 March 2010 at Agro di Cerignola, in which an employee of Fersalento S.r.l. died;
- criminal proceedings no. 1430/2014 in the general register of crimes, in the hearing phase before the Gela Court in relation to the company's administrative liability for the accident in which three of RFI's maintenance workers were fatally hit on 17 July 2014 by regional train no. 12852 travelling from Gela to Caltanissetta near km 217+728 between the Falconara and Butera stations.

There were developments in the following proceedings during the year:

- criminal proceedings no. 6305/09 in the general register of crimes, following the railway accident in Viareggio on 29 June 2009, is pending before the Florence Court of Appeal, following the appeal against the first-level ruling filed by the defence of the natural persons and companies found guilty in such ruling, and by the private and public prosecution;
- criminal proceedings no. 7906/2009 in the general register of crimes in the hearing phase before the Latina Court concerning alleged injuries caused to two RFI employees due to negligence in connection with alleged violations of accident prevention legislation (following an accident that occurred on 10 August 2009) during maintenance work near Fondi, for which two of RFIs managers, one of its employees and the company are being investigated for third-party and administrative liability. At the hearing on 14 December 2017, the judge dismissed the case against the defendants under the statute of limitations. When the reasons were filed, no appeal was made within the terms established by the law. The decision became final on 7 May 2018;
- criminal proceedings no. 3651/18 in the general register of crimes with the Milan Public Prosecutor relating to a railway accident that occurred on 25 January 2018 in Seggiano di Pioltello, involving the railway company Trenord S.r.l.'s regional train no. 10452 - operating the commercial service on the section between Cremona and the Milano Porta Garibaldi station - which caused the death of three passengers and injuries to others. Following the accident, the Milan Public Prosecutor initiated investigations against RFI's CEO, Production Manager, Local Production Manager of Milan, Local Line Unit Manager for the Local Production Unit of Milan, Head of the Brescia Works Maintenance Unit and the Superstructure Site Specialist for the Brescia Works Maintenance Unit. Trenord S.r.l's CEO and Operations Manager are also being investigated. In addition, RFI S.p.A. and Trenord S.r.l. have administrative liability pursuant to Legislative decree no. 231/01. Specifically, the natural persons are charged with the crimes covered by and punishable under articles 430, 449.1/2 of the Criminal Code (negligent railway disaster), articles 589.2/3 and 590.2/3/4 of the Criminal Code (negligent manslaughter and injuries due to negligence with violations of accident prevention in the workplace regulations) and article 71 of Legislative decree no. 81/08 (violation of employer obligations). The companies are charged with the administrative violations covered by article 25-*septies*.2/3 of Legislative decree no. 231/01, with respect to sanctions for negligent manslaughter and serious injuries and for violations of accident prevention regulations. RFI S.p.A. has engaged a trusted attorney and technical advisor. Current insurance policies cover any liabilities that should arise in connection with these proceedings. The preliminary investigations are underway.

The following is reported in relation to new developments in proceedings:

- criminal proceedings no. 16682/14 in the general register of crimes before the Palermo Public Prosecutor's Office. In June 2018, the notice of completion of preliminary investigations was served to the CEO and RFI S.p.A., subject to administrative liability pursuant to Legislative decree no. 231/01. The invoked crime is organised activities for the illegal trafficking of waste (article 452 *quaterdecies* of the Criminal Code) and the company is charged with the administrative violation referred to in article 25 *undecies*.2.F) of Legislative decree no. 231/2001 in relation to the alleged illegal discharges in November 2014 of waste material by the supplier, Ecosistem S.r.l., at the Camastra (AG) landfill following the works carried out by RFI on the platform under the Petrace bridge in Gioia Tauro (RC). RFI S.p.A. has engaged a trusted attorney.

Other significant criminal court proceedings

There were developments in the following proceedings during the year:

- criminal proceedings no. 6765/2012 with the general register of crimes with the Brindisi Public Prosecutor in connection with an accident involving the Freccia Argento 9351 train and a lorry on 24 September 2012 at the level crossing at km 710+403 of the Bari-Lecce section near the Cisternino (BR) station. The case is against the driver of the vehicle for manslaughter and negligent railway disaster. RFI appeared as a plaintiff jointly with Trenitalia. On 21 October 2014, the Brindisi Court handed down its ruling convicting the defendant. On 5 April 2019, the Court of Appeal confirmed the decision of the first-level proceedings;

- criminal proceedings no. 3034/2012 with the general register of crimes with the Rossano Public Prosecutor's Office and subsequently transferred to the Castrovillari Public Prosecutor's Office, relate to a fatal accident in which a train hit a car with six people inside it at the private level crossing at km 155+849 of the Rossano C. - Mirto Crosia section. RFI's managers and employees (some of whom retired) and other parties not related to FS Italiane group are accused, jointly, of manslaughter and negligence causing a train crash. The preliminary hearings are underway.

No changes took place in relation to the following criminal court proceedings pending against RFI personnel where the company appeared before court as holding civil liability:

- criminal proceedings no. 1744/2014 with the general register of crimes pending before the Palmi Court against an employee accused of a crime covered by and punishable under article 590 of the Criminal Code in relation to the injury suffered by a passenger on 2 September 2013 at Rosarno station;
- criminal proceedings no. 2899/2009 with the general register of crimes in the hearing phase before the Avellino Court against, inter alia, four former managers of Ferrovie dello Stato accused of crimes covered by and punishable under articles 110, 589 and 590.2/3/4/5 of the Criminal Code.

OTHER INVESTIGATIONS

K2 discount pursuant to Ministerial decree no. 44T/2000 - Ruling of the Council of State

In relation to the two cases currently pending before the Lazio regional administrative court against URSF (the office that regulates railway service) decisions nos. 18/2007 and 83/2007, RFI appealed against the Lazio regional administrative court's ruling no. 9381/17 (published on 22 August 2017) which declared them partly inadmissible and partly denied them as they were without grounds.

With respect to compliance with the Council of State's decision repealing DM 92T (reference should also be made to previous reports for a detailed description), on 26 September 2016, the *ad Acta* Commissioner presented the final report on the outcome of the examination related to the recognition of the K2 discount, determining the amount to be paid to the appellant railway companies involved in the compliance ruling (namely, Rail Traction Company, Rail Cargo Italia (formerly NordCargo), SBB Cargo, Rail Cargo Italy (formerly DB Schenker). Although an appeal for additional reasons had been filed with the Council of State in order to obtain clarifications on the compliance of the K2 ruling (the hearing has not been set), the above railway companies notified four different appeals to RFI in December 2017 with injunctions to obtain payment of the amounts due to them in accordance with the *ad Acta* Commissioner's report. In response to such injunctions, RFI S.p.A. paid the railway companies the amounts due.

In relation to the payment made by RFI, in view of the hearing of 12 April 2018, the four appellant railway companies filed a “motion for the declaration of loss of interest”. Accordingly, considering the above motion, ruling no. 2518 of 26 April 2018 of the Council of State declared the unenforceability of the “appeal for additional reasons”, also ordering the payment of court fees.

Lastly, in relation to the civil proceedings commenced by Trenitalia, the first hearing for appearance, initially set for 16 May 2018, has been deferred to 13 March 2019 following the decree issued by the Civil Court of Rome, allowing RFI to bring the MIT and the MEF into the case as a guarantor and to hold RFI harmless from the amounts related to the K2 Discount which may be required to to Trenitalia. After a brief discussion, the Judge scheduled another hearing for 15 January 2020, giving the parties the related terms for the presentation of their respective briefs.

Accordingly, RFI notified the judicial acts to the competent departments.

Proceedings A436 – Arenaways S.p.A./RFI – FS

With respect to that indicated in the previous reports, to which reference should be made for additional details, the hearing for the Anti-Trust Authority’s appeal, in which RFI appeared on 22 July 2014, was set for 11 June 2019. Therefore, if the first-level ruling is upheld on appeal, RFI will request the repayment of the penalties it paid (€100 thousand) in compliance with the now-repealed measure.

Anti-Trust Authority proceedings no. A/519 - Veneto region

On 10 May 2018, the Anti-Trust Authority notified RFI - along with Ferrovie dello Stato S.p.A. and Trenitalia S.p.A. - of a measure to begin the preliminary proceeding pursuant to article 14 of Law no. 287/90 to assess whether there was a violation of article 102 of the Treaty on the Functioning of the European Union. The preliminary proceeding was also commenced following the notification of 14 March 2018 sent by the railway company, Arriva Rail Italia S.r.l. and is aimed at ascertaining whether the three FS group companies, between 2015 and 2017, adopted a combined strategy to unduly exploit RFI’s legal monopoly on the railway infrastructure management market, in order to preserve Trenitalia’s position as incumbent on the market of the supply of regional and local railway transport services in Veneto. In substance, the Anti-Trust Authority believes that FS group’s strategy was aimed at inseparably linking RFI’s investment in the electrification of the Veneto lines, Trenitalia’s investment in new rolling stock and the direct assigning of railway services to Trenitalia for a total period of 15 years (2018-2032). Anti-Trust Authority officers notified the measure in person, at the same time also notifying a second measure related to the authorisation to carry out, in collaboration with the Tax Police, an inspection at RFI’s headquarters (and of the other FS group companies involved), acquiring a series of documents from the office of RFI’s CEO and other directors and managers.

In order to identify the most appropriate defensive strategy, RFI gained access to the Anti-Trust Authority’s entire preliminary file and, after a careful examination of the documentation obtained by the Anti-Trust Authorities during the inspection, lodged a motion for the confidentiality of the documents, or part thereof, which contain information or data deemed sensitive and confidential.

If a violation is found to have taken place, considering its seriousness and duration, the Anti-Trust Authorities may impose an administrative fine on RFI of up to 10% of its turnover of the last year prior to the notification of the warning.

Given the proceeding’s materiality and potential implications, considering the disputed case (abuse of a dominant position) and previous similar Anti-Trust Authority proceedings, RFI appointed an external legal advisor highly specialised in competition law to support and represent it, as it had already done in the other Anti-Trust proceedings and by the parties referred to above.

RFI's hearing took place at the Anti-Trust Authorities offices on 12 September 2018, after which it was requested to provide further specific clarifications in relation to:

- the governance of the Government Programme Contract with the MIT (the role of the government, regions and RFI), detailing the negotiation procedure with specific reference to the electrification works of the Veneto regional lines related to the Anello Basso (Montebelluna-Belluno, Belluno-Ponte nelle Alpi-Vittorio Veneto and Ponte nelle Alpi Calalzo di Cadore);
- the content of the Government Programme Contract 2017-2021 in relation to the electrification works of the Veneto regional lines, also making reference to the relevant decisions of RFI's Investment Evaluation Committee;
- the procedure for the Government Programme Contract 2017-2021;
- the content of certain documents acquired by the Anti-Trust Authority during the inspection of RFI's offices.

These clarifications were provided in a specific and detailed brief - filed on 16 October - which, as well as responding to the above questions, clearly demonstrates that there is no correlation between the way in which the railway transport service was assigned and the management of the infrastructure investments - specifically, the electrification of the lines in the Veneto region - by RFI.

The date set for the closure of the preliminary proceeding is 30 May 2019.

Appeal to the Lombardy regional administrative court - Milan section no. 492/2016 against the Electricity, Gas and Water Regulator's resolution no. 654 of 23 December 2015

On 26 February 2016, RFI filed an appeal to the Lombardy regional administrative court against resolution no. 654/2015, with which the Electricity, Gas and Water Regulator approved the tariffs for electrical energy transmission, distribution and measurement for the 2016-2023 regulatory period. This resolution includes, inter alia, the "Integrated text of measures for the provision of electrical energy transmission and distribution services - provisions for 2016-2019", referred to as "TIT", which contains section IV regulating "special tariff regimes".

As for the special tariff regime applicable to RFI and the railway system, the new TIT provides that, as from 1 January 2016, the benefit of applying a "single virtual point" is limited solely to quantities of energy under the universal and freight services, and no longer applies to energy for market services (as monthly consumption for these services is considered "evenly distributed between RFI's withdrawal points" and, therefore, the maximum applicable tariff applies).

The measure introduced with the aforementioned provision entails a higher cost of energy for the market railway transport service, the greater cost of which RFI will bear at 30% for 2016 and 20% for 2017 pursuant to article 29.3 of Law decree no. 91/2014 converted into Law no. 116/2014.

Resolution no. 654/2015 has also been challenged by some railway companies.

Following the issue of European law no. 167/2017 on 20 November 2017, which introduced (in article 19) sweeping changes to article 29 of Law decree no. 91/2014, revising the scope of application of the special tariff regime, the energy authority (ARERA) issued a new resolution, no. 922/2017/R/eel, which, as regards the regulations governing the special tariff regime applicable to RFI, replaced resolution no. 654/2015, recognising the full application of the system charges only as relates to the portion of energy i) withdrawn on grids and for services excluded from the special tariff regime, or ii) exceeding 5,000 GWh, also confirming the benefits of the "single virtual point" to the entire railway system up to the consumption of this amount.

The appeal is yet to be scheduled and, considering the changed legislative context, RFI no longer has any legal interest in bringing the proceedings.

ART resolution no. 96/2015 "Criteria for determination of charges for access and use of the railway infrastructure" - Extraordinary appeal with the President of the Italian Republic

With respect to RFI's appeal, a statement was lodged with the Piedmont regional administrative court asserting that RFI no longer wished to pursue the case, partly due to the resolution of RFI's original complaints due to subsequent measures taken by the ART and actual market trends. In light of this statement, with ruling no. 1287, published on 29 November 2017, the Piedmont regional administrative court declared that the appeal was not enforceable.

As regards the appeals lodged by Trenitalia and NTV against ART resolution no. 96/2015, the Piedmont regional administrative court rejected such appeals with rulings published on 11 January 2018. Both Trenitalia and NTV lodged appeals against these rulings in April 2018.

All rulings of the Piedmont regional administrative court that settled the appeals lodged by the freight railway companies, Trenitalia and NTV against ART resolutions nos. 75 and 80/2016 (implementing resolution no. 96/15, whereby the ART had approved the compliance of the new 2016-2021 tariff regime proposed by RFI, the related MAP and the services outside the MAP), were appealed in the early months of 2018.

Sanction proceedings begun with ART Resolution no. 64 of 31 July 2015 – RFI's appeal before the Piedmont regional administrative court against resolution no. 33/2016 concluding the sanction proceedings as per resolution no. 64

With resolution no. 64 of 31 July 2015, the ART took action against RFI to apply sanctions for failure to comply with certain regulatory measures contained in resolution no. 70/2014. Specifically, the regulatory measures are those for which resolution no. 70/2014 established an implementation date after the publication date.

As for the challenges under resolution no. 64 claiming that RFI had not submitted proposed commitments but only defence briefs (namely those relating to measures 4.6.1 "clearance of the infrastructure", 5.6.1 "reformulation of the penalty/excess clause system for failure to prepare contracts and/or use train paths" and 7.6.1 "performance regime"), with resolution no. 33 notified to RFI on 24 March 2016, the ART definitively ended the sanction proceedings, ordering:

i) the dismissal of the challenges related to measures 4.6.1.d) "clearance of the infrastructure", 5.6.1.c) "ban on overlapping excess clauses" and 7.6.1.e) "performance regime" of resolution no. 70/2014;

ii) the assessment of violation of measure 5.6.1.b) "neutrality of the system with regard to market concentration, to be achieved by calculating the excess clauses by batches of fees under contract, applying decreasing percentages as the fee increases" imposing a relevant fine of €20,000;

iii) the assessment of violation of measure 5.6.1.d) "introduction of an excess clause system for non-utilisation of train paths also for HS services, in favour of the railway company, based on the same criteria as letter b) and in line with that provided for portions of infrastructure of the traditional network declared as limited capacity" imposing a relevant fine of €10 thousand and obliging RFI to introduce into the 2015 and 2017 PIR - within 15 days of the notification - a provision for an excess clause batch at 3% for railway companies with utilisation contracts of an amount lower than €6 million, publishing the integrated PIR on its website and promptly notifying all affected parties.

RFI complied with the above within the given deadline, publishing the updates of the 2015 and 2017 PIR and paying the overall fine.

However, without prejudice to these measures, to protect its interests, RFI lodged an appeal on 23 May 2016 with the Piedmont regional administrative court against resolution no. 33 concerning only the assessment of the aforementioned violations. The date of the hearing has yet to be set.

Sanction proceedings under ART resolution no. 125 of 20 October 2017

With resolution no. 125/2017 of 19 October 2017, the ART began proceedings for the potential assessment of sanctions against RFI for the alleged violation of the procedure for the assignment of railway infrastructure capacity to Trenitalia S.p.A..

On 31 May 2018, the ART notified RFI of the communication of the preliminary results related to the sanction proceedings in question, in which it considered that the conditions exist to impose an administrative fine of up to 1% of the turnover generated on the market by the party that committed the violation of the last year closed prior to the assessment of the violation and, in any case, not exceeding €1,000,000, pursuant to article 37.14.a) of Legislative decree no. 112 of 2015.

RFI forwarded the ART its final defence brief within the deadline of 20 June 2018, requesting the dismissal of the proceedings. The last hearing took place on 27 June 2018.

At the conclusion of the sanction proceedings, with resolution no. 68/18 - published on 16 July - the ART imposed an administrative fine of €54,000 on RFI for the violation of article 26.1/3 of Legislative decree no. 112/2015. After payment of the fine and following an in-depth examination by the relevant departments, RFI decided not to lodge an appeal.

Sanction proceedings under ART resolution no. 126 of 20 October 2017

With resolution no. 126/2017, the ART began sanction proceedings against RFI for RFI's alleged violation of the transparency and disclosure requirements in the PIR and violation of the principles of fairness and non-discrimination, in connection with the railway infrastructure access conditions for the operation of double trains and the rise in speed to over 300 km/h.

On 31 May 2018, the ART notified RFI of the communication of the preliminary results related to the sanction proceedings in question, in which it considered that the conditions exist to impose an administrative fine of up to 1% of the turnover generated on the market by the party that committed the violation of the last year closed prior to the assessment of the violation and, in any case, not exceeding €1,000,000, pursuant to article 37.14.a) of Legislative decree no. 112 of 2015.

After reading and analysing the preliminary results, RFI found a reference to certain notes which RFI only became aware of following the preliminary results. It therefore submitted a petition to access the documents, simultaneously requesting an extension of the deadline for the last hearing - set for 27 June 2018 - in order to fully analyse the above-mentioned documentation and prepare the consequent defence arguments.

The ART allowed the above petition, forwarding the documentation requested and extending the deadline for the filing of the defence briefs to 28 June 2018 and for the date of the last hearing to 5 July 2018, to which no resolution from the ART has followed to date.

Appeal against ART resolution no. 140/2017

With resolution no. 140/2017 - published on 4 December 2017 - the ART notified RFI of the annual instructions and requirements for the "2019 PIR", the "2018 PIR", and in relation to the preparation of the "2020 PIR". Unlike past resolutions having the same purpose, the content of this measure is particularly intrusive and pervasive, and heavily impacts the infrastructure operator's autonomy. By way of example, but not limited to, the requirements concern the ART's full and direct access to the manager's information systems and databases, as well as the requirement to disclose to the market the document entitled "Technical Scenario" (containing the rules for planning the traffic for each section and line).

In order to avoid the commencement of a new and costly sanction procedure, RFI implemented the guidelines and provisions set out in resolution in question in accordance with the set deadlines, while also lodging an appeal with the Lazio regional administrative court on 2 February 2018. However, at the pre-trial hearing, the Lazio regional administrative court declined jurisdiction (in favour of the Piedmont regional administrative court) as, in its view, the rulings related to ART measures are not under its functional jurisdiction, as the ART was not set up pursuant to Law no. 481/1995.

Deeming these arguments wholly unsatisfactory and incorrect, RFI appealed with the Council of State to determine jurisdiction. The Order of the Council of State was issued on 13 July with a definitive ruling on the jurisdiction proposed by RFI, finding that the Piedmont regional administrative court has jurisdiction.

RFI therefore reinstated the ruling concerning resolution no. 140/2017 before the Piedmont regional administrative court; the date of the hearing has not yet been set.

TAX DISPUTES

The tax disputes concerning the undue deduction - in the calculation of the regional tax on productive activities (IRAP) - of grants related to income that RFI paid to Trenitalia for the free transport of commuters with Free Travel Cards are reported below.

- RFI has appealed against the Provincial Tax Court's ruling 10454/2017 with respect to the notice of tax assessment concerning IRAP for 2010, which denied its appeal. The hearing is set for 29 January 2019. The ruling has not yet been filed.
- In relation to the appeal against the notice of tax assessment concerning IRAP for 2011, file no. TJBOC0100229/2016 notified on 24 November 2016 by the tax authorities – Lazio Regional Department - Large Taxpayers Office, ruling no. 19756/18 was filed on 27 November 2018, in which RFI lost the dispute in relation to the tax alone, while its request for the non-application of the penalties was fully upheld. On 8 January 2009, the tax authorities – Lazio Regional Department - Large Taxpayers Office, notified payment order no. TJCIPPN00060/2018 which, based on the content of the above ruling, invited RFI to pay one third of the assessed tax as well as the related accrued interest, which it did on 4 February 2019.
- On 13 April 2017, the company appealed against the notice of tax assessment concerning IRAP for 2012, file no. TJBOC0100251/2016 notified on 22 February 2017 by the tax authorities – Lazio Regional Department - Large Taxpayers Office, with the relevant Provincial Tax Court. The hearing is set for 11 February 2019. The ruling has not yet been filed.
- On 4 December 2018, the company was notified of a tax assessment concerning IRAP on the Free Travel Card for 2013, file no. TJBOC0100227/2018, by the tax authorities – Lazio Regional Department - Large Taxpayers Office. The company will lodge an appeal against the assessment. On 4 February 2019, the company paid one third of the assessed tax as well as the related accrued interest, on a provisional basis pending judgement.

Remuneration of directors that have been assigned powers

The remuneration of the chairwoman of the board of directors and of the CEO are established by the board of directors in compliance with the “Directive regarding the adoption of the criteria and methods for the appointment of members of the board of directors and the remuneration policies for senior managers of companies directly or indirectly controlled by the Ministry of the Economy and Finance” dated 24 June 2013.

In the meetings of 28 April and 26 July 2017, RFI’s board of directors set the fees of the chairwoman of the board of directors and of the CEO for their respective positions in the board of directors and for the functions respectively allocated thereto, as set out below:

CHAIRWOMAN OF THE BOARD OF DIRECTORS	Annual fees 2017-2019 term of office
Fixed component: fees for the position	65,385
Fixed component: fees for powers assigned	19,615
Variable component	-

CEO AND GENERAL DIRECTOR	Annual fees 2017-2019 terms of office
Fixed component: fees per position	65,000
Fixed component: fees for powers assigned	400,000
Variable Component*	200,000

* Variable component up to a maximum of €200,000, payable if 100% of the annual company targets are reached, for each of the roles assigned (CEO and General director for a total of €200,000). The amounts will be scaled up or down in line with the incentive parameters (under/overperformance) for an amount varying from a minimum of €50,000 to a maximum of €130,000, depending on the annual performance in the respective roles, resolved by the board of directors after ascertaining the achievement of the targets.

DISCLOSURES REQUIRED BY ARTICLE 2497-TER

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..

RISK FACTORS

At the preparation date of this report, no particular risks and uncertainties are foreseen that could have a material impact on the company's financial position, financial performance and cash flows other than those mentioned in the notes to the financial statements, to which reference should be made, with regard to financial risk management (credit, liquidity, market, currency and interest rate risks).

Risk management

As part of the group-wide strategic risk management project designed to provide risk-based support in the decision-making process, RFI carried out a bottom-up risk assessment in line with the methodological and operating guidelines set by FS Italiane's Chief Risk Officer.

The goal of the bottom-up risk assessment is to identify and gather management assessments of the risks perceived as relevant to the achievement of the objectives assigned to the various company departments/structures.

This process is based on a self-assessment of the risks and the related control systems, based on the risk control self assessment (RCSA) methodology. The bottom-up risk assessment process adopted:

- is group-wide and is carried out separately and independently by each group company;
- directly involves management in identifying and assessing risks, thus giving the risk owners a central role and a facilitator role to the risk officers in the regular analysis cycles;
- uses specific taxonomies for the main goals, processes, risks and controls, qualitative assessment metrics and data aggregation techniques established by the parent, to facilitate an established, shared language and common methodology among the group companies;
- is supported by a dedicated single IT platform, boosting the efficiency and traceability of the assessment activities.

The bottom-up risk assessment therefore contributes to improving the internal controls and risk management system by offering an internal and privileged view of the typical corporate processes:

- increasing the risk culture and awareness in process management, including through the identification of improvement actions;
- developing information assets useful for future investigations and facilitating potential synergies with other control functions;
- providing top management with a general snapshot of the risks that could compromise the achievement of corporate goals.

The process is comprised of the following stages:

- identifying the main corporate process/organisational structure targets and the related risks during workshops with division/structure managers;
- assessing the risks and controls and any improvement actions identified by the risk owners.
- combining and discussing the results and reporting.

The survey commenced in the first half of the year and completed in the second offered an overall view of how the managers involved perceive the main corporate goals and related risks. A generally low/medium-low risk level emerged, reflecting the mitigation ability of the control systems in place. A mitigation plan is currently being designed which, once discussed and approved, will undergo regular monitoring.

<u>Business risks</u>

RFI is operating in a challenging context undergoing continuous change, with the steady evolution of the regulatory framework and of the single European railway area and with strong growth in the demand for quality mobility and services, especially in local public transport, against the backdrop of the large imbalance between public and private transport. There is also a gap in railway connectivity in terms of integration between the various mobility systems (people and freight) and uneven network service levels in the different areas of Italy. Then there are the increasingly significant effects of growing urbanisation, climate change and the fragility of the land, which require an increasingly resilient and monitored railway infrastructure.

In this context, the opportunities offered by technological innovation take a key role, also with a view to improving the infrastructure performance, as does the need to move towards integrated sustainability models serving the mobility of the future and to boost Italy's competitiveness. RFI is deeply committed to the key strategic initiatives of the station plan for the new concept of intermodal hubs and services centres, the investment plan for the network's technological and infrastructural upgrade - also with a view to the connection with the European network -, the large-scale plan for infrastructure maintenance and the review of the models to define and plan the commercial offer, all underpinned by the strategic drivers of punctuality, reliability, safety and efficiency, innovation and sustainability.

In a context of change and opening to new businesses, the risks to which the company is exposed have also evolved and are broken down according to each business plan action. In order to enable the gradual implementation of the plan, the company has implemented systems for governing and monitoring each initiative/project rolled out, which includes the establishment of committees, task forces and *ad hoc* work groups for the most significant projects.

Regulatory and compliance risks

The company operates in highly regulated sectors where changes in regulatory rules, requirements and obligations can impact the performance of operations and forecast results.

In general, to mitigate the risks arising from changes in legislation, in the management of relationships and information flows with government bodies and regulators (independent sector authorities), including in the event of potential disputes, the company is always open to holding meetings and discussions with such parties, especially when they are meaningful, organised on the basis of transparency, cooperation and pro-activeness.

Therefore, responsibility, transparency, integrity and compliance are the principles underpinning its processes, procedures, systems and conduct in compliance with the group's code of ethics. Nevertheless, given the complexity of its business and the many different activities performed, the company might be exposed to risks of non-compliance due, in general, to the potential failure to comply with legislation or regulations, with consequent legal or administrative sanctions, financial losses or damage to its reputation.

To uphold these principles, along with monitoring developments in legislation and regulations, which the company performs through permanent work groups and organisational controls, it also has specific structures to conduct checks of compliance with internal and external rules and offers training to personnel on the most important compliance issues.

Given the maturity of the deregulation of the markets on which the FS Italiane group companies operate, the group has begun a process to equip its companies, while respecting their autonomy and independence, with an antitrust compliance programme to improve their ability to prevent and manage antitrust risks, i.e., those related to non-compliance with regulations protecting competition and prohibiting unfair business practices. In this regard, priority has been given to the preparation of the parent's antitrust compliance programme which, inter alia, provides for two training sessions in the first few months of 2019 for the group's top management and those in charge of the units most exposed to antitrust and regulatory risks.

In relation to privacy and data protection management, with the coming into force of EU Regulation 2016/679 (General Data Protection Regulation – "GDPR"), a Data Protection Officer was appointed and specific group-wide data protection guidelines were issued which set out the main principles, describe the main roles and the responsibility structure, as well as the internal and external information flows. Pursuant to such guidelines, the data protection officer (DPO) has been appointed to support the Controller and the individual data managers involved in the day-to-day compliance with legislation and which act as a focal point for the DPO for all activities related to the monitoring of the application of the GDPR.

Operational risks

Infrastructural investments in the railway system consist of complex projects requiring significant financial resources and a structured organisational and project management system that RFI, including through other group companies, has in place. There are many different events that could impact the completion of work within the scheduled time/costs and affect the quality, efficiency and availability of the railway infrastructure, which could have potential adverse effects on company results. In general, these events relate to potential changes in the legal context, lengthy authorisation processes for projects with the Italian Ministries/Bodies and difficulties in accessing sources of funding, technical changes in programmes and technical/organisational weakness on the part of contractors/general contractors (also due to financial difficulties) and/or technical parties.

To mitigate these risks, the company implements management and control procedures to constantly monitor the physical, economic and financial performance of infrastructural work and to start mechanisms to define improvement or corrective action. In this regard, specific contractual and organisational actions continue to be implemented, aimed at bolstering supervision over investment projects by RFI as the contractor. Moreover, a wide-ranging project has commenced in order to innovate the investment management procedures, optimising the IT tools used for operational management and, more generally, to support the whole-life asset management model.

Railway infrastructure is also sensitive to interruptions/issues due to faults in plant and technologies, serious natural events and acts of vandalism that could affect the provision of continuous train services in accordance with the expected quality standards. To prevent such risks, not only does the company have security, state-of-the-art control and monitoring systems, but it also carries out specific maintenance cycles on the network and adopts procedures to manage irregularities and emergencies, and specific contingency plans, with a constant focus on updating the public and supplying accessory services to customers. In order to improve service quality, RFI has, inter alia, redesigned the organisational model for the train traffic management process, implementing a direct control over train operation and establishing a dedicated task force, as well as commencing projects to implement systems for optimised railway timetabling.

With reference to stations and related services, steps continued to be taken for the reuse and redevelopment of the buildings/areas - including for social purposes - to improve accessibility, availability, appearance and security for passengers/customers. Projects are also underway to facilitate links and exchanges with other modes of transport and to deploy digital technologies to make travel information and other station utilities more innovative and efficient. As mentioned, these actions fall within the broader project to provide customers with additional, complementary services over the term of the plan, consistent with the new concept of the station as not only a transport hub but also as a local attraction and services hub. To support this change process, the relevant organisational model was reviewed so as to centralise the identification of development strategies for all stations and related services, the governance and monitoring of the commercial upgrade policies and the identification of standard layouts for stations and train traffic management services with RFI.

RFI is constantly committed to informing its stakeholders about the activities carried out and the targets achieved, monitoring and reporting the results as part of a continuous performance improvement process. Specifically, to expand the services offered, guide the corporate choices and enhance and protect its image, RFI's external communications take place - in coordination with the parent - via structured processes of observation, liaising and management of relations with the media.

In general, the company manages purchases centrally and, for specialised railway system services and expertise, uses specific vetting systems and lists of professionals with demonstrated skills. To ensure the increasingly efficient use of public resources, a project is underway to overhaul the purchasing process, based on an analytical model used to identify the optimal supply price.

To manage purchase price fluctuations due to market trends, the company has specialised units that monitor the prices of essential materials for its operations and regulations that apply to such prices. This enables it to pursue procurement management policies that mitigate these risks and to take action to protect the company's interests (e.g., master agreements that set fixed prices for the entire term of contracts and price review clauses when certain margins are exceeded). In particular, the company is constantly monitoring the electrical sector considering the various regulations issued by the Energy Authority adjusting the cost of energy in recent years.

To limit possible situations in which the company relies on builders/suppliers and to reinforce its railway know-how, the company has begun the progressive insourcing of critical maintenance, plant technological operation and production processes for railway components and, for strategic supplies, has defined emergency stock levels, how to reconstitute these stocks and supplier diversification policies. In addition to this, there were initiatives designed to identify a general risk assessment model for RFI suppliers to help make the best choices for materials (including strategic) supplies, as well as specific actions to benefit sustainability by extending the inclusion of Corporate Social Responsibility (CSR) performance scoring to all tenders called by RFI.

ICT (Information and Communication Technology) risks

The company operates using IT systems/platforms to coordinate and plan activities with respect to train traffic management and the related services, the sale of train paths, procurement management, maintenance and investments, to monitor stocks and for a number of other activities, including the management of accounting processes. The hardware and software that is used could be damaged by human errors, natural disasters, power outages or other events. Unexpected problems in structures, system failures or cyber attacks could influence service quality and cause interruptions and slowdowns and/or block company activities with resulting financial impacts and on its reputation.

In order to ensure the continuous availability, integrity and confidentiality of IT data, RFI is equipped with prevention and protection systems (back-up procedures, authentication and use profiling procedures, firewalls, etc.) and has also strengthened and expanded its security (via vulnerability checks, penetration tests, etc.) and business continuity/disaster recovery processes, particularly for business-critical systems.

RFI has also updated the systems plan in order to take advantage of the innovation opportunities offered by digitalisation, increasingly improve internal and external customer services, as well as ensure the IT systems are GDPR-compliant.

BUSINESS OUTLOOK

The year-on-year analysis of the macroeconomic context in which the company operates shows moderate growth projections for Italy in 2019, mainly due to the scaling back of companies' investments plans and a projected slowdown in world trade.

This is reflected in the gradual increase in GDP projections - which are lower than those for the last few months of 2018 - of 0.6% for 2019 and 0.9% and 1% for 2020 and 2021, respectively. Household consumption is predicted to rise as a result of the support measures included in the Government Budget, while investments are expected to reduce in the 2019-2021 period due to higher borrowing costs, lower business confidence and a poorer outlook for international trade.

Inflation, measured using the harmonised index of consumer prices, is expected to gradually rise to 1% in 2019, increasing to an average 1.5% in the subsequent two-year period, following the increase in private sector remuneration and the gradual alignment of the inflation expectations. Inflation remains under 2% in the major Eurozone countries and is unlikely to increase.

After slowing down in 2018, foreign sales are expected to grow but at moderate levels of not more than 3%, as a result of the modest growth in demand in the export markets and the progressively less favourable exchange rate. Conversely, imports are expected to be less buoyant, partly as a result of the softening of domestic demand.

This uncertain macroeconomic context forms the basis for the 2019 budget approved by the board of directors on 18 December 2018, in line with the first year of the 2019-2023 business plan approved by the board of directors on 6 February 2019.

The company's new strategic vision places a greater focus on its railway core business and an approach which places the customer at the centre of its operating and industrial processes with a view to greater transport, logistics and infrastructure services quality and for the creation of sustainable value shared with its stakeholders.

This vision is underpinned by four strategic objectives - safety, punctuality and reliability, performance upgrade and efficiency, innovation and sustainability - while identifying a further five priority areas: stations (new station concept for modal integration and the redevelopment of the areas around the station), local public transport (upgrades, greater speed and more stations), long haul (upgrades and greater speed on the main European lines, and airport links), logistics (port connections, interports, production districts and greater international cooperation between managers), and environmental and social aspects (water and energy efficiency, green procurement and the social use of assets not used in operations).

The pursuit of the plan's strategic targets represents a renewed commitment by the company in all business areas and the sees the availability of an adequate level of public resources as the enabling factor, both in terms of the operating aspects and long-term commitments. The volume of investments that RFI has developed and continues to develop confirm its credibility with public and private institutions, denoting its absolute expertise, reliability and vital role in the country's macreconomic context, thanks not only to the jobs it creates.

RFI has shown it is able to interpret the new scenario and transform it into business opportunities, setting challenging goals and adapting swiftly to the new governance requirements, including through the implementation of new control systems that prioritise the high levels of professionalism, integrity and transparency that characterise the company.

RFI is taking all steps to improve the punctuality of railway services and, among other things, it has developed a new integrated system for the planning of supply and traffic management (Optima), supported by an increase in the workforce and upgrades of strategic systems, as well as of diagnostics and predictive maintenance.

RFI's "Easy Station" and "Smart Station" projects continued, aimed at improving accessibility - particularly for people with reduced mobility -, ensuring information is provided to the public, reconfiguring the spaces, rolling out the Wi-Fi Station project across Italy, creating a Smart Energy Management platform and ensuring greater safety. The installation of innovative technological solutions also means new services can be rolled out which transform the station into an appealing place to be.

RFI's strong emphasis on innovation has seen it establish a research and development centre to evaluate the creation of prototypes for new railway systems by gathering innovation requests from the various businesses. These requirements (which relate to commercial operations, e.g., network development and the increase in capacity; functional needs and maintenance; technical aspects, such as those resulting from legal regulations; and pure technological innovation) are in line with the business plan's aim of updating the network technology in order to provide better quality, punctuality and safety and to reduce the environmental impact through the efficient use of natural resources. In 2018, it completed 32 developments of prototypes for laboratory testing, and those for specific situations of safety, such as the use of drones, seismic risk detection systems, the "turnstiles 2.0" to control access in the stations, and the safety of level crossings, are expected to start the qualification process in 2019. In the environmental sphere, the main research and development activities the company has decided to invest in are the piloting of two prototypes for the use and transformation of kinetic energy generated by the braking of trains, research on hydrogen traction, the development of a system to regenerate foundry sands and one for *Ecoballast.* As part of the above activities and in order to compete on the international market, a railway test circuit for rolling stock and infrastructure systems/components is slated to be completed before the end of 2019 in the decommissioned area of the former Bologna San Donato freight hub, including the ERTMS system for dynamic testing.

With reference to the regulatory framework both as relates to the MAP and other railway services, ART resolution no. 110/2018 commenced a process to review the scope of the costs eligible for the 2016-2021 regulatory period, the economic effects of which will take effect as early as 2019. With resolution no. 142/2018, the ART extended the term for concluding the proceedings to 28 February 2019. With observations sent to the ART on 19 December 2018, RFI noted the inadmissibility of any attempt by the ART to reconsider ex post the amount and suitability of the MAP fees and for the services outside the MAP, whose correlation to the relevant costs - also due to the full availability of all the necessary information provided by RFI - was subject to the ART's evaluation and approval on completion of the examination commenced with the issue of resolution no. 96/2015. Indeed, deeming certain of the infrastructure operator's cost items not recoverable through the proceeds of the fees and/or the tariffs, the ART introduced new criteria for the eligibility of costs whose definition is deemed irrevocably settled with the issue of resolution no. 96/2015, not condemned by the Piedmont regional administrative court and which therefore cannot be subject to compliance.

With resolution no. 11/2019 of 15 February 2019, the ART confirmed:

i. the position taken with resolution no. 110/2018, integrating the reduction of the fees costing by a further approximate €2 million and the costs for other services not included in the MAP provided to the railway companies by around €45 thousand, providing for the adjustment of:
    a) the MAP fees for 2018, due to the application of the transitional regime,
    b) the fees for the services not included in the MAP for 2017 and 2018

to pay the parties to commercial relationships affected by rulings nos. 1097 and 1098 of 2017 of the Piedmont regional administrative court (second section), agreeing the implementation method with the beneficiaries;

ii. the preparation of an updated tariff system for the period from 1 January 2019 to 9 December 2021 to be submitted to the ART for a check of compliance within 28 February 2019 - to be carried out within 40 days - for the purposes, inter alia, of the publication of the consequent extraordinary update of the 2019 and 2020 PIR.

In order to comply with the provisions of resolution no. 11, after the proceedings have been completed, RFI will submit the new tariff system for the period from 1 January 2019 to 9 December 2021, containing the impact of the adjustments already recognised in the 2018 financial statements of both the MAP fees and for the services outside the MAP, within 28 February.
Investigations are underway to ascertain whether the resolution is illegitimate and, consequently, whether it can be appealed.

Another important element of the legislative context is Legislative decree no. 139 of 23 November 2018 for the full application of the Fourth Railway Package, which includes provisions for the mandatory liberalisation of domestic passenger transport (high speed and traditional services), starting from the December 2020 timetable, as well as measures to strengthen the independence of infrastructure operators within the vertically integrated groups.
As regards the former, the company has been deeply committed to achieving the EU goals for interoperability and sustainable development, bringing forward the implementation of the ERTMS system throughout the entire Italian railway network and fleet and innovating the station equipment by 2035, in order to make the railway system one of the most advanced in the world.
Considering the public funding context, RFI's railway investment plan is dependent on the public funds supporting railway transport development. The financial resources included in the Government Programme Contract - Services (GPC-S) and Investments (GPC-I) approximate €72.6 billion, including the additional €13 billion allocated by the GPC-I 2017-2021 currently being finalised, form the basis for the detailed planning of the works already commenced/financed, which are expected to give the greatest returns in the short-term in terms of performance gains, the compliance and safety level of infrastructure, improvements in service quality and the development of traffic volumes.
Specifically, the examination of the Government Programme Contract - Investments by the relevant parliamentary Commissions was completed in 2018 and the approval procedure provided for by law to enable the implementation of the related resources and, in particular, those allocated in the 2017 Budget (€10 billion), is expected to be completed in 2019. Likewise, the resources allocated in the 2018 Budget (estimated at around €6 billion) are expected to be finalised with the agreement and approval of the 2018 update of the above Contract.
Lastly, the 2019 Budget provided for further new resources through a specific new fund for the relaunch of investments by the government's central authorities and the country's development, with overall funds of €43.6 billion, which includes the resources for RFI's investments, currently being quantified with the relevant ministers.
At the same time, the company continues to work towards funding its own requirements as part of programmes jointly funded by the European Union, such as 2014-2020 national and regional operating programmes, in addition to TEN network funding programmes ("Connecting Europe Facility 2014-2020").
As regards the Government Contract Programme - Services in relation to the resources earmarked in the MEF's budget section 1541 for ordinary maintenance and to meet safety, security and train operation requirements, the following should be noted:

- the law dated 30 December 2018 (Government budget for the 2019 fiscal year and three-year budget for 100-2021) reinstated for 2019 the €100 million definancing under Law no. 205 of 27 December 2017 (Government budget for the 2018 fiscal year and three-year budget for 2018-2020);
- the same law also provided additional resources of €520 million - €40 million per year starting from 2019 - to cover the higher costs arising from the activities linked to people with reduced mobility (PRM), gates and first aid vehicles, for which Law decree no. 119 (the "Tax decree") of 23 October 2018, containing "Emergency tax and financial measures" (converted into Law no. 136 of 17 December 2018) had already provided the additional resources for 2018, as described in the directors' report to which reference should be made;
- additional resources of €120 million have been requested in 2019 to strengthen the controls over the infrastructure process.

Lastly, RFI's commitment to initiatives to help people undergoing social hardship will continue, with the strengthening and expansion of programmes to make the company's real estate assets available for social uses, such as the creation of a network of help centres, currently located in 18 railway stations in the form of "low threshold" information points, or fund-raising campaigns, such as the Christmas fund-raiser organised with the food bank. This commitment links in with that of 16 other European railway companies with which RFI signed an agreement in 2018 to develop common actions to use the respective stations for social purposes.

FINANCIAL STATEMENTS AT 31 DECEMBER 2018

STATEMENT OF FINANCIAL POSITION

Euros

	Notes	31.12.2018	31.12.2017*
Assets			
Property, plant and equipment	*(8)*	33,535,518,619	33,603,095,382
Investment property	*(9)*	1,103,868,150	1,122,197,030
Intangible assets	*(10)*	631,180,985	540,874,238
Equity investments	*(11)*	135,655,960	132,310,527
Financial assets (including derivatives)	*(12)*	1,163,950,985	1,699,827,082
Trade receivables	*(15)*	1,690,439	3,416,940
Other assets	*(13)*	3,439,293,391	1,214,159,869
Total non-current assets		**40,011,158,529**	**38,315,881,068**
Inventories	*(14)*	741,217,075	644,358,670
Contract assets	*(15)*	–	54,082,348
Trade receivables	*(15)*	684,023,551	524,910,358
Financial assets (including derivatives)	*(12)*	673,106,410	795,129,520
Cash and cash equivalents	*(16)*	719,743,100	1,138,003,046
Tax assets	*(17)*	17,055,900	17,055,152
Other assets	*(13)*	2,840,232,839	3,938,405,945
Total current assets		**5,675,378,875**	**7,111,945,039**
Assets held for sale and disposal groups	*(7)*	**3,478,000**	**–**
Total assets		**45,690,015,404**	**45,427,826,107**
Equity			
Share capital	*(18)*	31,528,425,067	31,525,279,633
Reserves	*(18)*	148,428,124	106,845,036
Valuation reserves	*(18)*	(190,019,283)	(220,855,917)
Retained earnings	*(18)*	1,751,144,183	1,668,060,439
Profit for the year	*(18)*	274,196,193	261,500,769
Total equity		**33,512,174,284**	**33,340,829,960**
Liabilities			
Loans and borrowings	*(19)*	3,023,039,622	3,321,839,305
Post-employment benefits and other employee benefits	*(20)*	594,735,354	673,549,338
Provisions for risks and charges	*(21)*	524,901,643	515,061,792
Financial liabilities (including derivatives)	*(22)*	17,947,444	23,110,412
Trade payables	*(24)*	18,722,374	34,707,042
Other liabilities	*(23)*	111,478,039	127,030,382
Total non-current liabilities		**4,290,824,476**	**4,695,298,271**
Loans and borrowings and current portion of non-current loans and borrowings	*(19)*	684,259,551	714,189,446
Trade payables	*(24)*	3,199,928,343	3,003,081,990
Tax liabilities		99,750	–
Financial liabilities (including derivatives)	*(22)*	912,133	1,945,953
Other liabilities	*(23)*	4,001,816,867	3,672,480,487
Total current liabilities		**7,887,016,644**	**7,391,697,876**
Total liabilities		**12,177,841,120**	**12,086,996,147**
Total equity and liabilities		**45,690,015,404**	**45,427,826,107**

*The company applied IFRS 9 and IFRS 15 for the first time on 1 January 2018. It did not restate the comparative figures given the transition method elections made.

INCOME STATEMENT

			Euros
	Notes	**2018**	**2017***
Revenue from sales and services	*(25)*	2,633,307,061	2,405,768,392
Other income	*(26)*	157,171,983	131,957,673
Total revenue		**2,790,479,044**	**2,537,726,065**
Personnel expense	*(27)*	(1,497,434,753)	(1,445,195,418)
Raw materials, consumables, supplies and goods	*(28)*	(1,010,373,033)	(617,737,537)
Services	*(29)*	(695,502,541)	(683,172,905)
Use of third-party assets	*(30)*	(53,721,102)	(52,654,633)
Other operating costs	*(31)*	(137,534,172)	(134,637,995)
Internal work capitalised	*(32)*	1,053,043,665	874,950,910
Total operating costs		**(2,341,521,936)**	**(2,058,447,578)**
Amortisation and depreciation	*(33)*	**(106,028,733)**	**(107,722,951)**
Net impairment gains	*(34)*	**(5,061,513)**	**(39,024,123)**
Accruals	*(35)*	**(26,000,000)**	**(40,000,000)**
Operating profit		**311,866,862**	**292,531,413**
Financial income and expense		**(37,670,669)**	**(31,030,644)**
Financial income	*(36)*	716,687	14,230,836
Financial expense	*(37)*	(38,387,356)	(45,261,480)
Pre-tax profit		**274,196,193**	**261,500,769**
Income taxes		–	–
Profit from continuing operations		**274,196,193**	**261,500,769**
Profit for the year		**274,196,193**	**261,500,769**

*The company applied IFRS 9 and IFRS 15 for the first time on 1 January 2018. It did not restate the comparative figures given the transition method elections made

STATEMENT OF COMPREHENSIVE INCOME

			Euros
	Notes	**2018**	**2017***
Profit for the year		**274,196,193**	**261,500,769**
Items that will not be reclassified to profit or loss			
Actuarial gains (losses)	*(18)*	9,648,917	(14,780,560)
Tax effect on actuarial gains (losses)			
Items reclassified to profit or loss	*(18)*	**16,045,776**	**18,682,555**
Items that are or may be reclassified to profit or loss, provided that they meet specific conditions			
Cash flow hedges - effective portion of changes in fair value	*(18)*	5,141,941	11,050,494
Other comprehensive income, net of the tax effect		**30,836,634**	**14,952,489**
Comprehensive income		**305,032,827**	**276,453,258**

*The company applied IFRS 9 and IFRS 15 for the first time on 1 January 2018. It did not restate the comparative figures given the transition method elections made.

STATEMENT OF CHANGES IN EQUITY

(Euros)

	Equity								
		Reserves							
		Reserves	Valuation reserve						
	Share capital	Legal reserve	Hedging reserve	Actuarial reserve	Other reserves	**Total reserves**	Retained earnings (losses carried forward)	Profit for the year	**Total equity**
Balance at 1 January 2017	**31,525,279,633**	**47,806,571**	**(110,552,413)**	**(125,255,993)**		**(188,001,835)**	**1,596,329,614**	**180,769,289**	**33,114,376,701**
Dividend distribution						–		(100,000,000)	**(100,000,000)**
Allocation of profit for the previous year		9,038,465				9,038,465	71,730,825	(80,769,289)	**–**
Decreases from demerger					50,000,000	50,000,000			**50,000,000**
Comprehensive income									
of which:									
Cash flow hedges - effective portion of changes in fair value			11,050,494			11,050,494			**11,050,494**
Net actuarial losses				(14,780,560)		(14,780,560)			**(14,780,560)**
Other changes			18,682,555			18,682,555			**18,682,555**
Profit for the year						–		261,500,769	**261,500,769**
Balance at 31 December 2017	**31,525,279,633**	**56,845,036**	**(80,819,364)**	**(140,036,553)**	**50,000,000**	**(114,010,881)**	**1,668,060,439**	**261,500,769**	**33,340,829,960**
Effects of IFRS 9 FTA							**(65,341,987)**		**(65,341,987)**
Balance at 1 January 2018*	**31,525,279,633**	**56,845,036**	**(80,819,364)**	**(140,036,553)**	**50,000,000**	**(114,010,881)**	**1,602,718,452**	**261,500,769**	**33,275,487,973**
Dividend distribution								(100,000,000)	**(100,000,000)**
Allocation of profit for the previous year		13,075,038				13,075,038	148,425,731	(161,500,769)	**–**
Comprehensive income									
of which:									
Cash flow hedges - effective portion of changes in fair value			21,187,717			21,187,717			**21,187,717**
Net actuarial gains				9,648,917		9,648,917			**9,648,917**
Non-recurring transactions	3,145,434				28,508,050	28,508,050			**31,653,484**
Profit for the year								274,196,193	**274,196,193**
Balance at 31 December 2018	**31,528,425,067**	**69,920,074**	**(59,631,647)**	**(130,387,636)**	**78,508,050**	**(41,591,159)**	**1,751,144,183**	**274,196,193**	**33,512,174,284**

*The company applied IFRS 9 and IFRS 15 for the first time on 1 January 2018. It did not restate the comparative figures given the transition method elections made.

STATEMENT OF CASH FLOWS

	Notes	2018	Euros 2017*
Profit for the year		**274,196,193**	**261,500,769**
Amortisation and depreciation	*(33)*	106,028,733	107,722,951
Accruals to the provisions for risks	*(27)(29) (31) (35)*	62,744,346	101,881,197
Impairment losses	*(34)(37)*	3,179,389	61,598
Accruals for employee benefits	*(20)*	6,294,910	7,209,567
Accruals to provisions and impairment losses		**72,218,645**	**109,152,362**
Profits on sales	*(26) (31)*	(59,093,121)	(56,814,411)
Change in inventories	*(14)*	(42,776,057)	(166,734,118)
Change in trade receivables	*(15)*	(169,594,984)	341,323,026
Change in trade payables	*(24)*	166,039,886	368,098,194
Change in other assets and liabilities	*(13) (23)*	(841,008,845)	(750,292,620)
Utilisation of the provisions for risks and charges	*(21)*	(53,599,495)	(109,028,514)
Payment of employee benefits	*(20)*	(75,489,952)	(42,093,026)
Net cash flows generated by (used in) operating activities		**(623,078,997)**	**62,834,613**
Increases in property, plant and equipment	*(8)*	(4,661,571,165)	(4,252,230,326)
Investment property	*(9)*	(113,102)	(461,700)
Increases in intangible assets	*(10)*	(135,875,265)	(106,053,323)
Increases in equity investments	*(11)*	(128,746,000)	(62,725,400)
Investments, before grants		**(4,926,305,532)**	**(4,421,470,749)**
Grants for property, plant and equipment	*(8)*	4,692,561,640	4,147,712,958
Grants for investment property	*(9)*		461,700
Grants for equity investments	*(11)*	125,068,000	62,725,400
Grants		**4,817,629,640**	**4,210,900,058**
Decreases in property, plant and equipment	*(8)*	80,700,089	84,125,097
Decreases in investment property	*(9)*	3,648,864	13,135,236
Decreases in equity investments and profit-sharing arrangements	*(11)*	–	329,434
Decreases		**84,348,953**	**97,589,767**
Net cash flows used in investing activities		**(24,326,939)**	**(112,980,924)**
Disbursement and repayment of non-current loans	*(19)*	(298,813,921)	(166,348,598)
Disbursement and repayment of current loans	*(19)*	(29,915,736)	(100,097,222)
Change in financial assets	*(12)*	527,731,548	459,557,655
Change in financial liabilities	*(22)*	(1,054,848)	17,418,884
Dividends	*(18)*	(100,000,000)	(100,000,000)
Non-recurring transactions	*(18)*	3,087,778	–
Net cash flows generated by financing activities		**101,034,821**	**110,530,719**
Total cash flows		**(546,371,115)**	**60,384,408**
Opening cash and cash equivalents		**1,357,390,651**	**1,297,006,243**
Closing cash and cash equivalents	*(12) (16)*	**811,019,536**	**1,357,390,651**
of which: intragroup current account		**90,732,569**	**219,387,605**

*The company applied IFRS 9 and IFRS 15 for the first time on 1 January 2018. It did not restate the comparative figures given the transition method elections made.

NOTES TO THE FINANCIAL STATEMENTS

1. Introduction

RFI (the "company" or "RFI") 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.

The company is managed and coordinated by Ferrovie dello Stato Italiane S.p.A..

The directors approved the publication of these financial statements on 5 March 2019 and they will be submitted to the shareholders for approval and subsequent filing within the terms established by law. The shareholder has the power to make changes to these financial statements.

As permitted by IFRS 10, RFI opted to not prepare consolidated financial statements and prepared financial statements. The consolidated financial statements available to the public are prepared by Ferrovie dello Stato Italiane S.p.A. which is RFI's direct parent. The parent's registered office is in Rome, Piazza della Croce Rossa, 1. The consolidated financial statements can be obtained at this address in accordance with the terms of the current legislation.

KPMG S.p.A. has been appointed as the independent auditors for the 2017-2019 three-year period.

2. Basis of preparation

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 Regulation (EC) no. 1606/2002 and in effect at the reporting date ("IFRS"). Specifically, the company consistently applies the IFRS to all periods presented in these financial statements.

The company's functional currency is the Euro, which is the currency of the primary economic environment in which the company operates. All amounts included in the tables of the following notes, except as otherwise specified, are expressed in thousands of Euros.

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

- the statement of financial position has been prepared by classifying assets and liabilities as "current/non-current", with the separate recognition of any assets/liabilities held for sale or included in a disposal group;
- the income statement has been prepared by classifying operating costs by nature, recognising profit (loss) from continuing operations separately from profit (loss) from discontinued operations;
- the statement of comprehensive income includes the profit for the year, as well as any other changes in equity captions attributable to transactions that are unrealised at the reporting date and transactions other than those carried out with equity owners;
- the statement of changes in equity separately presents the profit for the year and any other changes not through profit or loss;
- the statement of cash flows has been prepared by reporting cash flows arising from operating activities using the indirect method.

The annual report also includes the directors' report.

These financial statements have been prepared on a going-concern basis, as the directors have established that there are no financial or operational indicators or any other indications of critical issues with respect to the company's ability to meet its obligations in the foreseeable future and, specifically, in the next twelve months. Reference should be made to note 4 Financial risk management for a description of the company's financial risk management procedures.

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

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

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

3. Significant accounting policies

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

Property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost, net of accumulated depreciation and impairment losses, if any. The purchase or production cost includes any charges that are directly incurred to make assets available for use, as well as dismantlement and removal charges, if any, that will be incurred as a result of contractual obligations that require the asset to be returned to its original conditions. Any financial expense that is directly attributable to the acquisition, construction or production of qualifying assets is capitalised and depreciated on the basis of the useful life of the asset to which it refers. It is no longer capitalised when all operations to bring the asset in the conditions necessary to ensure its use have been completed. Leasehold improvements or costs to upgrade and transform property, plant and equipment are recognised under assets.

Ordinary maintenance and repair costs are recognised in profit or loss when incurred. Subsequent costs or costs which improve or replace a part of the asset or for its extraordinary maintenance are capitalised as a direct increase in the carrying amount of the asset. The costs related to regular checks or replacements are capitalised.

Depreciation begins when the asset becomes available for use and is calculated based on the cost of the asset, net of the residual amount, being the estimated recoverable amount of the infrastructure at the end of the Concession.

Depreciation is calculated systematically on a straight-line basis at variable rates based on train-km production volumes. "Train-km" means the total number of kilometres travelled by trains on a railway infrastructure expressed in millions/year. Specifically, depreciation is calculated based on the ratio of quantities generated in the year to total production expected throughout the Concession term, applied to the depreciable cost of the infrastructure at the reporting date, and considering future investments which guarantee a sufficient efficiency and security level of the infrastructure equal to that of the current year (in particular, extraordinary maintenance and renewals), being fully covered by grants and therefore economically borne by the government. Consequently, future investments are considered in the calculation of the infrastructure's total production capacity, and, accordingly, with an impact on the calculation of the depreciation rate. If there are no government grants, the depreciation of the network is calculated based on the ratio of quantities generated in the year to total production expected throughout the Concession term, without considering those related to the future costs necessary to ensure the efficiency of the infrastructure in the same period (in particular, extraordinary maintenance and renewals).

The depreciable cost of investments is the sum of all costs incurred not yet amortised, including any interest expense accrued during or for the development of assets, net of grants related to assets, excluding the expected residual carrying amount of the railway infrastructure at the end of the Concession, in order to consider the related transferability against consideration.

Property, plant and equipment which, together with intangible assets and investment property, make up the railway infrastructure, comprise seven lines as shown in the table below.

For each line, RFI uses the number of train-km actually sold during the year and resulting from the company's specific monitoring system, as the indicator of the quantity generated during the year.
The depreciation rates applied in 2018 and 2017 are as follows:

	Production indicators	
	2018	2017
Padana cross-road and international transits (Line A)	2.27%	2.16%
North Tyrrhenian line and confluent lines (Line B)	2.23%	2.18%
Backbone and confluent lines (Line C)	2.23%	2.20%
South Tyrrhenian line (Line D)	2.27%	2.24%
Adriatic line and Apennines cross-rails (Line E)	2.29%	2.29%
Complementary network (Line F)	2.24%	2.22%
HS/HC network (Line G)	2.18%	2.37%

The depreciation rates and the residual carrying amount are revised and updated where necessary at each year end. Land is depreciated only in respect of capitalised reclamation costs.

Property, plant and equipment are derecognised when they are sold or when no more future economic benefits are expected from their use or disposal. Any gain or loss (calculated as the difference between the disposal amount, net of sale costs, and the carrying amount) is recognised in profit or loss in the year the asset is derecognised.

Investment property

Investment property is property held to earn rentals and/or for capital appreciation rather than for sale in the ordinary course of business. Furthermore, investment property is not used in the production or supply of goods or services or for administrative purposes. It is measured at cost.

This caption is recognised using the criteria applied to “Property, plant and equipment”.

Starting from 1 January 2018, the company has recognised reclassifications from/to “Investment property” applying IASB’s amendments to IAS 40 and endorsed by Regulation (EU) no. 400 of 14 March 2018. Consequently, these reclassifications are made only when there is evidence of a change in use in the property, considering that a change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use.

Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance, that can be controlled and can generate future economic benefits. They are recognised at purchase and/or production cost, including any directly-attributable expenses incurred to make the asset available for use, net of accumulated amortisation and impairment losses, if any. Interest expense, if any, that accrues during and for the development of intangible assets, is considered part of the carrying amount.

Amortisation begins when the asset is available for use and is calculated using the criteria applied to “Property, plant and equipment”.

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.

Intangible assets comprise: development expenditure; concessions, licences, trademarks and similar rights; assets under development and payments on account.

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

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

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

Impairment losses on intangible assets and property, plant and equipment

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, intangible assets and investment property 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 or physical wear and tear of the asset, significant changes, if any, in the use of the asset and the economic performance of the asset with respect to expectations. As regards external sources of information, the following must be considered: the trend in the market prices of the assets, negative changes, if any, in technology, markets or laws, the trend in market interest rates or in the cost of capital used to measure investments.

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

Impairment losses are recognised in profit or loss when the carrying amount of the asset, or of the related cash generating unit to which the asset is allocated, exceeds its recoverable amount. Impairment losses on cash generating units are first allocated to reduce the 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.

Intangible assets not yet available for use

The recoverable amount of intangible assets not yet available for use is tested for impairment every year or more frequently if there is an indication that the asset may be impaired.

Investments in subsidiaries, associates and joint arrangements and other investments

Investments in subsidiaries, associates and joint arrangements are measured at their cost, adjusted for impairment.

Equity investments other than subsidiaries or associates that are not quoted on an active market and for which no specific measurement method would be reliable, are 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. Impairment gains are recognised in profit or loss.

Business combinations

IFRS 3 defines business combinations as the combination of separate entities or businesses in one single reporting entity.

A business combination may be structured in a variety of ways for legal, taxation or other reasons. It may also include the acquisition, by an entity, of the capital of another entity, the acquisition of the net assets of another entity, the assumption of the liabilities of another entity or the acquisition of part of the net assets of another entity that, when combined, constitute one or more businesses. Business combination may also take place by issuing equity instruments, transferring cash, cash equivalents or other assets, or a combination thereof. The transaction can take place among the owners of the combining entities or between an entity and the owners of another entity. It may also involve the setting up of a new entity that controls the combined entities or the net assets transferred or the restructuring of one or more combined entities.

The FS Italiane group recognises business combinations under common control, which are not covered by IFRS 3 or other standards, in accordance with IAS 8 in order to reliably and fairly present the transaction in accordance with OPI 1 (Assirevi's preliminary guidance on the IFRS).

Business combinations are accounted for using the acquisition method. Applying the acquisition method requires the four following steps:

- identifying the acquirer;
- determining the acquisition date;
- measuring the acquisition cost;
- allocating the cost to assets and liabilities, measuring goodwill, if any.

The acquisition price shall be reflected on the carrying amount of the acquiree's assets and allocated based on the fair value of the assets and liabilities, instead of their carrying amount. Any residual difference constitutes goodwill, if positive, or badwill, if negative.

Financial instruments

Starting from 1 January 2018 the company has recognised and measured financial instruments in accordance with IFRS 9 Financial instruments. This standard, which replaces IAS 39, introduces requirements for recognition and measurement, derecognition, impairment and hedge accounting based on the business model used to manage financial assets and financial liabilities and the characteristics of cash flows. The standard also introduces new requirements to measure expected credit losses and a new hedge accounting model.
The effects of the first-time application of IFRS 9, based on company assessments, are summarised in note 4 "Effects of the application of IFRS 9 and IFRS 15", to which reference should be made.

<u>Classification and measurement – Financial assets</u>

IFRS 9 introduces new requirements for the classification and measurement of financial assets which reflect the business model used to manage such assets and the characteristics of their cash flows.
Under IFRS 9, financial assets are classified in accordance with three main classification categories: at amortised cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL). IFRS eliminates the previous IAS 39 categories, i.e., held to maturity, loans and receivables and available for sale.
Below is a description of the standard, as applied by the company:

<table>
<tr><th colspan="2">Classification and measurement – Financial assets</th></tr>
<tr><th>IFRS 9</th><th>IAS 39</th></tr>
<tr><td>Under IFRS 9, financial assets are classified in accordance with three main classification categories: at amortised cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL).
The analyses to be performed in order to classify financial assets in one of the above categories first require the company to identify whether the financial asset is an equity instrument, a debt instrument or a derivative.
All financial assets representing equity instruments are always recognised at fair value.
In the case of equity instruments held for trading, fair value gains or losses are recognised in profit or loss, while for all other investments, the entity may decide, upon initial measurement, to subsequently recognise all fair value gains or losses in other comprehensive income (OCI), exercising the FVOCI option. In this</td><td>Under IAS 39 financial assets were classified under the following categories:
• financial assets at fair value through profit or loss;
• loans and receivables;
• held-to-maturity investments;
• available-for-sale financial assets.

<u>Financial assets at fair value through profit or loss</u>
This category included financial assets held for trading, derivatives and assets designated as such upon initial recognition. Their fair value was calculated based on the reporting date bid price. The fair value of unquoted derivatives was calculated by applying commonly used financial valuation techniques.</td></tr>
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<td>
case, the cumulative gains or losses previously recognised in OCI will not be reversed through profit or loss, including when the financial asset is derecognised. The application of the FVOCI option is irrevocable and no reclassifications in/out the three above categories are possible.
With respect to the classification of <u>loans and receivables and debt instruments</u>, two elements must be considered:
1. the company's business model. Specifically:
• the hold to collect (HTC) model, whose objective is to hold the financial asset to collect the contractual cash flows;
• the hold to collect and sell (HTC&S) model, whose objective is both to collect the contractual cash flows and sell the financial asset;
• other business models different from the two above.
2. the characteristics of the contractual cash flows from the financial asset. Specifically, the entity shall check whether these contractual cash flows are solely payments of principal and interest or whether they include other components (Solely Payment of Principal and Interest Test).
IFRS 9 defines principal and interest:
• principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (for example, if there are repayments of principal);
• interest consists of consideration for the time value of money and credit risk on the principal amount outstanding.

Therefore, a financial asset represented by debt instruments may be classified as follows:
1. at amortised cost when:
a. the contractual cash flows of the financial asset are solely payments of principal and interest (SPPI test passed); and
b. the company's business model provides that the company's objective is to hold the
</td>
<td>
<u>Loans and receivables</u>

This category included non-derivative financial assets with fixed or determinable payments that were not quoted on an active market. They were initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

<u>Held-to-maturity investments</u>

These assets, measured at amortised cost, were those other than derivatives, with fixed maturity that an entity had the positive intention and ability to hold to maturity.

<u>Available-for-sale financial assets</u>

This category included financial assets, other than derivative financial assets, that were designated as available for sale or were not classified in any of the above categories. They were measured at fair value which was calculated based on market prices at annual or interim reporting dates or using financial valuation models and techniques. Fair value gains or losses were recognised in a specific equity caption ("fair value reserve"). This reserve was released to profit or loss only when the asset was actually sold or, in the case of a decrease, when the significant and prolonged decrease in fair value already recognised in equity could not be recovered.
</td>
</tr>
</table>

financial asset solely to collect the contractual cash flows (HTC business model). In this category, financial instruments are initially recognised at fair value, inclusive of transaction costs (i.e., incremental costs that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument) and subsequently measured at amortised cost. Interest (calculated using the effective interest method as in IAS 39), impairment losses (impairment gains), exchange gains (losses) and gains (losses) on derecognition are recognised in profit or loss. 2. at fair value through other comprehensive income (FVOCI) when: a. the contractual cash flows of the financial asset are solely payments of principal and interest (SPPI test passed); and b. the company's business model provides that the company's objective is to hold the financial asset to collect contractual cash flows and to sell financial assets (HTC&S model). In this category, the financial assets are initially measured at fair value, inclusive of transaction costs. Interest (calculated using the effective interest method as in IAS 39), impairment losses (impairment gains) and exchange gains (losses) are recognised in profit or loss. Other fair value gains or losses are recognised in OCI. Upon derecognition, all the cumulative gains or losses previously recognised in OCI will be reclassified to profit or loss. *3.* at fair value through profit or loss for the remaining cases when: a. the above criteria have not been complied with; b. the fair value option is exercised. Financial instruments classified under this category are initially and subsequently measured at fair value. Transaction costs and fair value gains or losses are recognised in profit or loss.	

Classification and measurement – Financial liabilities

Under IFRS 9, financial liabilities are substantially classified similarly to IAS 39.
However, while under IAS 39 all fair value gains or losses on liabilities designated at FVTPL were recognised in profit or loss, under IFRS 9, they are treated as follows:

- the amount of the fair value gains or loss attributable to changes in the credit risk of the liability is to be presented in OCI; and
- the residual amount of the fair value gains or losses is to be recognised in profit or loss.

Impairment losses – Financial assets and contract assets

IFRS 9 replaces the incurred loss model of IAS 39 with an expected credit loss ("ECL") model which entails a significant assessment level of the impact of the changes in economic factors on the ECL which shall be probability-weighted.
The new impairment model applies to financial assets measured at amortised cost or at FVOCI, except for equity instruments and contract assets.

Under this standard, loss allowances are measured using the general deterioration method and the simplified approach. Specifically:

- under the general deterioration method, the financial instruments falling under the scope of IFRS 9 are to be classified in three stages which reflect the level of deterioration from the moment the financial instrument is acquired and provide for a different ECL calculation method;
- under the simplified approach, some simplifications may be applied to trade receivables, contract assets[5] and lease assets so that entities are not required to monitor credit risk changes, as required instead by the general approach. Under the simplified approach, lifetime expected credit losses are recognised, therefore, no stage allocation is necessary.

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

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

[5] IFRS 15 Revenue from Contracts with Customers defines contract assets as an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

- *Stage 3*: includes financial assets with objective evidence of impairment at the reporting date. For these assets, only lifetime ECL are provided for, i.e., ECL that result from all possible default events over the expected life of a financial instrument.

In order to identify the methodological approach to be applied to the assets that are in scope of the impairment requirements and, specifically, the correct probability of default, the company defined a conventional cluster segmentation based on counterparty and credit risk:

- Public administration: all loans and receivables with the government, regions, provinces, municipalities, the EU or related bodies;
- Intragroup: all loans and receivables with subsidiaries;
- Deposits: all deposits with banks;
- Amounts from third parties: loans and receivables other than those above, with non-financial companies, producers and consumers.

Furthermore, the FS Italiane group opted to apply the low credit risk exemption allowed by IFRS 9 to loans and receivables other than trade receivables with Investment Grade rating between AAA and BBB-. Accordingly, there is no stage allocation: in fact these assets are directly allocated to Stage 1 with a one-year provision.

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

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

Derivatives

In accordance with IFRS 9, upon FTA, the company availed of the option to continue to apply the hedge accounting requirements under IAS 39. Consequently, the requirements applicable to derivatives are unchanged.

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

The company enters into derivative financial instruments to hedge exposure to interest rate risk and diversify the interest rates applied, reducing borrowing costs and volatility. Derivative instruments are initially recognised at fair value and, if they are not recognised as hedging instruments, the subsequent fair value changes are treated as profit or loss items.

Fair value hedges

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

Cash flow hedges

When a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of a recognised asset or liability or of a highly probable forecast transaction, the effective portion of the gain or loss arising from the fair value adjustment to the derivative instrument is recognised in a specific equity reserve (hedging reserve). The cumulative gain or loss is reclassified from equity to profit or loss in the same years in which the effects of the hedged transaction are recognised in profit or loss. The gain or loss associated with the ineffective portion of the hedge is immediately recognised in profit or loss. When the hedged transaction is no longer probable, unrealised gains or losses recognised in equity are immediately recognised in profit or loss.

Derivatives are recognised at the trade date.

Fair value estimates

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

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

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

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

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

The company's portfolio includes over-the-counter (OTC) instruments which fall under Level 2. 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 interest rate swaps;
- using market value calculation models for collars.

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

Specifically, the swap vs. 3M Euribor curve figures were used, as well as those related to the swap vs. 6M Euribor curve, the Eur interest rate volatility curve and the credit default swap (CDS) curve of the parties to the derivative contract, which reflect the input widely accepted by market operators to calculate non-performance risk. This risk is calculated using adequate financial valuation techniques and models which include, inter alia, the following factors *i)* the risk exposure, being the potential mark-to-market exposure throughout the life of the financial instrument, *ii)* adequate CDS curves to reflect their probabilities of default (PD).

In accordance with IFRS 13, starting from the amount of the IRS and the option (for the collar) unadjusted by credit risk (FVMID), the related Credit Value Adjustment and Credit Adjusted Fair Value have been calculated.

Cash and cash equivalents

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

Loans, trade payables and other financial liabilities

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

Inventories

Inventories are recognised at the lower of purchase and/or production cost and net realisable value. Cost is calculated using the weighted average cost method.

Net realisable value corresponds, for finished goods, to the selling price estimated in the ordinary course of business, net of estimated completion costs and 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.

Inventories are recognised net of a specific allowance for inventory write-down. Specifically, the allowance is used to write-down obsolete and/or slow-moving items based on their estimated possible use or future sale. 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 during the which the employees provide their service. These benefits are accounted for as personnel expense components in the period in which the employees provide their service .

Other post-employment benefits (TFR and Free Travel Card)

The company has both defined contribution and defined benefit plans in place. The defined contribution plans are managed by third-party fund managers, in relation to which there are no legal or any other obligations to pay additional contributions if the fund does not have sufficient assets to meet the commitments with employees. With respect to the defined contribution plans, the company pays contributions, either voluntarily or as required by contract, into public and private insurance pension funds. Contributions are recognised as personnel expense on an accruals basis. Advance payments for contributions are recognised as an asset that will be repaid or offset against future payments, if due. For these plans, the actuarial and the investment risks are borne by employees.

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.

Specifically, the company manages a defined benefit plan that consists of post-employment benefits (Italian “TFR”). Italian companies are required to accrue a provision pursuant to article 2120 of the Italian Civil Code, which is treated as deferred remuneration and is based on employees’ duration of service and the remuneration they receive during that time. Starting from 1 January 2007, Law no. 296 of 27 December 2006, the “2007 Finance Act” and subsequent amendments and additions, introduced significant amendments to TFR regulations, including the employees’ right to choose to transfer the TFR being accrued either to supplementary pension funds or to the “Treasury Fund” managed by INPS (the Italian Social Security Institute). Consequently, the obligation to INPS and the contributions paid into supplementary pension funds are now treated, pursuant to IAS 19 Employee benefits, as defined contribution plans, while the amounts recognised under post-employment benefits at 1 January 2007 are still treated as defined benefit plans.

The company also has a defined benefit plan in place, the Free Travel Card (Carta di Libera Circolazione) that gives current and retired employees and their families, the right to use –- free of charge or, in some cases, for an admission fee – the trains managed by FS Italiane group.

Consequently, in accordance with the above-mentioned actuarial techniques, a provision is recognised which reflects the discounted charge for retired employees entitled to benefits, and the benefits accrued for employees in force to be disbursed at the end of the employment.

The same accounting treatment is applied to the Free Travel Card benefits and the effects arising from actuarial gains and losses as for post-employment benefits.

Provisions for risks and charges

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

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

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

Revenue from contracts with customers

Starting from 1 January 2018, the company has recognised revenue from customers in accordance with IFRS 15 Revenue from contracts with customers. This standard is a unique and comprehensive framework for revenue recognition and sets out the provisions to be applied to all contracts with customers (except for those covered by other standards on leases, insurance contracts and financial instruments). It replaces the previous standards on revenue: IAS 18 Revenue and IAS 11 Construction contracts, and the following interpretations: IFRIC 13 Customer loyalty programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers and SIC-31 Revenue—barter transactions involving advertising services. Under IFRS 15, entities must recognise revenue so that the transfer of the goods and/or services to the customer is equal to an amount which reflects the consideration to which the entity expects to be entitled in exchange for the transfer of the promised goods and/or services. Unlike under IAS 18 and IAS 11, revenue is no longer recognised distinguishing between revenue from the sale of goods, services and work in progress. Instead, revenue is recognised using the five-step model (identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue). The effects of IFRS 15 FTA are described in note 4 "Effects of the first-time application of IFRS 9 and IFRS 15", to which reference should be made.

Below is a description of the standard, as applied by the company.

Products and services	**IFRS 15** **Nature and terms of performance obligations, significant terms of payment**	**IAS 18 and IAS 11** **Nature of the change in accounting policy**
Sale of goods and services and construction contracts (standard)	Under IFRS 15, revenue is measured considering the contract terms and the commercial practices usually applied to transactions with customers. The transaction price is the amount of consideration (which may include fixed amounts, variable amounts, or both) to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. Control	Under IAS 18, revenue was recognised when it was probable that future economic benefits would flow to the company and those benefits could be measured reliably, net of returns, rebates, trade discounts and bulk discounts. Revenue from services was recognised in profit or loss on a percentage of completion basis and only when the outcome of the service could

	refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset (good/service). The total consideration of contracts for the provision of services is allocated among all services based on the selling prices of the related services as if they had been sold separately. Under IFRS 15, for each contract, the reference element for the recognition of revenue is the single performance obligation. For each separately-identified performance obligation, an entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. For performance obligations satisfied over time, revenue is recognised over time, assessing the progress towards complete satisfaction of the performance obligation at each reporting date. The group measures progress in accordance with an input method (cost-to-cost method). Accordingly, revenue is recognised based on the inputs used to satisfy the obligation up to the reporting date, compared to the total inputs assumed to satisfy the entire obligation. When the inputs are distributed consistently over time, the group recognises the corresponding revenue on a straight-line basis. In some circumstances, when the group is unable to reasonably measure the outcome of a performance obligation, revenue is recognised only to the extent of the costs incurred.	be estimated reliably. Revenue from the sale of goods was recognised at the fair value of the consideration received or receivable and when the company transferred to the buyer the significant risks and rewards of ownership of the goods and the related costs could be measured reliably. Under IAS 11, construction contracts were recognised at the reasonably accrued contractually agreed fees in accordance with the percentage of completion method, considering the progress made and the expected contractual risks. Progress was measured by comparing the contract costs incurred at the reporting date to the total estimated costs for each contract. When the outcome of a construction contract could not be estimated reliably, revenue was recognised only to the extent of contract costs incurred that it was probable would be recoverable. When the outcome of a construction contract could be estimated reliably and it was probable that the economic benefits associated with the contract would flow to the group, revenue was recognised over the term of the contract. When it was probable that total contract costs exceeded total contract revenue, the potential loss was immediately recognised in profit or loss, regardless of the contract progress. Contracts were shown net of allowances, if any, losses to complete contracts and payments on account and advances related to the contract in progress. Differences were recognised under assets when positive, while negative differences were taken to the liability caption "Trade payables".
Fee	It is the amount paid to use the train paths necessary to carry out the long and short haul domestic passenger rail transport and for freight transport	The application of IFRS 15 had no significant impacts.

	(chapter 5 of the network prospectus (PIR)) which reflect the individual performance obligations (POs). The fee is calculated as the sum of components A and B (chapter 6 of the PIR): - component A relates to the wear and tear of the infrastructure; - component B relates to the market segments' ability to pay. Revenue is calculated every month with progress bills based on the contractually-agreed amounts. Adjustment takes place every quarter based on the actual number of trains in operation. This figure is calculated for each train by pricing the train paths under the contract and those actually used by each railway company.	
Ferry services	This service relates to the transport of trains by ferry and is part of the Minimum access package. Although it also comprises shunting, boarding and disembarking services, this service is considered a single performance obligation. The tariff is governed by chapter 6 of the PIR and is calculated by multiplying the market segments' ability to pay by the km travelled. Revenue is recognised and progress bills are issued. Adjustment takes place every quarter based on the actual number of trains transported.	The application of IFRS 15 had no significant impacts.
Electrical traction (traffic-related services)	Chapter 5 of the PIR includes the provision of electrical traction under traffic-related services. The fee for this service is calculated in accordance with the MEF decree dated 22 December 2015 and set out in chapter 6 of the PIR. It is equal to the sum of the fee for the indirect supply costs and the unit cost of energy, multiplied by electrical km. Revenue is recognised every month and	The application of IFRS 15 had no significant impacts.

	progress bills are issued. Adjustment takes place every quarter. The actual cost of electrical traction is calculated within the next year and adjustment is made with the railway companies.	
Other traffic-related services (excluding electrical traction)	This contract refers to the traffic-related services covered by Chapter 5 of the PIR (e.g., parking, water supply, washing sidings, pre-heating, shunting services, fast track, etc.), except for those covered by the minimum access package (MAP) and electrical traction. The tariffs for each service are listed in chapter 6 of the PIR. Each traffic-related service is considered a single performance obligation. Consequently, each fee refers to a single PO. Revenue is recognised monthly, while invoices are issued every three months based on the amounts calculated for each railway company and each service.	The application of IFRS 15 had no significant impacts.
Health services	Through the Health department, many various health projects are offered to FS Italiane group companies and companies, transport public bodies and accredited private bodies and private parties. These services include fitness assessments for various types of driving licences, checking the mental and physical suitability of transport workers, special checks, etc.. Once the service has been provided and completed, it is entered into the WEB VINE system which will transfer the relevant data necessary for revenue recognition and to issue the related invoice.	The application of IFRS 15 had no significant impacts.
Revenue from GSMR	This contract governs the service provided to telephone operators by RFI which grants non-exclusive access to the GSM frequency band inside railway tunnels, and the maintenance of the related systems. The consideration paid by the above operators will be invoiced in accordance with the terms and conditions of the relevant contract.	The application of IFRS 15 had no significant impacts.

Processing for third parties	This usually covers long-term contracts for the execution of a work or a group of closely interrelated works. These are contract works performed in accordance with the customer's technical specifications and are not carried out for the protection or safety of the railway operations. This category also includes the services generally related to the construction of an asset, agreed as a single item as per the customer's specific instructions. When the agreement is signed with the customer, an "Internal contract" is created which comprises the figures related to the works necessary for revenue recognition purposes. Invoices are issued after reporting, unless in the case of contract advances.	The application of IFRS 15 had no significant impacts.
Sale of materials	These contracts cover the sale of "new" materials (mainly technological materials) and "serviceable" materials (mainly superstructure materials). New materials are sold at the more favourable price between the standard and the purchase price, while the sale price of serviceable second-hand materials is usually based on the price of new materials, reduced by a percentage discount which reflects some variables (e.g., consumption, type, transport exclusion, etc.). For each delivery of materials, the Site Manager prepares a delivery report, a copy of which is sent to the person in charge of issuing the sale order and the related invoice.	The application of IFRS 15 had no significant impacts.

Variable consideration

If the consideration promised in a contract includes a variable amount (e.g., because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or because the consideration is contingent on the occurrence or non-occurrence of a future event), an entity shall estimate the amount of consideration to which it is entitled. The company estimates variable considerations consistently for similar items, using the expected value or the most likely amount method. It subsequently includes in the transaction price the amount of variable consideration estimated, only to the extent that it is highly probable.

Existence of a significant financing component

When a significant financing component exists, revenue is adjusted, both when the company is financed by its customer (advance collection) and when it finances it (deferred collection). The existence of a significant financing component is identified when the contract is signed by comparing expected revenue against the payments to be received. It is not recognised if the period between when the entity transfers a promised good or service and when the customer pays for that good or service is one year or less.

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

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

Government grants

Government grants, when formally assigned and, in any case, when the right to their disbursement is deemed definitive as it is reasonably certain that the company will comply with any conditions attached to the grant and that the grants will be received, are recognised on an accruals basis.

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 include interest expense, if any, on loans raised and necessary to implement the initiatives during the performance of works, which are recognised as an increase in the carrying amount of said initiatives. They are recognised as a direct reduction in the cost of the assets to which they refer and decrease the depreciation rates.

Grants related to income

They refer to amounts paid by the government or other public bodies to the company to supplement revenue. They are recognised under revenue from sales and services, 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 the company’s shareholders are presented as a change in equity and recognised under liabilities when their distribution is approved by the shareholders.

Cost recognition

Costs are recognised when they relate to goods and services acquired or consumed in the year or by systematic allocation.

Income taxes

Current taxes are calculated based on estimated taxable 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 profit will be available against which these losses can be recovered. Deferred tax assets and liabilities are calculated using the tax rates that are expected to be applied in the years in which the differences will be realised or settled.

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

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

When the conditions set out by IAS 12 are not met, no current or deferred taxes are recognised.

Translation of foreign currency amounts

Any transactions in a currency other than the functional currency are recognised at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in a currency other than the Euro are subsequently adjusted at the closing rate. Non-monetary assets and liabilities denominated in a currency other than the Euro are recognised at historical cost using the exchange rate prevailing at the date of initial recognition. Exchange differences are taken to profit or loss.

Non-current assets held for sale and discontinued operations

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

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

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

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

New standards

First-time adoption of standards, amendments and interpretations

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

IFRS 9 Financial instruments

On 24 July 2014, the IASB issued the definitive version of IFRS 9 Financial instruments. This document was endorsed by the EU with Regulation no. 2067 of 22 November 2016. It presents the results of the IASB's project to replace IAS 39 and supersedes all the previous versions of IFRS 9 as regards classification, measurement, derecognition, impairment and hedge accounting. For a detailed description of this standard, reference should be made to that set out earlier and to that subsequently described about FTA impacts.

IFRS 15 Revenue from contracts with customers

On 28 May 2014, as part of the IFRS-US GAAP convergence project, the IASB and the FASB issued IFRS 15 Revenue from contracts with customers. This document was endorsed by the European Union with Regulation no. 1905 of 22 September 2016. This standard is a single and comprehensive framework for revenue recognition and sets out the provisions to be applied to all contracts with customers (except for those covered by other standards on leases, insurance contracts and financial instruments). Under IFRS 15, entities must recognise revenue so that the transfer of the goods and/or services to the customer is equal to an amount which reflects the consideration to which the entity expects to be entitled in exchange for the transfer of the promised goods and/or services. Consequently, revenue is no longer recognised distinguishing between revenue from the sale of goods, services and work in progress. Instead, revenue is recognised using the five-step model (identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; recognise revenue). For a detailed description of this standard, reference should be made to that set out earlier and to that subsequently described about FTA impacts.

IFRIC 22 Foreign currency transactions and advance consideration

On 8 December 2016, the IASB issued IFRIC 22 Foreign currency transactions and advance consideration which was endorsed by the EU with Regulation no. 519 of 28 March 2018. This interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. Because of its nature and/or scope, the application of the interpretation had no significant effects on this document.

Annual improvements to IFRS: **2014-2016** *cycle*

On 8 December 2016, the IASB issued the Annual improvements to IFRS 2014-2016 Cycle which was endorsed by the EU with Regulation no. 182 of 7 February 2018. The amendments are part of the normal rationalisation and clarification of the IFRS and covered IFRS 1 First-time adoption of International Financial Reporting Standards, IFRS 12 Disclosure of interests in other entities and IAS 28 Investments in associates and joint ventures. Because of their nature and/or scope, the application of the provisions set out therein had no significant effects on this document.

Amendments to IAS 40 – Transfers of investment property

On 8 December 2016, the IASB issued some amendments to IAS 40 - Investment property which were endorsed by the EU with Regulation no. 400 of 14 March 2018. The amendments provide guidance on transfers to, and from investment property. An entity shall transfer a property to, or from, investment property when, and only when, there is a change in use and not only a change in management's intentions. Because of their nature and/or scope, the application of the provisions set out therein had no significant effects on this document.

Standards, amendments and interpretations recently endorsed by the European Union, but not yet adopted

IFRS 16 Leases

On 13 January 2016, the IASB issued IFRS 16 Leases which was endorsed by the EU with Regulation no. 1990 of 9 November 2017. This standard, which replaces IAS 17, is applicable to annual periods beginning on or after 1 January 2019. The new standard eliminates the different recognition of operating and finance leases, while containing elements that simplify its application. It also introduces the concept of control within the definition of a lease. Specifically, in order to determine whether a contract is a lease, IFRS 16 states that a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time. Earlier application is permitted for entities that also adopt IFRS 15 Revenue from contracts with customers.

The company, which will apply IFRS 16 Leases starting from 1 January 2019, estimated the FTA effects, which are described below, on the financial statements. The actual effects of the application of this standard starting from 1 January 2019 may be considerably different. Indeed:

- as part of the impact analysis in which the company participates, the company has not yet completed the check and assessment of controls over the new information systems;
- in Italy, in coordination with OIC (the Italian accounting standard setter), the interpretation of some contracts and significant provisions about the non-cancellable period is still underway; and
- the new measurement criteria may change until the presentation of the first financial statements inclusive of the first-time application date;
- the company is still assessing some practical expedients under the standard, also in respect of the above aspects.

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets which represent the right-of-use of the underlying assets and lease liabilities. There are exemptions to the application of IFRS 16 for short-term leases and leases for which the underlying asset is of low value. The approach of IFRS 16 to lessor accounting is similar to that under IAS 17, i.e., lessors continue to classify leases as operating or finance.

IFRS 16 replaces the current lease provisions, including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases—Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease.

Leases in which the company is the lessor

The company will recognise new assets and liabilities for the operating leases of railway vehicles, other vehicles and some property leases. The nature of the costs related to the above leases will change since the company will depreciate the right-of-use assets and the borrowing costs on lease liabilities. Under the previous standard, the company recognised operating lease liabilities on a straight-line basis over the term of the lease and recognised assets and liabilities only in the case of temporary differences between the moment it paid the lease and the costs incurred. According to the currently available preliminary information, the company expects to recognise lease liabilities for approximately €52 million starting from 1 January 2019.

Amendments to IFRS 9 Prepayment features with negative compensation

On 12 October 2017, the IASB issued the amendment to IFRS 9 Financial Instruments - Prepayment features with negative compensation which was endorsed by the EU with Regulation no. 498 of 22 March 2018. The amendments clarify the accounting of particular prepayable financial assets when IFRS 9 is applied. Specifically, the amendment proposes measuring such financial assets, which may result in a negative compensation, at amortised cost or at fair value through other comprehensive income depending on a company's business model. The amendments are to be applied no later than the year beginning on or after 1 January 2019. The assessment of the impacts of the application of this standard is underway.

IFRIC 23 Uncertainty over income tax treatments

On 7 June 2017, the IASB issued IFRIC 23 Uncertainty over income tax treatments. The interpretation clarifies the accounting for uncertain deferred or current taxes, related to interpretation issues not clarified by the relevant tax authorities. It applies to annual periods beginning on or after 1 January 2019, with earlier application being permitted. No significant impacts are expected from the coming into force of this interpretation.

Standards, amendments and interpretations not yet endorsed by the European Union

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

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

Annual improvements to IFRS: **2015-2017** *cycle*

On 12 December 2017, the IASB issued the Annual improvements to IFRS Standards 2015-2017 Cycle. The amendments are part of the normal rationalisation and clarification of the IFRS and cover: IAS 12 Income taxes, IAS 23 Borrowing costs and IFRS 3 Business combinations. The EU is expected to endorse this amendment in the first quarter of 2019.

Amendments to IAS 19 Plan amendment, curtailment or settlement

On 7 February 2018, the IASB issued the amendments to IAS 19 Employee benefits. The amendments clarify the accounting treatments for defined benefit plans when a plan amendment, curtailment or settlement occurs. Accordingly, an entity shall use the updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. The amendments apply to annual periods beginning on or after 1 January 2019. The EU is expected to endorse this amendment in the first quarter of 2019.

Amendments to references to the conceptual framework in IFRS standards

On 29 March 2018, the IASB issued the revised version of the Conceptual framework for financial reporting. The main changes compared to the 2010 version include: a new chapter on measurement, improved definitions and guidance, specifically with respect to the definition of liability, clarifications of major concepts, such as stewardship, prudence and measurement uncertainties. The EU is expected to endorse this amendment in 2019.

Amendments to IFRS* 3 *Business Combination

On 22 October 2018, the IASB issued an amendment to IFRS 3 Business combinations. The amendment relates to the definition of business which, at present, is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income or generating other income from ordinary activities. Previously, it was an integrated set of activities and assets that was capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. The amended definition of business shall be applied to acquisitions that occur on or after 1 January 2020. The EU is expected to endorse this amendment in 2019.

Amendments to IAS 1 and IAS 8 – Definition of material

On 31 October 2018, the IASB issued an amendment to IAS 1 and IAS 8 Definition of material. The main changes relate to the alignment of the references and quotes included in some standards in order to reflect the new version of the Conceptual Framework, which was approved in March 2018, instead of the 2010 version. The amendment applies to annual periods beginning on or after 1 January 2020. The EU is expected to endorse this amendment in 2019.

USE OF ESTIMATES AND JUDGEMENTS

In preparing the financial statements in accordance with IFRS, the directors applied standards and methods, which in some circumstances rely on difficult and subjective estimates and judgements based on past experience and on assumptions that are considered to be reasonable and realistic over time depending on the circumstances. Therefore, the actual amounts of certain financial statements captions calculated according to the above estimates and assumptions may differ in the future, even materially, from those reported in the financial statements, because of the uncertainty that characterises the assumptions and conditions on which the estimates are based. Estimates and assumptions are reviewed periodically and the effects of any changes are recognised in profit or loss when they affect the year only. If the revision affects both current and future years, the change is recognised in the year the revision is made and in the related future years.

Therefore, actual results may differ, even materially, from these estimates following possible changes in the factors considered in the determination of these estimates.

The following accounting policies require the most subjectivity from the directors in the preparation of estimates and would have a material impact on the financial figures if there were a change in the conditions underlying the assumptions used.

Impairment losses - financial assets

As mentioned earlier, IFRS 9 replaced IAS 39 as related to the impairment model.

Under IFRS 9, an expected loss is the sum of the expected losses that result from possible default events on a financial instrument over a specific time horizon; this results in the recognition of a loss using both past and present figures and forward looking information).

Residual value of property, plant and machinery, investment property and intangible assets with a finite useful life

Under IAS 16, 38 and 40, the depreciable cost of an item of property, plant and equipment, investment property and intangible assets with a finite useful life is calculated by subtracting its residual value. The residual value of the infrastructure and investment property is calculated as the estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of the Concession. The company periodically revises the residual value and measures its recoverability using the best information available at that date. Periodic updates may cause a change in the depreciation rate for future years.

Amortisation and depreciation

The cost of property, plant and equipment and investment property and of intangible assets with a finite useful life is depreciated/amortised based on production volumes, as described in detail in the note to property, plant and equipment. The company assesses any technological, usage and sector changes to update these volumes 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.

Calculating the amortisation/depreciation of these assets entails a complex accounting estimate that is influenced by a number of factors, including the estimated production volumes expressed as train-km, the estimated residual value and any changes to the regulatory framework.

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 financial statements.

Fair value of derivatives

The fair value of derivatives that are not quoted on 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 31 December 2018, the company had no debt instruments or shares listed on a regulated market. It is included in the consolidation scope of FS Italiane group which, in accordance with IFRS 8.2 b, provides segment reporting by operating segment in the notes to the consolidated financial statements.

4. Effects of the application of IFRS 9 and IFRS 15

Below is a description of the effects of the application of IFRS 9, IFRS 15 and the amendments to IAS 40:

IFRS 9 – FINANCIAL INSTRUMENTS

Transition method

The changes to accounting policies resulting from the application of IFRS 9 are substantially applied retrospectively, except for the following:

- the company avails of the exemption not to restate the prior year comparative information related to classification and measurement changes (including impairment losses). Generally speaking, the differences in the carrying amounts of financial assets and financial liabilities resulting from the application of IFRS 9 are recognised in retained earnings and reserves at 1 January 2018;
- as mentioned earlier, with respect to hedge accounting, the company decided to continue to apply IAS 39 provisions.

Classification and measurement of financial assets and liabilities

As described in note 3 “accounting policies”, IFRS 9 changed the classification of financial assets, while it substantially maintained IAS 39 requirements for the classification of financial liabilities.

Based on the analyses carried out by the company and considering the nature of the assets owned, these fall entirely in the amortised cost category, except for derivatives measured at fair value and recognised in profit or loss by type.

Impairment losses

Below is a description of the effects of the application of the new requirements for calculating impairment losses under IFRS 9 on opening equity (1 January 2018):

	thousands of euros
Loss allowance at 31 December 2017 (IAS 39)	**137,135**
Additional impairment at 1 January 2018:	
Trade receivables	23,967
Other assets	37,733
Contract assets	745
Financial assets	2,016
Cash and cash equivalents	881
Loss allowance at 1 January 2018 (IFRS 9)	**202,477**

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Transition method

The company set up specific work groups to perform and complete an analysis of the effects of the application of IFRS 15. This standard is applied retrospectively with cumulative effect on the date of FTA (i.e., 1 January 2018). Consequently, the comparative figures have not been restated and continue to be recognised in accordance with IAS 18 and IAS 11.

The application of IFRS 15 had no effects on the opening balances at 1 January 2018.

The standard introduced new disclosure requirements, both qualitative and quantitative, in order to provide financial statements users with useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. To this end, the company developed new detailed information.

AMENDMENTS TO IAS 40 – INVESTMENT PROPERTY

The company performed and completed an analysis of the effects of application of the amendments to IAS 40.

The application of these amendments had no effects.

STATEMENT OF FINANCIAL POSITION

5. Financial risk management

The activities that the company carries out expose it to various types of risks that include market risk (interest rate and currency risk), liquidity risk and credit risk.

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

Credit risk

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

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

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

	thousands of Euros	
	31.12.2018	**31.12.2017**
Financial assets (including derivatives)	1,164,949	1,699,827
Loss allowance	(998)	–
Non-current financial assets (including derivatives), net of the loss allowance	**1,163,951**	**1,699,827**
Trade receivables	1,693	3,417
Loss allowance	(3)	–
Non-current trade receivables, net of the loss allowance	**1,690**	**3,417**
Other assets	3,441,985	1,214,160
Loss allowance	(2,692)	–
Other non-current assets, net of the loss allowance	**3,439,293**	**1,214,160**
Contract assets	–	54,082
Loss allowance	–	–
Contract assets, net of the loss allowance	**–**	**54,082**
Trade receivables	832,782	658,448
Loss allowance	(148,758)	(133,538)
Current trade receivables, net of the loss allowance	**684,024**	**524,910**
Financial assets (including derivatives)	673,621	795,130
Loss allowance	(515)	–
Current financial assets (including derivatives), net of the loss allowance	**673,106**	**795,130**
Cash and cash equivalents	720,119	1,137,790
Loss allowance	(544)	–
Cash and cash equivalents, net of the loss allowance	**719,575**	**1,137,790**
Other assets	2,873,112	3,932,413
Loss allowance	(40,622)	(3,597)
Other current assets, net of the loss allowance	**2,832,490**	**3,928,816**
Total exposure, net of the loss allowance *	**9,514,129**	**9,358,132**

* Tax assets, equity investments, cash in hand and prepayments and accrued income are not included

A significant portion of trade receivables and loan assets relates to government and public authorities, such as the MEF and the regions.

The tables below show the exposure to credit risks by counterparty, excluding cash and cash equivalents:

thousands of Euros

	31.12.2018	**31.12.2017**
Public administration, Italian government and regions	7,607,196	6,530,479
Ordinary customers	437,281	439,640
Financial institutions*	894,577	1,445,711
Other debtors	575,075	942,302
Total exposure, net of the loss allowance	**9,514,129**	**9,358,132**

* it includes the balance of the intragroup current account held with the parent (€90,733 thousand at 31 December 2018) and cash and cash equivalents, net of cash in hand (€719.575 thousand).

	31.12.2018	**31.12.2017**
Public administration, Italian government and regions	80%	70%
Ordinary customers	5%	5%
Financial institutions	9%	15%
Other debtors	6%	10%
Total exposure, net of the loss allowance	**100%**	**100%**

The amount of financial assets whose recoverability is uncertain is negligible. However, an adequate loss allowance was accrued in this respect.

The following table gives a breakdown of financial assets and trade receivables at 31 December 2018 and 2017 by overdue bracket and related to the Public administration, the Italian government, the regions, ordinary customers and financial institutions.

thousands of Euros

	31.12.2018					
	Overdue by					
	Not overdue	0-180 days	180-360 days	360-720 days	More than 720 days	Total
Public administration, Italian government and regions (gross)	7,588,077	24,029	1,149	1,671	17,388	7,632,314
Loss allowance	(8,408)	(35)	(26)	(66)	(16,583)	(25,118)
Public administration, Italian government and regions (net)	**7,579,669**	**23,994**	**1,123**	**1,605**	**805**	**7,607,196**
FS Italiane group companies	524,273	38,726	2,719	2,806	19,639	588,163
Loss allowance	(401)	(30)	(2)	(2)	(12,653)	(13,088)
FS Italiane group companies (net)	**523,872**	**38,696**	**2,717**	**2,804**	**6,986**	**575,075**
Third party customers (gross)	361,725	29,589	20,381	20,551	160,176	592,422
Loss allowance	(24,198)	(1,967)	(775)	(4,230)	(123,971)	(155,141)
Third party customers (net)	**337,527**	**27,622**	**19,606**	**16,321**	**36,205**	**437,281**
Financial institutions	895,256	–	–	–	107	895,363
Loss allowance	(679)	–	–	–	(107)	(786)
Financial institutions (net)	**894,577**	**–**	**–**	**–**	**–**	**894,577**
Total exposure, net of the loss allowance	**9,335,645**	**90,312**	**23,446**	**20,730**	**43,996**	**9,514,129**

thousands of Euros

	31.12.2017					
	Overdue by					
	Not overdue	0-180 days	180-360 days	360-720 days	More than 720 days	Total
Public administration, Italian government and regions (gross)	6,523,144	6,254	1,126	11,429	5,862	6,547,815
Loss allowance	(3,050)	–	–	(8,424)	(5,862)	(17,336)
Public administration, Italian government and regions (net)	**6,520,094**	**6,254**	**1,126**	**3,005**	**–**	**6,530,479**
FS Italiane group companies	902,601	2,556	15,278	5,904	15,963	942,302
Loss allowance	–	–	–	–	–	–
FS Italiane group companies (net)	**902,601**	**2,556**	**15,278**	**5,904**	**15,963**	**942,302**
Third party customers (gross)	330,042	43,259	28,811	124,766	32,561	559,439
Loss allowance	(23,024)	–	–	(64,214)	(32,561)	(119,799)
Third party customers (net)	**307,018**	**43,259**	**28,811**	**60,552**	**–**	**439,640**
Financial institutions	1,445,711	–	–	–	–	1,445,711
Loss allowance						
Financial institutions (net)	**1,445,711**	**–**	**–**	**–**	**–**	**1,445,711**
Total exposure, net of the loss allowance	**9,175,424**	**52,069**	**45,215**	**69,461**	**15,963**	**9,358,132**

Amounts from ordinary customers, overdue by more than 720 days, mainly arise from sundry disputes. The legal actions commenced for the recovery of some amounts are still underway.

Sometimes, in order to recover the amounts, the offsetting of receivables and payables was proposed and carried out.

Amounts from the Public administration, overdue by more than 720 days, mainly refer to local bodies facing financial difficulties as part of the unfavourable national economic situation.

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

	2018		2017
	Amortised cost		
	12-months expected credit losses	**Lifetime - not impaired**	**Held to maturity**
from AAA to BBB-	2,559,442	6,556,210	8,935,723
from BB to BB+	81	-	81
from B to CCC	107	592,422	559,463
Gross carrying amounts	2,559,630	7,148,632	9,495,267
Loss allowance	(2,057)	(192,076)	(137,135)
Carrying amount	**2,557,573**	**6,956,556**	**9,358,132**

Changes in the loss allowance are shown below. The 2017 comparative figures reflect the loss allowance calculated in accordance with IAS 39.

	12-months expected credit losses	**Lifetime - not impaired**	**Total**
Balance at 31 December 2017	**0**	**(137,135)**	**(137,135)**
Effects of IFRS 9 FTA	(2,897)	(62,445)	(65,342)
Balance at 1 January 2018	**(2,897)**	**(199,579)**	**(202,477)**
Repaid financial assets	846	1,303	2,149
New financial assets acquired	(6)	(3,455)	(3,461)
Non-recurring transactions	0	(2,491)	(2,491)
Accrual to the loss allowance	0	780	780
Release of the allowance	0	4,574	4,574
Utilisation of the allowance	0	6,792	6,792
Balance at 31 December 2018	**(2,057)**	**(192,076)**	**(194,133)**

Liquidity risk

Liquidity risk is the risk that an entity may have difficulties in complying with the obligations associated with financial liabilities to be settled by delivering cash or another financial asset.

Cash flows, cash requirements and liquidity are monitored 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.

As for FS Italiane group's other main companies, the parent's Finance department oversees RFI's liquidity management using the intragroup current account, whereby the company can manage its cash needs for ordinary operations, including by using committed and uncommitted lines that it may request from the parent. At 31 December 2018, RFI had used uncommitted lines for €170 million.

Furthermore, RFI holds a non-interest bearing current account with the MEF, included under cash and cash equivalents to ensure that the amounts disbursed by the government to finance the portion of RFI's investment match the progress of the investments.

The company's financial liabilities mainly refer to the financial resources used for the investments in HS/HC sections.

The following table shows the due dates of financial liabilities, including interest to be paid:

thousands of Euros

31.12.2018	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	After 5 years
Non-derivative financial liabilities*							
Bank loans and borrowings	1,391,920	1,632,296	114,976	115,082	230,410	580,962	590,866
Loans and borrowings from other financial backers	115,224	120,622	15,902	15,902	31,805	57,013	–
Loans and borrowings from group companies	2,200,156	2,402,501	275,720	239,954	595,754	752,054	539,019
Total	**3,707,300**	**4,155,419**	**406,598**	**370,938**	**857,969**	**1,390,029**	**1,129,885**
Trade payables	**3,218,650**	**3,218,650**	**538,040**	**2,661,888**	**18,722**		
Derivative financial liabilities	**17,947**	**19,194**	**4,080**	**3,615**	**5,684**	**5,774**	**41**

*For a better accounting presentation, non-derivative financial liabilities are shown gross of accrued expenses

thousands of Euros

31.12.2017	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	After 5 years
Non-derivative financial liabilities *							
Bank loans and borrowings	1,579,792	1,868,589	114,834	114,919	230,258	648,772	759,807
Loans and borrowings from other financial backers	159,377	168,814	31,807	15,902	31,816	76,686	12,603
Loans and borrowings from group companies	2,296,859	2,529,672	304,803	239,080	343,880	1,332,310	309,600
Total	**4,036,028**	**4,567,075**	**451,443**	**369,901**	**605,954**	**2,057,768**	**1,082,009**
Trade payables	**3,028,168**	**3,028,168**	**388,483**	**2,604,978**	**34,707**		
Derivative financial liabilities	**23,110**	**25,153**	**5,774**	**4,501**	**7,003**	**7,470**	**405**

*For a better accounting presentation, non-derivative financial liabilities are shown gross of accrued interest

The contractual flows from variable-rate loans have been calculated using the forward rates estimated at the reporting date. "Loans and borrowings from group companies" comprise the current portion of loans from the parent which, due to their nature, are among those due within six months.

With respect to contractual payment dates, the most significant portion relates to trade payables for contracts and works which are mainly repaid through government grants. The residual part is repaid using cash flows from operations.

The tables below show the repayments of financial liabilities at 31 December 2018 and 2017 by due date: within one year, from 1 to 5 years and after 5 years.

thousands of Euros

31.12.2018	Carrying amount	Within one year	1-5 years	After 5 years
Non-derivative financial liabilities*				
Bank loans and borrowings	1,391,920	196,476	694,487	500,957
Loans and borrowings from other financial backers	115,224	29,130	86,094	–
Loans and borrowings from group companies	2,200,156	458,654	1,242,339	499,163
Total	**3,707,300**	**684,260**	**2,022,920**	**1,000,120**

*For a better accounting presentation, non-derivative financial liabilities are shown gross of accrued expenses

thousands of Euros

31.12.2017	Carrying amount	Within one year	1-5 years	After 5 years
Non-derivative financial liabilities *				
Bank loans and borrowings	1,579,792	193,196	741,555	645,040
Loans and borrowings from other financial backers	159,377	44,154	102,723	12,500
Loans and borrowings from group companies	2,296,859	476,838	1,520,984	299,036
Total	**4,036,028**	**714,188**	**2,365,263**	**956,576**

*For a better accounting presentation, non-derivative financial liabilities are shown gross of accrued expenses

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 or interest rates. The objective of market risk management is to manage and maintain the company's exposure to this risk within acceptable levels, while optimising returns on investments. The company uses hedging transactions to manage the volatility of the results.

Interest rate risk

Interest rate risk is associated with the intrinsic variability of market interest rates which generates uncertainties as to the future cash flows associated with financing activities.

RFI enters into derivatives to hedge long-term borrowings which finance the high speed network.

With respect to the current and forecast non-current indebtedness, the company, assisted by the financial risk management services of the parent's Finance department, adopted an interest rate risk management policy which is aimed (i) at containing total financial expense (including in case of negative scenarios) within a level that does not exceed the assumptions set out in the business plan and which, at the same time, provides (ii) for the possibility of freeing resources in addition to the assumed borrowing cost. RFI enters into derivative financial instruments comprising Plain Vanilla Collars and Interest Rate Swaps exclusively for hedging purposes in accordance with cash flow hedging requirements.

Interest rate collars with a total notional amount of €300 million were entered into between the end of 2011 and the first few months of 2012 to manage variable-rate debt.

The specific liability is currently 50% covered, while the residual amount fell due in 2017.

At 31 December 2018, the outstanding notional amount is €100 million.

The current interest rate swaps entered into by the company in 2012 following the exercise of the early termination option represent the economic continuation of the coverage of the variable rate loans raised in 2002.

At 31 December 2018, the outstanding notional amount is €450 million.

Fair value estimate

The company's portfolio includes over-the-counter (OTC) instruments which fall under Level 2. Financial instruments have been measured at fair value using financial models based on market standards. Specifically, this entailed:

- determining the net present value of future flows for swaps;
- calculating option contracts (cap and collar) using financial valuation models based on market standards.

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

Specifically, the swap vs. three-month Euribor curve figures were used, as well as those related to the swap vs. six-month 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).

The table below shows variable and fixed rate loans and borrowings (including the current portion):

thousands of Euros

	Carrying amount	Contractual flows	Current portion	1-2 years	2-5 years	after 5 years
- variable rate	1,102,679	1,161,934	305,054	135,489	315,488	405,903
- fixed rate	2,604,621	2,993,486	472,482	722,480	1,074,542	723,982
Balance at 31 December 2018	**3,707,300**	**4,155,420**	**777,536**	**857,969**	**1,390,030**	**1,129,885**
- variable rate	1,070,907	1,091,462	339,216	133,472	358,975	259,798
- fixed rate	2,965,121	3,475,613	482,127	472,482	1,698,792	822,211
Balance at 31 December 2017	**4,036,028**	**4,567,075**	**821,344**	**605,954**	**2,057,768**	**1,082,009**

*For a better accounting presentation, liabilities are shown gross of accrued expenses

The table below shows the impact of variable and fixed rate loans (including the current portion), before and after hedging derivatives, which convert variable rates into fixed rates.

	31.12.2018	31.12.2017
Before hedging with derivatives		
variable rate	26.5%	26.5%
fixed rate	73.5%	73.5%
After hedging with derivatives		
variable rate	15.4%	10.3%
hedged variable rate	4.0%	5.0%
fixed rate	80.6%	84.7%

The following sensitivity analysis shows the effects that would have been recorded in terms of changes in interest expense had an increase or a decrease of 50 basis points in the Euribor interest rates affected loans in 2018:

thousands of Euros

	+ 50 bps shift	- 50 bps shift
Interest expense on variable-rate debt	3,102	(1,301)
Net cash flow from hedges	(2,155)	1,971
Total	**947**	**670**

If, at the reporting date, the interest rates had been 50 basis points higher, with all other variables being equal, profit for the year net of the tax effect would have been €947 million higher. At the same date, had interest rates been 50 basis points lower, with all other variables being equal, profit for the year would have been €670 thousand higher.

The following sensitivity analysis shows the effects of a parallel shift of 50 basis points up or down in the swap rate curve at 31 December 2018 on the fair value of the derivative financial instruments. The effects would be substantially recognised in the specific equity reserve.

thousands of Euros

	+ 50 bps shift	- 50 bps shift
Fair value of hedging derivatives	5,680	(5,827)
Total	**5,680**	**(5,827)**

Currency risk

RFI 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.

Capital management

The company's main objective with respect to capital risk management is to safeguard its ability to continue as a going concern, while ensuring benefits for the various 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 above tables and the categories of financial assets and financial liabilities identified pursuant to IFRS 7.

thousands of Euros

31.12.2018	Loans and receivables	Loans and borrowings	of which: hedging derivatives
Non-current financial assets (including derivatives)	1,163,951		
Non-current trade receivables	1,690		
Other non-current assets	3,439,293		
Current trade receivables	684,024		
Current financial assets (including derivatives)	673,106		
Cash and cash equivalents	719,743		
Tax assets	17,056		
Other current assets	2,840,233		
Non-current loans and borrowings		3,023,040	
Non-current financial liabilities (including derivatives)		17,947	17,948
Non-current trade payables		18,722	
Other non-current liabilities		111,478	
Current loans and borrowings and current portion of non-current loans and borrowings		684,260	
Current trade payables		3,199,928	
Tax liabilities		100	
Current financial liabilities (including derivatives)		912	
Other current liabilities		4,001,817	

thousands of Euros

31.12.2017	Loans and receivables	Loans and borrowings	of which: hedging derivatives
Non-current financial assets (including derivatives)	1,699,827		
Non-current trade receivables	3,417		
Other non-current assets	1,214,160		
Contract assets	54,082		
Current trade receivables	524,910		
Current financial assets (including derivatives)	795,130		
Cash and cash equivalents	1,138,003		
Tax assets	17,055		
Other current assets	3,938,406		
Non-current loans and borrowings		3,321,839	
Non-current financial liabilities (including derivatives)		23,110	23,110
Non-current trade payables		34,707	
Other non-current liabilities		127,030	
Current loans and borrowings and current portion of non-current loans and borrowings		714,189	
Current trade payables		3,003,082	
Tax liabilities		–	
Current financial liabilities (including derivatives)		1,946	
Other current liabilities		3,672,480	

6. Business combinations

Merger of Centostazioni S.p.A., wholly owned by Ferrovie dello Stato Italiane S.p.A.

In 2018, a project for the merger of Centostazioni (wholly-owned by FSI) into RFI was prepared and approved by RFI's and Centostazioni's shareholders in their respective extraordinary meetings of 4 April 2018 and 28 March 2018. The business combination took place on 16 July 2018 and resulted in an increase in RFI's distributable reserves, without recognising any capital increase in the financial statements of the merging company.

In accordance with Assirevi's OPI 2 provisions - Accounting treatment of mergers in the financial statements, this transaction does not configure a *de facto* change in the control over the operations of the merged company. In fact, it qualifies as a business combination in which the buyer and the acquired entity (RFI and Centostazioni, respectively) are controlled by the same entity both before and after the combination. As the transaction does not entail any financial exchange with third-party companies and is not a financial acquisition, it was recognised at its carrying amount.

Centostazioni's carrying amounts included in RFI's financial statements following the merger which took place on 16 July 2018 are shown below, net of intragroup elminations.

	16.07.2018
Assets	
Property, plant and equipment	9,755,892
Investment property	22,648,503
Intangible assets	931,399
Deferred tax assets	938,170
Other assets	92,520
Total non-current assets	**34,366,484**
Trade receivables	11,891,164
Cash and cash equivalents	3,087,778
Tax assets	147
Other assets	(278,499)
Total current assets	**14,700,590**
Total assets	**49,067,074**
Equity	
Share capital	-
Reserves	28,508,050
Total equity	**28,508,050**
Liabilities	
Post-employment and other employee benefits	29,974
Provisions for risks and charges	695,000
Total non-current liabilities	**724,974**
Trade payables	14,821,799
Deferred tax liabilities	99,750
Other current liabilities	4,912,501
Total current liabilities	**19,834,050**
Total liabilities	**20,559,024**
Total equity and liabilities	**49,067,074**

7. Assets held for sale and disposal groups

Assets held for sale and disposal groups rose by €3,478 thousand following the recognition of an equity investment resulting from the contribution of RFI business unit to Centostazioni Retail S.p.A. - already a subsidiary of Ferrovie dello Stato Italiane S.p.A., on 28 December 2018, as part of a broader group project related to the Station network restructuring/reorganisation. A tender was launched in 2018 for the market sale of 100% of Centostazioni Retail S.p.A. to the winning bidder.

Contribution of 100% of Grandi Stazioni Rail S.p.A.

On 13 November 2018, FSI contributed 100% of Grandi Stazioni Rail to RFI. The transaction is part of the comprehensive reorganisation of the station business, aimed at the integrated development of the network stations as intermodal hubs serving mobility. In accordance with Assirevi's OPI 1 provisions - Accounting treatment of business combinations under common control in separate and consolidated financial statements, the transaction was recognised at carrying amount: indeed, the equity investment was maintained in RFI's financial statements at the same carrying amount as in FSI's separate financial statements (€3,145 thousand). For additional information, reference should be made to note 11 "Equity investments".

8. Property, plant and equipment

The table below shows the opening and closing balances of property, plant and equipment and changes therein. It also shows changes in the “Historical cost”, “Depreciation and impairment losses” and “Grants”. The balance of “Extraordinary maintenance” refers to extraordinary maintenance expense incurred and capitalised and, hence, subject to depreciation.

thousands of Euros

	Land, buildings, railway and port infrastructure	Leasehold improvements	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Extraordinary maintenance	Total
Historical cost	88,682,929	155,846	448,163	730,608	356,092	22,906,980	4,228,267	117,508,884
Depreciation and impairment losses	(23,725,104)	(69,358)	(242,085)	(356,318)	(203,439)	(1,553,231)	–	(26,149,535)
Grants	(35,404,711)	(22,485)	(109,171)	(248,066)	(82,975)	(17,660,578)	(4,228,267)	(57,756,254)
Balance at 31.12.2017	**29,553,114**	**64,002**	**96,907**	**126,224**	**69,678**	**3,693,170**	**–**	**33,603,095**
Investments	5,819	–	–	1	14	3,832,688	823,049	4,661,571
Roll-outs	6,474,403	21,594	14,178	63,683	5,538	(5,202,540)	(1,386,291)	(9,435)
Depreciation	(93,622)	(20)	(2,289)	(2,899)	(1,557)			(100,388)
Impairment losses								–
Non-recurring transactions	8,866	–	–	197	193	499		9,756
Changes in historical cost due to non-recurring transactions	*12,701*	–	–	*2,333*	*1,081*	*499*		*16,613*
Changes in accumulated depreciation due to demergers	*(3,835)*	–	–	*(2,135)*	*(887)*			*(6,857)*
Changes for impairment gains/losses due to demerger	–	–	–	–	–			–
Changes in grants due to demerger	–	–	–	–	–			–
Change in grants	(5,914,264)	(21,303)	(14,178)	(63,628)	(5,555)	771,546	563,242	(4,684,139)
Disposals and divestments	(22,410)	–	–	(270)	(1,208)	(366)		(24,255)
Decreases in historical cost due to disposals and divestments	*(27,957)*	–	–	*(1,649)*	*(12,324)*			*(41,930)*
Decreases in accumulated depreciation due to divestments	*3,273*	–	–	*1,130*	*3,070*			*7,474*
Decreases in grants due to other divestments	*750*	–	–	*183*	*7,526*			*8,459*
Decreases in impairment gains/losses due to divestments	*1,524*	–	–	*66*	*519*	*(366)*		*1,742*
Other reclassifications*	36,567	190	–	(44)	21	42,579		79,314
Changes in historical cost due to other reclassifications	*(325,086)*	*(76)*	–	*(528)*	*21*	*669*		*(324,999)*
Changes in accumulated depreciation due to reclassifications	*175,994*	*(9)*	–	*482*	–			*176,467*
Changes in grants due to reclassifications	*106,200*	*314*	–	–	–	*41,910*		*148,423*
Changes in impairment gains/losses due to reclassifications	*79,459*	*(39)*	–	*2*	–			*79,422*
Total changes	**495,359**	**461**	**(2,289)**	**(2,960)**	**(2,554)**	**(555,593)**	**–**	**(67,577)**
Historical cost	94,822,809	177,364	462,342	794,447	350,422	21,538,296	3,665,025	121,810,704
Depreciation and impairment losses	(23,562,311)	(69,426)	(244,375)	(359,672)	(202,295)	(1,553,597)	–	(25,991,675)
Grants	(41,212,025)	(43,474)	(123,350)	(311,511)	(81,004)	(16,847,122)	(3,665,025)	(62,283,511)
Balance at 31.12.2018	**30,048,473**	**64,463**	**94,617**	**123,264**	**67,124**	**3,137,577**	**–**	**33,535,518**

* The reclassification of Land, buildings, railway and port infrastructure is mainly due to the fine-tuning following the implementation of the new control system

Grants related to assets

In 2018, grants related to assets totalling €4,681,303 thousand were allocated to assets under construction. Of this amount, €4,489,263 thousand was given by the government. They can be analysed as follows:

- €24,999 thousand related to advances for grants from the MEF for infrastructure investments related to the HS/HC system;
- €4,225,100 thousand, of which €3,803,216 thousand related to advances for grants related to assets from the MEF for infrastructure investments in the traditional network and €421,884 thousand for the advances made to suppliers in respect of the grants to investment projects;
- €239,164 thousand, of which €188,989 thousand related to advances for grants related to assets from the MIT for infrastructure investments in the traditional network and €50,175 thousand for the advances made to suppliers in respect of the grants to investment projects.

The other grants for assets under construction amount to €192,040 thousand and were mainly disbursed by the European Union and local bodies for €191,680 thousand.

9. Investment property

The opening and the closing balances of investment property are given below.

thousands of Euros

	31/12/2018			31/12/2017		
	Land	**Buildings**	**TOTAL**	**Land**	**Buildings**	**TOTAL**
Balance at 1 January						
Cost	827,289	294,908	1,122,197	844,237	293,297	1,137,535
of which:						
Historical cost	*1,897,250*	*822,854*	*2,720,104*	*1,916,275*	*814,766*	*2,731,041*
Accumulated depreciation	*–*	*(320,149)*	*(320,149)*	*–*	*(320,550)*	*(320,550)*
Grants	*(3,540)*	*(70,316)*	*(73,856)*	*(3,078)*	*(61,458)*	*(64,537)*
Impairment gains/losses	*(1,066,421)*	*(137,481)*	*(1,203,902)*	*(1,068,959)*	*(139,460)*	*(1,208,419)*
Carrying amount	**827,289**	**294,908**	**1,122,197**	**844,237**	**293,297**	**1,137,535**
Changes of the year						
Acquisitions (roll-out)	113	9,435	9,548	462	8,719	9,181
Reclassifications*	(317,554)	280,785	(36,769)	(4,284)	2,007	(2,276)
Changes in historical cost due to reclassifications	*(351,250)*	*677,976*	*326,726*	*(6,521)*	*338*	*(6,183)*
Changes in accumulated depreciation due to reclassifications	*29,414*	*(205,994)*	*(176,580)*	*477*	*101*	*578*
Changes in grants due to reclassifications	*(15,365)*	*(92,141)*	*(107,506)*	*–*	*(302)*	*(302)*
Changes in impairment gains/losses due to reclassifications	*19,647*	*(99,056)*	*(79,409)*	*1,761*	*1,870*	*3,631*
Disposals and divestments	(79)	(79)	(158)	(12,665)	(470)	(13,135)
Decreases in historical cost due to disposals and divestments	*(100)*	*(229)*	*(329)*	*(15,114)*	*(969)*	*(16,083)*
Decreases in accumulated depreciation due to divestments	*7*	*110*	*117*	*1,672*	*378*	*2,050*
Decreases in grants due to other divestments	*–*	*–*	*–*	*–*	*12*	*12*
Decreases in impairment gains/losses due to divestments	*14*	*40*	*54*	*777*	*109*	*887*
Non-recurring transactions	–	19,158	19,158	–	–	–
Changes in historical cost due to non-recurring transactions		*30,778*	*30,778*			*–*
Changes in accumulated depreciation due to non-recurring transactions		*(11,620)*	*(11,620)*			*–*
Changes in impairment gains/losses due to non-recurring transactions			*–*			*–*
Changes in grants due to non-recurring transactions			*–*			*–*
Reclassifications from/to "Assets held for sale"	–	–	–	–	–	–
Changes in historical cost due to reclassifications from/to assets held for sale			*–*			*–*
Change in grants	–	(8,422)	(8,422)	(462)	(8,568)	(9,029)
Depreciation	*–*	*(1,686)*	*(1,686)*		*(78)*	*(78)*
Total changes	**(317,520)**	**299,192**	**(18,328)**	**(16,949)**	**1,611**	**(15,338)**
Balance at 31 December	**31 December**			**31 December**		
Cost	509,768	594,100	1,103,868	827,289	294,908	1,122,197
of which:						
Historical cost	*1,575,433*	*1,540,814*	*3,116,248*	*1,897,250*	*822,854*	*2,720,104*
Accumulated depreciation		*(539,339)*	*(539,339)*	*–*	*(320,149)*	*(320,149)*
Grants	*(18,906)*	*(170,878)*	*(189,784)*	*(3,540)*	*(70,316)*	*(73,856)*
Impairment gains/losses	*(1,046,759)*	*(236,497)*	*(1,283,257)*	*(1,066,421)*	*(137,481)*	*(1,203,902)*
Carrying amount	**509,768**	**594,100**	**1,103,868**	**827,289**	**294,908**	**1,122,197**

* The 2018 reclassifications are mainly due to the fine-tuning following the implementation of the new control system

10. Intangible assets

The table below shows intangible assets' opening and closing balances and changes therein.

thousands of Euros

	Development expenditure	Concessions, licences, trademarks and similar rights	Assets under development and payments on account	Total
Historical cost	114,412	527,292	395,703	1,037,407
Amortisation and impairment losses	(79,902)	(132,503)	(4,746)	(217,151)
Grants	(13,851)	(246,961)	(18,570)	(279,382)
Balance at 31.12.2017	**20,659**	**147,828**	**372,388**	**540,874**
Investments/acquisitions	–	1,456	134,419	135,875
Historical cost of investments/acquisitions	–	*2,483*	*134,419*	*136,902*
Accumulated amortisation of investments/acquisitions	–	*(1,027)*	–	*(1,027)*
Roll-outs	–	42,247	(42,247)	–
Amortisation	(477)	(3,478)	–	(3,955)
Impairment losses	–	–	–	–
Changes and grants	–	(41,910)	41,910	–
Disposals and divestments	–	–	–	–
Decreases in historical cost due to disposals and divestments	–	–	–	–
Decreases in accumulated amortisation due to divestments	–	–	–	–
Decrease in impairment gains/losses due to divestments	–	–	–	–
Non-recurring transactions	–	931	–	931
Changes in historical cost due to non-recurring transactions	–	*8,934*	–	*8,934*
Changes in accumulated amortisation due to non-recurring transactions	–	*(8,003)*	–	*(8,003)*
Other reclassifications	–	34	(42,579)	(42,545)
Changes in historical cost due to other reclassifications	–	*34*	*(669)*	*(635)*
Changes in accumulated amortisation due to other reclassifications	–	–	–	–
Changes in grants due to other reclassifications	–	–	*(41,910)*	*(41,910)*
Total changes	**(477)**	**(720)**	**91,503**	**90,307**
Historical cost	114,412	580,990	487,206	1,182,609
Amortisation and impairment losses	(80,380)	(145,011)	(4,746)	(230,136)
Grants	(13,851)	(288,871)	(18,570)	(321,291)
Balance at 31.12.2018	**20,181**	**147,108**	**463,891**	**631,181**

11. Equity investments

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

thousands of Euros

	31.12.2018	31.12.2017
Investments in:		
Subsidiaries	79,567	76,222
Associates	7,077	7,077
Other companies	49,012	49,012
Total	**135,656**	**132,311**

thousands of Euros

	31.12.2017	Changes of the year				31.12.2018
		Acquis./ subscrip.	Imp. losses/ gains	Reclass.	Divest./ Repay.	
Investments in subsidiaries						
Blu Jet S.r.l.	–	200	–	–	–	200
Tunnel Ferroviario del Brennero - Società di partecipazioni S.p.A.	48,455	–	–	–	–	48,455
Terminal Italia S.r.l.	6,538	–	–	–	–	6,538
Bluferries S.r.l.	21,229	–	–	–	–	21,229
Grandi Stazioni Rail S.p.A.	–	3,145	–	–	–	3,145
Investments in associates						
Quadrante Europa Terminal Gate S.p.A.	7,077	–	–	–	–	7,077
Other companies						
Isfort S.p.A.	48	–	–	–	–	48
Stretto di Messina S.p.A. in liquidation	48,882	–	–	–	–	48,882
Interporto Marche S.p.A.	82	–	–	–	–	82
Total	**132,311**	**3,345**	**–**	**–**	**–**	**135,656**

thousands of Euros

	31.12.2016	Changes of the year			Carrying amount 31.12.2017
		Impairment losses/ gains	Reclassifications	Other changes	
Investments in subsidiaries					
Nord Est Terminal S.p.A. in liquidation	390	(62)	–	(328)	–
Tunnel Ferroviario del Brennero - Società di partecipazioni S.p.A.	48,455	–	–	–	48,455
Terminal Italia S.r.l.	6,538	–	–	–	6,538
Bluferries S.r.l.	21,229	–	–	–	21,229
Investments in associates					
Quadrante Europa Terminal Gate S.p.A.	7,077	–	–	–	7,077
Other companies					
Isfort S.p.A.	48	–	–	–	48
Stretto di Messina S.p.A. in liquidation	48,882	–	–	–	48,882
Interporto Marche S.p.A.	82	–	–	–	82
Total	**132,702**	**(62)**	**–**	**(328)**	**132,311**

Equity investments of €135,656 thousand increased by €3,345 thousand in 2018 following the capital subscription of the newco Blu Jet S.r.l. and the acquisition of an equity investment in Grandi Stazioni Rail S.p.A., held by FSI. In addition, the carrying amount of the equity investment in Tunnel Ferroviario del Brennero S.p.A. increased by €125,068 thousand, but was entirely offset by the increase in grants related to assets from the MEF and transferred to the subsidiary (section 7122).

In the following table, the carrying amounts of investments in subsidiaries and associates are compared with the corresponding portions of equity.

thousands of Euros

	Registered office	Share/ quota capital	Profit (loss) for the year	Equity at 31.12.2018	% of investment	Attributable equity (a)	Carrying amount at 31.12.2018 (b)	Difference (b) - (a)
Investments in subsidiaries								
Blu Jet S.r.l.	Messina, Via Calabria 1	200	(16)	184	100.0%	184	200	16
Tunnel Ferroviario del Brennero - Società di partecipazioni S.p.A.	Rome, Piazza della Croce Rossa 1	705,791	79	707,775	88.2%	624,293	48,455	(575,838)
Terminali Italia S.r.l.	Rome, Piazza della Croce Rossa 1	7,346	2,208	18,568	89.0%	16,526	6,538	(9,988)
Blueferries S.r.l.	Messina, Via Calabria 1	20,100	2,356	30,579	100.0%	30,579	21,229	(9,350)
Grandi Stazioni Rail S.p.A.*	Rome, Via Giolitti 34	4,304	5,356	44,182	100.0%	44,182	3,145	(41,036)
Investments in associates								
Quadrante Europa Terminal Gate S.p.A.	Verona, Via Sommacampagna 61	16,876	(85)	14,189	50.0%	7,095	7,077	(18)

*The company applies IFRS.

thousands of Euros

	% of invest.	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit/ (loss)
31.12.2018										
Investments in associates										
Quadrante Europa Terminal Gate S.p.A.	50.00%	964	17,457	**18,421**	907	3,325	**4,232**	1,201	1,286	**(85)**
31.12.2017										
Investments in associates										
Quadrante Europa Terminal Gate S.p.A.	50.00%	1,011	17,799	**18,810**	944	3,700	**4,645**	1,177	1,326	**(149)**

12. Non-current and current financial assets (including derivatives)

Financial assets are broken down below.

thousands of Euros

	Carrying amount								
	31.12.2018			31.12.2017			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial assets									
Fifteen-year grants from the MEF	1,079,420	582,888	1,662,308	1,610,868	575,743	2,186,611	(531,448)	7,145	(524,303)
Loans	85,529	–	85,529	88,959	–	88,959	(3,430)	–	(3,430)
Other loans	–	90,733	90,733	–	219,387	219,387	–	(128,654)	(128,654)
Total	1,164,949	673,621	1,838,570	1,699,827	795,130	2,494,957	(534,878)	(121,509)	(656,387)
Loss allowance	(998)	(515)	(1,513)	–	–	–	(998)	(515)	(1,513)
total net of the loss allowance	**1,163,951**	**673,106**	**1,837,057**	**1,699,827**	**795,130**	**2,494,957**	**(535,876)**	**(122,024)**	**(657,900)**

"Fifteen-year grants from the MEF", of €1,662,308 thousand, can be analysed as follows:

- €470,275 thousand related to the fifteen-year grants pursuant to article 1.84 of the 2006 Finance Act for the implementation of railway investments, obtained by means of discounting;
- €1,192,033 thousand related to the fifteen-year grants pursuant to article 1.964 of the 2007 Finance Act for the continuation of the projects involving the HS/HC capacity system of the Turin-Milan-Naples line.

The €524,303 thousand decrease in the amount due from the MEF is mainly due to:

- the net decrease of €175,743 thousand in the grants as per article 1.84 of the 2006 Finance Act, due to the combined effect of the additional allocation of €24,257 thousand for interest accrued in 2018, and the collection of €200,000 thousand of the annual grant from the granting body in accordance with the collection proxy that it was given;
- the net decrease of €348,560 thousand in the grants as per article 1.964 of the 2007 Finance Act, due to the combined effect of the additional allocation of €51,440 thousand for interest accrued in 2018, and the collection of €400,000 thousand of the annual grant.

"Non-current loans" of €85,529 thousand mainly relate to the restricted current account with Unicredit (€80,236 thousand). The amounts are usually restricted following seizures by suppliers as a result of orders/injunctions to pay which were not honoured.

The €128,654 thousand decrease in "Other loans" is mainly due to the current portion of this caption and refers to the reduction in the amount due from the parent for the intragroup current account compared to 31 December 2017.

13. Other current and non-current assets

They can be analysed as follows:

thousands of Euros

	31.12.2018			31.12.2017			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other assets from group companies	160,899	30,640	191,539	248,839	433,703	682,542	(87,940)	(403,063)	(491,003)
VAT assets	9	–	9	9	–	9	–	–	–
MEF and MIT	3,277,875	2,465,380	5,743,255	962,313	2,964,601	3,926,914	2,315,562	(499,221)	1,816,341
Grants related to assets from the EU, other Ministries and other	–	65,199	65,199	–	47,787	47,787	–	17,412	17,412
Other government authorities	–	4,067	4,067	–	4,014	4,014	–	53	53
Sundry assets	3,202	307,826	311,028	2,999	482,308	485,307	203	(174,482)	(174,279)
Prepayments and accrued income	–	7,743	7,743	–	9,590	9,590	–	(1,847)	(1,847)
Total	**3,441,985**	**2,880,855**	**6,322,840**	**1,214,160**	**3,942,003**	**5,156,163**	**2,227,825**	**(1,061,148)**	**1,166,677**
Loss allowance	(2,692)	(40,622)	(43,314)	–	(3,597)	(3,597)	(2,692)	(37,025)	(39,717)
Total net of the loss allowance	**3,439,293**	**2,840,233**	**6,279,526**	**1,214,160**	**3,938,406**	**5,152,566**	**2,225,133**	**(1,098,173)**	**1,126,960**

The net decrease of €491,003 thousand in “Other assets from group companies” is mainly due to the combined effect of the following factors:

- the €65,219 thousand decrease in the VAT assets from the parent due after one year;
- the collection of the 2017 VAT asset from the parent due within one year (€32,411 thousand);
- the collection of the 2016 VAT asset from the parent due after one year (€385,882 thousand);
- the €7,385 thousand decrease in other non-trade receivables mainly due to the fee and safety-related services (€2,288 thousand) and the transfer of personnel (€9,291 thousand) which was offset, in part, by the increase in amounts due for penalties connected to the performance regime (€4,232 thousand).

The amounts due from the MEF and the MIT at 31 December 2018 are analysed below:

thousands of Euros

	31.12.2017	Increases	Decreases	Other changes	31.12.2018
Grants related to income:					
- MEF: sec. 1541	–	1,015,557	(1,015,557)		–
Grants related to goods:					
- MIT: sec. 1274 - 7302	48,775	119,500	(4,500)	(48,775)	115,000
Grants related to assets and investments:					
- MEF: sec. 7122-7123-8000	2,656,148	4,368,957	(2,993,570)		4,031,535
- MIT: sec. 7060-7514-7515-7518-7540-7532-7549-7550-7563 -1274	1,221,991	518,465	(162,510)	18,775	1,596,721
Total	**3,926,914**	**6,022,479**	**(4,176,137)**	**(30,000)**	**5,743,256**

During the year, the caption rose by a net €1,816,342 thousand due to the combined effect of the following factors:

- the recognition of new grants related to income, goods, assets and investments of €6,022,479 thousand, broken down as follows:

  - grants related to income of €1,015,557 thousand (MEF section 1541) pursuant to the 2018 Budget Act and of €40,000 thousand reflecting the amounts allocated under Law decree no. 119 of 23 October 2018, containing emergency tax and financial measures, the so-called 2018 Tax decree converted by Law no. 136 of 17 December 2018.
  - grants related to goods of €99,500 thousand (MIT section 1274) reflecting the amounts allocated by article 1.294 of Law no. 190/2014, allocated to the MIT with article 11.2-ter of Law decree no. 185 of 25 November 2015 (section 1274) and related annual amounts for 2018 to be transferred to railway companies;
  - €20,000 thousand (MIT section 7302) reflecting the amounts allocated by article 47.11 of Legislative decree no. 50/2017 in order to set the criteria and the procedures to awards grants to finance the upgrading, renewal and restructuring of the brake systems of freight trains registered prior to 1 January 2015 to be transferred to railway companies;
  - grants related to assets of €4,368,957 thousand (MEF sections), of which:
    - €600,000 thousand (section 7122 – Management Programme 1 ("MP1")), allocated under article 1.176 of Law no. 228/2012 (2013 Stability Act) and refinanced by Law no. 190/2014 (2015 Stability Act) and reformulated for collection on section 7122 Management Programme 2 ("MP2");
    - €600,000 thousand (section 7122 – MP2), allocated under article 21.2 of Law no. 119 of 23 October 2018, containing emergency tax and financial measures, the so-called 2018 Tax decree converted by Law no. 136 of 17 December 2018 to finance the Government Programme Contract – 2017 - 2021 investments;
    - €534,000 thousand (section 7122 – MP7) for 2018, allocated under article 1.76 of Law no. 147/2013 (2014 Stability Act) for the Brescia Verona Padua – Apice Orsara line, and refinanced by Law no. 190/2014 (2015 Stability Act), €100,000 of which was reformulated for collection on section 7122 - MP2;
    - €32,000 thousand (section 7122 – MP9) for 2018, allocated under article 1.591 of Law no. 232/2016 (2018 Budget Act) for the construction of the new "Ferrandina – Matera la Martella" railway line;
    - €750,000 thousand (section 7122 - MP5) for 2018, allocated under article 1.73 of Law no. 147/2013 (2014 Stability Act) for extraordinary maintenance in relation to the amounts due as part of the Government Programme Contract - Services and refinanced by Law no. 190/2014 (2015 Stability Act);
    - €1,915 thousand (section 7123) for 2018 pursuant to Law no. 232/2016 (2017 Stability Act);
    - €1,789,350 thousand related to the recognition of additional grants related to assets from the MEF allocated under section 7122 - MP2 for the 2019-2021 three-year period, of which €1,367,465 thousand for works performed during the year and the remaining €421,884 thousand for advances to suppliers related to grants for projects.

    - €61,692 thousand related to the recognition of additional grants related to assets from the MEF for works performed during the year and allocated under section 7122 MP4 for the 2019-2021 three-year period.

  - €518,465 thousand related to the MIT sections, of which:
    - €100,000 thousand (section 7518) allocated under article 32.1 of Law decree no. 98/2011 (rail and road infrastructure fund), refinanced by Law no. 190/2014 (2015 Stability Act) and assigned to RFI for the Milan-Genoa HS/HC line: Third Giovi pass - construction lot 3;
    - €20,000 thousand (section 7518) allocated under Law no. 164/2014 ("Get Italy Moving" law) for 2018 for the Milan-Genoa HS/HC line: Third Giovi pass, as reformulated by Law no. 208 of 28 December 2015 (2016 Stability Act);
    - €121,137 thousand (section 7564) for the 2018 portion of the €180,910 thousand allocated under Law no. 164/2014 ("Get Italy Moving" law) for works related to the quadrupling of the Pistoia - Lucca, net of the €59,773 thousand already recognised in the previous year in respect of the related works;
    - €7,328 thousand (section 7549) related to €15,000 thousand allocated under Law no. 164/2014 for 2018 for the elimination and automation of level crossings on the railway network, with priority for the terminal section of the Adriatic Bologna-Lecce corridor in Puglia and net of €7,246 thousand already recognised in the previous year in respect of the related works and €425 thousand related to the definancing pursuant to MIT/MEF interministerial decree no. 426 of 13 September 2017;
    - €270,000 thousand (section 7528) allocated under Law no. 164/2014 ("Get Italy Moving" law) for 2018 and authorised by CIPE resolution no. 44/2015 in respect of the works for the third construction lot of the Brenner Base Tunnel;

- decreases due to collections of €4,176,137 thousand, broken down as follows:
  - €1,015,557 thousand (MEF section 1541 – grants related to income);
  - €2,993,570 thousand (MEF section 7122/7123) for various management programmes (MP1, MP2, MP4, MP5, MP8 and MP9), €700,000 thousand of which related to the reformulation for collection of MP1, MP7 and MP2.
  - €70,527 thousand (MIT section 7060) allocated under Law no. 443/2001 ("Obiettivo" law), for the Milan-Verona HS/HC line: Treviglio Brescia section;
  - €10,851 thousand (MIT section 7060) allocated under Law no. 443/2011 ("Obiettivo" law), for the HS/HC Milan-Genoa line: Third Giovi pass;
  - €10,205 thousand (MIT section 7060) allocated under Law no. 443/2001 ("Obiettivo" law) for the "Laying of double track on the Bari-S. Andrea Bitetto line";
  - €23,746 thousand (MIT section 7515) allocated under CIPE resolution no. 85/2011 for the resources covered by article 32.1 of Law decree no. 98/2014 (Railway and road infrastructure fund) allocated to RFI for the HS/HC Milan-Verona line: Treviglio Brescia line - second construction lot;

- €31,774 thousand (MIT section 7518) allocated under CIPE resolution no. 86/2011 for the resources covered by article 32.1 of Law decree no. 98/7518 allocated to RFI for the Milan-Genoa HS/HC line: Third Giovi pass - third construction lot;
- €15,407 thousand (section 7518) allocated under Law no. 164/2014 ("Get Italy Moving" law);
- €4,500 thousand (section 1274) allocated under Decree no. 17/2018 for 2017 and transferred to railway companies;

➢ "Other changes" decreased by a net €30,000 thousand following the derecognition of the amount accrued in 2016 and 2017 under Law no. 190/2014.1.240 (the 2015 Stability Act) as a 15-year grant in order to begin work on the Andora-Finale Ligure section. In this respect, Law no. 145 of 30 December 2018 (the 2019 Budget Act) introduced the definancing of the resources allocated to the project as a whole already covered by the Government Programme Contract - 2017 - 2021 - Investments. Furthermore, during the year, the 2015 freight grant of €48,775 thousand was reclassified to grants related to assets.

"Grants related to assets - EU, other ministries and ordinary customers" of €65,199 thousand include the grants received from the European Union, other ministries and other bodies.

"Sundry receivables and prepayments and accrued income" can be analysed as follows:

thousands of Euros

Sundry receivables and prepayments and accrued income	31.12.2018	31.12.2017	Change
Payments on account to suppliers - current services	117,718	60,900	56,818
Personnel	6,713	7,023	(310)
Social security institutions	5,285	6,780	(1,495)
Receivables under collection	497	497	–
Insurance compensation from insurance companies	266	370	(104)
Other non-trade receivables	180,549	409,737	(229,188)
	311,028	**485,307**	**(174,279)**
Prepayments and accrued income	7,743	9,590	(1,847)
Total	**318,771**	**494,897**	**(176,126)**

The decrease in "Sundry receivables and prepayments and accrued income" (€176,126 thousand) is mainly due to the combined effect of the following factors:

• the €56,818 thousand increase in payments on account to suppliers, mainly electrical energy suppliers;

• the €229,188 thousand decrease in other non-trade receivables mainly from CSEA (the environmental and energy services fund);

• the €1,495 thousand decrease in receivables from social security institutions, mainly INPS (the Italian Social Security Institute);

• the €1,847 thousand decrease in prepayments and accrued income mainly arising from prepayments to Vodafone for roaming.

Specifically, other non-trade receivables mainly reflect receivables for CSEA grants (€92,587 thousand), receivables for foreign VAT recovery (€18,705 thousand), performance regime receivables (€7,029 thousand), amounts due from the Customs Agency (€11,686 thousand) and the Tax Authorities for the 2010-2011-2012 IRAP (regional production tax) (€5,060 thousand) generated by provisional payments, pending judgement.

14. Inventories

This caption can be analysed as follows:

thousands of Euros

		31.12.2018	31.12.2017	Change
Raw materials, consumables and supplies		752,853	658,173	94,680
Allowance for inventory write-down		(11,636)	(13,814)	2,178
	Carrying amount	**741,217**	**644,359**	**96,858**
Payments on account		–	–	–
Contract assets		–	54,082	(54,082)
Allowance for inventory write-down		–	–	–
	Carrying amount	**–**	**54,082**	**(54,082)**
Total inventories and contract assets		**741,217**	**698,441**	**42,776**

The net increase in raw materials, consumables and supplies amounts to €96,858 thousand and is mainly due to:

- the purchases of materials (€843,081 thousand);
- the use of materials (€861,238 thousand);
- production by the Officine Nazionali of Bari, Pontassieve and Bologna (€112,837 thousand) of cores, diverters, glued insulating joints and electrical devices;
- the net decrease of €2,178 thousand in the allowance for inventory write-down due to the eliminations/scrapping of the year (€1,987 thousand) and the release of the provision (€191 thousand) following the analysis of obsolete and slow-moving materials.

"Inventories and contract assets" were reclassified by €44,676 thousand for contract work in progress which were included in "Current trade receivables" in accordance with IFRS 15. For additional information, reference should be made to the 'Significant accounting policies' section.

15. Non-current and current trade receivables

They can be analysed as follows:

thousands of Euros

	31.12.2018			31.12.2017			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Ordinary customers	103	349,134	349,237	233	361,852	362,085	(130)	(12,718)	(12,848)
Government authorities and other public administrations	1,590	59,573	61,163	3,184	36,132	39,316	(1,594)	23,441	21,847
Foreign railways	–	1,178	1,178	–	1,127	1,127	–	51	51
Railways under concession	–	2	2	–	1	1	–	1	1
Receivables from group companies	–	377,763	377,763	–	259,336	259,336	–	118,427	118,427
Total	**1,693**	**787,650**	**789,343**	**3,417**	**658,448**	**661,865**	**(1,724)**	**129,202**	**127,478**
Loss allowance	(3)	(148,302)	(148,305)	–	(133,538)	(133,538)	(3)	(14,764)	(14,767)
Total net of the loss allowance	**1,690**	**639,348**	**641,038**	**3,417**	**524,910**	**528,327**	**(1,727)**	**114,438**	**112,711**
Contract assets	–	45,132	45,132	–	–	–	–	45,132	45,132
Loss allowance	–	(456)	(456)	–	–	–	–	(456)	(456)
Total contract assets	–	**44,676**	**44,676**	–	–	–	–	**44,676**	**44,676**
Total current and non-current trade receivables	**1,690**	**684,024**	**685,714**	**3,417**	**524,910**	**528,327**	**(1,727)**	**159,114**	**157,387**

The €12,718 thousand decrease in trade receivables from ordinary customers (current portion) on the previous year, gross of the related loss allowance, is mainly due to the following factors:

• the decrease in receivables for invoices issued (€19,954 thousand), mainly due to lower receivables from the third-party railway companies for fees/energy and ancillary services (roughly €16,300 thousand) and from the customers Ferrovie Emilia Romagna (€1,600 thousand), Interporto Campano S.p.A. (approximately €1,700 thousand) and Autostrade per l'Italia (about €1,300 thousand);

• the €32,257 thousand decrease for credit notes to be issued, mainly due to electrical traction (€31,921 thousand) and leases (€2,008 thousand);

• the €25,381 thousand decrease in receivables for invoices to be issued.

The current portion of "Government authorities and other public administrations" decreased by €23,441 thousand on 31 December 2017, gross of the related loss allowance, mainly as a consequence of the combined effect of:

• the €22,282 thousand increase in receivables, mainly due to greater receivables from the Palermo municipal authorities (roughly €22,700 thousand) and related to the work to finalise the Palermo railway connectors (2006 agreement)

• the €1,159 thousand increase in invoices to be issued.

Receivables from group companies increased by a net €118,427 thousand, mainly as a result of the €13,360 thousand decrease in receivables from the parent, which was more than offset by the rise in receivables from related companies (€131,220 thousand), essentially due to:

- the €18,254 thousand increase in receivables for invoices issued;

- the €112,000 thousand decrease in payables for credit notes identified in 2017 and issued in 2018 related to electricity, in accordance with Law no. 167/1017, which introduced significant changes to the special tariff regime for the procurement of electrical energy used for traction.

“Contract assets”, of €45,132 thousand, reflect the amount due by customers for contracts in progress. The €8,950 thousand decrease on the previous year is mainly due to the settlement of invoices and the related payments on account.

In order to show the progress of work considering the amounts already invoiced for Contracts, this caption should be considered together with the corresponding portion included under contract liabilities. The €8,637 thousand balance, which decreased by €984 thousand on the previous year-end balance, is mainly due to the higher amounts of progress billings.

thousands of Euros

	31.12.2018		31.12.2017	
Contract assets and liabilities	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Contract work in progress	151,430	28,836	113,644	29,238
Progress billings	(106,298)	(37,473)	(59,562)	(38,859)
Total	**45,132**	**(8,637)**	**54,082**	**(9,621)**

Amounts are shown net of accumulated depreciation

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

thousands of Euros

	31.12.2018	31.12.2017	Change
Italy	828,838	656,723	172,115
Eurozone countries	3,466	3,394	72
United Kingdom	7	8	(1)
Other European countries	–	–	–
Other European countries (EU, non-Euro)	150	25	125
Other non-EU European countries	1,998	1,699	299
United States	–	–	–
Other countries	16	16	–
	834,475	**661,865**	**172,610**

16. Cash and cash equivalents

They can be analysed as follows:

thousands of Euros

	31.12.2018	31.12.2017	Change
Bank and postal accounts	3,021	4,463	(1,442)
Cash and cash on hand	168	213	(45)
Cash pooling accounts	716,987	1,133,216	(416,229)
Other	111	111	–
Total	**720,287**	**1,138,003**	**(417,716)**
Loss allowance	(544)	–	(544)
total net of the loss allowance	**719,743**	**1,138,003**	**(418,260)**

The overall decrease in the caption on 31 December 2017 is substantially due to the reduction in the treasury current account which represents the payments made by the MEF in relation to the Government Programme Contract and those related to other grants disbursed by the European Commission and subsequently transferred to the intragroup current account in accordance with cash needs. For information on the reasons underlying changes in cash and cash equivalents, reference should be made to the statement of cash flows.

Furthermore, seizures were notified to banks without generating availability restrictions (labour disputes), totalling €14,790 thousand, in addition to seizures which qualify as “restricted amounts on bank and postal accounts” of €1,773 thousand.

17. Tax assets

Tax assets amount to €17,056 thousand at 31 December 2018. This caption includes:

- the tax credit for IRAP self-taxation (€16,250 thousand) claimed for reimbursement, which refers to payments on account for 2014 not offset against future IRAP liabilities;
- the IRES tax credit for withholding taxes (in prior tax years, before participating in the group’s tax consolidation scheme) of €805 thousand, which has been claimed for reimbursement.

18. Equity

Changes in the main equity captions in 2018 are shown in the statement of changes in equity to which reference should be made.

Share capital

At 31 December 2018, the company's fully subscribed and paid-up share capital is made up of 31,528,425,067 ordinary shares, with a nominal amount of €1 each, for a total of €31,528,425,067.

Legal reserve

At 31 December 2018, it amounts to €69,920 thousand, following the allocation of a portion of the profit for 2017, equal to €13,075 thousand.

Other reserves

It amounts to €78,508 thousand at 31 December 2018. The €28,508 thousand increase of the year is due to the merger of Centostazioni S.p.A..

Valuation reserve

Hedging reserve

The hedging reserve includes the effective portion of the cumulative net change in the fair value of cash flow hedges relating to transactions that have not yet taken place and the residual portion of the cumulated reserve with previous financial instruments in relation to which, in 2012, the counterparties exercised the contractually-permitted early termination option.

At 31 December 2018, this reserve was negative by €59,632 thousand, down by €21,188 thousand on 31 December 2017. The decrease is due to the following factors:

- the fair value measurement of hedging instruments at the reporting date (increase of €5,142 thousand);
- the release of the portion of the year following the above-mentioned early termination of contracts in 2012 (increase of €16,046 thousand);

Actuarial reserve

The actuarial reserve includes the effects of actuarial gains and losses on post-employment benefits and the Free Travel Card. The net balance of this reserve is a negative €130,388 thousand in 2018, down on the previous year-end balance following the changes of the year. The total actuarial gain amounts to €9,649 thousand.

Retained earnings

At 31 December 2018, retained earnings amount to €1,751,144 thousand, up by a net€83,084 thousand on the previous year. The increase is due to the combined effect of the rise resulting from allocation of the profit for 2017 resolved by shareholders in their meeting of 4 April 2018 (€148,426 thousand), which was partially offset by the €65,342 thousand decrease due to the effect of IFRS 9 FTA.

Profit for the year

The company ended the year with a profit of €274,196 thousand.

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

thousands of Euros

						Summary of uses in the past three years**			
Origin	**Balance at 31.12.2018 (a+b)**	**Unavailable portion (a)**	**Possibility of use *****	**Available portion (b)**	**Distributable portion (b)**	**Capital increase**	**Coverage of losses**	**Dividends**	**Other (Demergers)**
Share capital:									
Share capital	31,528,425	31,528,425							(482,353)
Income-related reserves:									
Legal reserve	69,920	69,920	B						
Retained earnings *	1,751,144	(65,342)	A, B, C	1,816,486	637,704				
Other reserves:									
Hedging reserve	(59,632)	(59,632)							
Income-related reserve and actuarial losses	(130,388)	(130,388)							
Reserve for non-recurring transactions	78,508		A,B,C	78,508	78,508				
TOTAL	**33,237,978**	**31,342,984**	**–**	**1,894,994**	**716,212**	**–**	**–**	**–**	**(482,353)**

* total equity is shown net of the profit for 2018 (€274,196 thousand)

** 2015-2016-2017

*** A = Capital increase; B = Coverage of losses; C = Dividends

19. Non-current and current loans and borrowings

thousands of Euros

Non-current loans and borrowings	31.12.2018	Carrying amount 31.12.2017	Change
Bank loans and borrowings	1,195,444	1,386,596	(191,152)
Loans and borrowings from other financial backers	86,094	115,223	(29,129)
Loans and borrowings from group companies	1,741,502	1,820,020	(78,518)
Total	**3,023,040**	**3,321,839**	**(298,799)**

thousands of Euros

Current loans and borrowings and current portion of non-current loans and borrowings*	31.12.2018	Carrying amount 31.12.2017	Change
Bank loans and borrowings	196,476	193,196	3,280
Loans and borrowings from other financial backers	29,130	44,154	(15,024)
Loans and borrowings from group companies	458,654	476,839	(18,185)
Total	**684,260**	**714,189**	**(29,929)**

*: It mainly refers to the current portion of non-current loans and borrowings

thousands of Euros

Loans and borrowings	31.12.2018	Carrying amount 31.12.2017	Change
Bank loans and borrowings	1,391,920	1,579,792	(187,872)
Loans and borrowings from other financial backers	115,224	159,377	(44,153)
Loans and borrowings from group companies	2,200,156	2,296,859	(96,703)
Total loans and borrowings	**3,707,300**	**4,036,028**	**(328,728)**

Bank loans and borrowings (non-current and current) of €1,391,920 thousand, are shown gross of accruals not yet paid of €5,324 thousand. This caption is entirely comprised of liabilities to the European Investment Bank (EIB). The €187,872 thousand decrease on the previous year-end balance refers to the €187,051 decrease due to the principal repaid in 2018 and the €821 thousand decrease in accrued expenses included under the current portion.

"Loans and borrowings from other financial backers" (non-current and current) of €115,224 thousand entirely consist of amounts due to Cassa Depositi e Prestiti ("CDP"). The €44,153 thousand decrease on 31 December 2017 is due to the reduction in principal repaid in 2018 (€42,063 thousand) and in accrued interest included in the current portion (€2,090 thousand).

"Loans and borrowings from group companies" (non-current and current portion) of €2,200,156 thousand are shown gross of accrued expenses yet to be paid (€9,159 thousand). Specifically, they refer to liabilities with the parent related to two intragroup agreements entered into to transfer the agreements which, in turn, were signed by the parent with CDP and the European Investment Bank ("EIB"), respectively, to finance investments and the loans and borrowings related to the three tranches of the bond issue that Ferrovie dello Stato Italiane S.p.A. placed on the market in 2013, 2017 and 2018 as part of the FS EMTN Programme. Specifically, in 2018, the following

€200,000 agreement was signed with the parent to enter into a 12-year intragroup loan as part the FS EMTN Programme, substantially with the same commitment and constraint terms agreed by the parent on the financial markets. The loan completes the 2017 funding requirements for the Turin-Milan-Naples HS/HC investments.
Furthermore, in 2018, in order to guarantee the company's operations, three credit lines were agreed with the parent for a total maximum amount of €750,000 thousand. During the year, a total of €170,000 was used, of which €100,000 thousand to cover the 2018 funding requirements for the Turin –Milan –Naples HS/HC line.

The €96,703 thousand decrease in these liabilities on 31 December 2017 is due to the combined effect of the following factors:

- the €200,000 increase following the signing of another intragroup loan as part of the "FS EMTN Programme";
- the €170,000 thousand increase following the use of the revolving credit lines available to the company;
- the €344 thousand increase in accrued expenses, included under the current portion;
- the €977 thousand increase in amortised cost accruals;
- the €268,024 thousand decrease due to the repayment of the principal of the loans and borrowings from Ferrovie dello Stato Italiane S.p.A. for Cassa Depositi e Prestiti (traditional network and HS/HC network) made in 2018, which corresponds with the change in the corresponding amounts due from the MEF. For additional information, reference should be made the note to financial assets;
- the €200,000 thousand decrease related to the repayment in 2018 of the backup facility entered into with the parent;

The terms and conditions of non-current loans and borrowings in place, net of accrued interest, are summarised in the table below:

thousands of Euros

Type of work	Creditor	Currency	Notes	Nom. interest rate	Year of maturity	31.12.2018 Nom. amount	31.12.2018 Carr. amount	31.12.2017 Nom. amount	31.12.2017 Carr. amount
HS/HC	EIB 1	€		Fixed	2023	137,368	137,368	149,185	149,185
HS/HC	EIB 2	€		Fixed	2023	103,912	103,912	111,969	111,969
HS/HC	EIB 3	€	(1)	Variable	2024	333,333	333,333	361,111	361,111
HS/HC	EIB 4	€	(3)	Fixed/Var.	2030	350,725	350,725	360,526	360,526
HS/HC	EIB 5	€	(1)	Variable	2025	13,333	13,333	14,222	14,222
HS/HC	EIB 6	€	(2)	Fixed	2032	150,086	150,086	153,747	153,747
HS/HC	EIB 7	€	(3)	Fixed/Var.	2032	216,869	216,869	222,886	222,886
HS/HC	CASSA DEPOSITI E PRESTITI 1	€	(4)	Fixed	2021	68,475	68,475	76,037	76,037
HS/HC	CASSA DEPOSITI E PRESTITI 2	€	(1) (4)	Variable	2023	75,000	75,000	81,250	81,250
HS/HC	INTRAGROUP CDDPP/FS HS	€		Fixed	2021	235,584	235,584	279,949	279,949
Traditional netw.	INTRAGROUP CDDPP/FS TN	€		Fixed	2021	323,438	323,438	366,069	366,069
HS/HC	INTRAGROUP EIB/FS	€		Fixed	2021	395,890	395,890	395,890	395,890
						2,404,014	**2,404,014**	**2,572,841**	**2,572,841**
HS/HC	EIB 300	€	(5) (6)	Variable	2021	250,000	175,000	250,000	200,000
HS/HC	INTRAGROUP EMTN 1 TR/FS	€	(6)	Fixed	2020	250,000	248,971	250,000	248,749
HS/HC	INTRAGROUP EMTN 2 TR/FS	€	(6)	Fixed	2021	500,000	498,548	500,000	498,352
HS/HC	INTRAGROUP EMTN 6 TR/FS	€	(6)	Fixed	2025	300,000	299,102	300,000	299,036
HS/HC	INTRAGROUP EMTN 9 TR/FS	€	(6)	Variable	2030	**200,000**	**200,000**		
						1,500,000	**1,421,620**	**1,300,000**	**1,246,137**
TOTAL									

(1) The rate was converted from variable to fixed following a swap transactions hedging the interest rate risk.

(2) Fixed for each tranche used.

(3) Fixed for the first three tranches, variable for the subsequent ones.

(4) Amount factored by Cassa Depositi e Prestiti to CPG Società di cartolarizzazione a.r.l. as part of a factoring transaction carried out in accordance with Law no. 130/1999

(5) Amount subject to interest rate risk hedging transactions (collars)

(6) The related financial coverage will be ensured by fees

The EIB 300 loan includes covenants in line with international practice which require compliance with a number of financial parameters throughout the term of the contract.

Specifically, these parameters refer to:

- the debt/equity ratio which should remain below 30%;
- equity which should be equal to at least €26 billion;
- total assets which should be equal to at least €36.5 billion.

To date, all financial covenants have been complied with.

The table below shows the net financial debt at 31 December 2018 compared with that of the previous year. It worsened by €747,452 thousand following the deterioration of the current net financial debt (€510,376 thousand) and the net non-current financial position (€237,076 thousand).

thousands of Euros

Net financial debt	**31.12.2018**	**31.12.2017**	**Changes**
Net current financial debt	**(708,333)**	**(1,218,709)**	**510,376**
Treasury current accounts	(716,445)	(1,133,217)	416,771
Other financial assets	(90,663)	(219,387)	128,724
Financial assets from the MEF for the fifteen-year grants to be collected	(582,443)	(575,743)	(6,701)
Bank loans and borrowings	196,476	193,196	3,280
Loans and borrowings from other financial backers	29,130	44,154	(15,024)
Loans and borrowings from group companies	458,654	476,839	(18,186)
Other	(3,041)	(4,553)	1,511
Net non-current financial position	**1,859,089**	**1,622,012**	**237,076**
Financial assets from the MEF for the fifteen-year grants to be collected	(1,078,594)	(1,610,869)	532,275
Loans	(85,357)	(88,959)	3,602
Bank loans and borrowings	1,195,444	1,386,596	(191,152)
Loans and borrowings from other financial backers	86,094	115,224	(29,131)
Loans and borrowings from group companies	1,741,502	1,820,020	(78,518)
Total	**1,150,755**	**403,303**	**747,452**

The following table shows changes in financial items, indicated separately from those that generated/used cash flows.

thousands of Euros

			Non-monetary items					
	31.12.2017	**Monetary flows**	**Change in accruals**	**Other non-monetary changes**	**Clean fair value effect (IFRS 13)**	**Expected credit loss effect (IFRS 9)**	**Time value effect (IFRS 13)**	**31.12.2018**
Disbursement and repayment of current and non-current loans	4,036,028	(327,139)	(2,569)	980	–	–	–	3,707,230
Change in other financial assets	(2,275,570)	604,025	(595)	(75,698)	–	1,513	–	(1,746,325)
Change in other financial liabilities	25,056	23	(1,056)	–	(5,142)	–	(21)	18,860

20. Post-employment benefits and other employee benefits (Free Travel Card)

thousands of Euros

	31.12.2018	**31.12.2017**
Present value of post-employment benefit obligations	567,084	645,213
Present value of Free Travel Card obligations	27,772	28,482
Other provisions (health care trust, former National Social Security and Welfare Institute for Ferrovie dello Stato employees)	(151)	(146)
Other changes (advance on Italian revaluation tax)	30	–
Total present value of obligations	**594,735**	**673,549**

Changes in the present value of liabilities for defined benefit obligations are shown in the table below.

thousands of Euros

Post-employment benefits and Free Travel Card	31.12.2018	31.12.2017
Defined benefit obligations at 1 January	673,695	693,793
Service cost	165	157
Interest cost (*)	3,746	5,233
Benefits paid	(71,998)	(50,075)
Transfers in (out)	1,294	12,156
Other changes (estimated benefit payments)	(2,397)	(2,350)
Actuarial (gains) losses recognised in equity	(9,649)	14,781
Defined benefit obligations	**594,856**	**673,695**
Other provisions (health care trust, former National Social Security and Welfare Institute for Ferrovie dello Stato employees)	(151)	(146)
Other changes (Centostazioni merger)	30	–
Post-employment benefits and other employee benefits (Free Travel Card)	**594,735**	**673,549**

(*) through profit or loss

In accordance with the IFRS, the post-employment benefits accrued up to 1 January 2007 and the Free Travel Cards have been considered defined post-employment-benefits, the amount of which is calculated on an actuarial basis in accordance with the relevant standards.

In 2018, a total of €73,101 thousand in post-employment benefits was used (benefits paid, transfers in/out, other changes, estimated benefit payments). This refers to the benefits paid to employees who left the company in 2018 and employees' advances and transfers from/to other group companies.

The actuarial gains on post employment benefits and the actuarial losses on the Free Travel Card came to €9,649 thousand in 2018, compared to actuarial losses of €14,781 thousand in 2017. The actuarial gains are due to:

- the discount rate applied to post-employment benefits, which increased from 0.51% in 2017 to 0.77% in 2018, while the discount rate for the Free Travel Cards decreased from 1.67% in 2017 to 1.57% in 2018;
- greater than expected utilisations for post-employment benefits and Free Travel Card benefits compared to the previous actuarial assumptions.

Specifically, the actuarial reports on post-employment benefits and the Free Travel Cards show a total gain based on financial assumptions (including the discount rate) of approximately €9,509 thousand and a gain on residual actuarial assumptions of roughly €140 thousand, which, summed together, generate a total actuarial gain of €9,649 thousand.

"Other provisions" include negligible amounts which were not subject to actuarial valuation since they did not meet the requirements of defined benefit obligations required by IAS 19. Consequently, they were presented separately.

Actuarial assumptions

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

	31.12.2018	31.12.2017
Discount rate (post-employment benefits)	0.77%	0.51%
Discount rate (Free Travel Card)	1.57%	1.67%
Future increases in pensions	75% inflation +1.5 percentage points	75% inflation +1.5 percentage points
Expected turnover rate for employees	4.00%	4.00%
Expected rate of advances	2.00%	2.00%
Probability of death	RG48 mortality rate published by the Italian government's General Accounting Office	RG48 mortality rate published by the Italian government's General Accounting Office

The expected mortality assumptions are based on published statistics and mortality rates.

The following sensitivity analysis shows the effects that would have been recorded in terms of changes in the present value of liabilities for defined benefit obligations, following reasonably possible changes in actuarial assumptions. The following tables show the expected contribution for next year, the average term of the defined benefit obligation and the disbursements provided in the plan.

SENSITIVITY ANALYSIS OF POST-EMPLOYMENT BENEFITS AND FREE TRAVEL CARDS

thousands of Euros

31.12.2018	**Post-employment benefits**	**Free Travel Cards**
Turnover rate +1.00%	564,854	
Turnover rate -1.00%	569,531	
Inflation rate +0.25%	572,156	29,617
Inflation rate -0.25%	562,083	26,011
Discount rate +0.25%	559,081	27,139
Discount rate -0.25%	575,316	28,432
Future service cost	–	182
Term of the plan (years)	6.3	10
Total employees at year end	26,479	

Estimated future payments and Free Travel Cards

thousands of Euros

31.12.2018	**Post-employment benefits**	**Free Travel Cards**
Payment - first year	71,937	2,388
Payment - second year	67,051	2,300
Payment - third year	60,600	2,209
Payment - fourth year	67,665	2,122
Payment - fifth year	55,328	2,028

21. Provisions for risks and charges

The opening and the closing balance of and changes in the provisions for risks and charges for 2018 are given below. They are deemed adequate to cover the company's probable charges.

thousands of Euros

	31.12.2017	Merger	Accrual	Utilisations	Release of excess provisions	31.12.2018
Provision for taxation	20,625		277	(764)	(1)	20,137
Other	494,437	695	70,180	(52,835)	(7,712)	504,765
TOTAL	**515,062**	**695**	**70,457**	**(53,599)**	**(7,713)**	**524,902**

Provision for taxation

It includes probable future tax charges.

At 31 December 2018, the provision decreased by a total of €488 thousand on the previous year end, mainly due to the combined effect of the following factors:

- the €764 thousand utilisation of the provision to pay the tax assessment notices served by the Rome municipality for the 2011 property tax (ICI);
- the €277 thousand increase related to the ICI tax on stations.

Reference should the made to the directors' report section "Tax disputes" for additional information about pending tax disputes.

Other provisions

This caption refers to the following items which changes as follows:

thousands of Euros

	31.12.2017	Merger	Accrual	Utilisations	Release of excess provisions	31.12.2018
Expense related to						
- personnel	47,740		12,409	(12,382)		47,767
- third parties	251,526	95	386	(12,092)	(6,212)	233,703
Reclamation	51,149			(35)		51,114
Equity investments	48,882					48,882
Other provisions for risks and charges	95,140	600	57,385	(28,326)	(1,500)	123,299
TOTAL	**494,437**	**695**	**70,180**	**(52,835)**	**(7,712)**	**504,765**

Provisions for expense related to personnel and third parties

This provision comprises the probable charges in respect of economic and labour claims and compensation for occupational illness. It refers to pending disputes brought before the competent labour courts.

In 2018, the provision was used by €12,382 thousand to cover the contribution charges and costs related to disputes with personnel (in court or out of court). It was increased by €12,409 thousand to meet the needs calculated at 31 December 2018.

The provision for expense related to third parties mainly refers to disputes underway with suppliers for subcontracting, services and supplies and the out-of-court dispute for suppliers' claims.

In 2018, the provision was used by €12,092 thousand following the negative outcome of the disputes in which the company was involved and €6,212 thousand was released. At 31 December 2018, the provision for expense related to third parties includes €10,179 thousand for liabilities under dispute.

With respect to pending judicial investigations and criminal court proceedings, as there are no indications that the company may be exposed to significant liabilities, no accruals were recognised.

Reclamation provision

This provision was accrued and used to cover the costs incurred to reclaim sites polluted by works to be sold/that have been sold. The initial calculation of this provision considered the costs to restore the affected areas based on their previous industrial use.

Provision for equity investments

This provision was accrued at 31 December 2013 to cover the equity investment Stretto di Messina S.p.A. in liquidation. It was unchanged in 2018.

Provisions for other risks and charges

These provisions mainly refer to:

- leaving incentives (€6,553 thousand);
- fund for the pursuit of pro-active policies to support income and employment (€65,543 thousand);
- performance regime, related to amounts due for penalties due from railway companies as an incentive mechanism pursuant to the PIR (€2,792 thousand);
- other risks (€48,411 thousand).

2018 accruals relate to expenditure for the fund for the pursuit of pro-active policies to support income and employment (€26,000 thousand) and the performance regime (€2,792 thousand).

Furthermore, following the merger of Centostazioni S.p.A., the company acquired accruals worth €695 thousand.

22. Current and non-current financial liabilities (including derivatives)

thousands of Euros

	Carrying amount								
	31.12.2018			31.12.2017			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Hedging derivatives	17,948	655	18,603	23,110	1,712	24,822	(5,162)	(1,057)	(6,219)
Other financial liabilities	–	257	257	–	234	234	–	23	23
Total	**17,948**	**912**	**18,860**	**23,110**	**1,946**	**25,056**	**(5,162)**	**(1,034)**	**(6,196)**

The €5,162 thousand decrease in the non-current portion of hedging derivatives is due to the fair value measurement of derivatives at 31 December 2018 (2018 - 2017 FV difference). Specifically, the effect is due to:

- the increase in the hedging reserve (€5,142 thousand), due to the fair value measurement of swaps, forward rate agreements and the intrinsic value of collars;
- the positive impact of the time value of collars on profit or loss (€20 thousand).

The current portion mainly reflects the carrying amount of the accruals related to derivatives.

Financial liabilities measured at fair value are comprised of hedging derivatives and are measured at Level 2, as described in paragraph 17 “Financial risk management” to which reference should be made also for a definition of the hierarchy levels within the fair value estimate.

23. Other current and non-current liabilities

thousands of Euros

	31.12.2018			31.12.2017			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Advances for grants	–	3,493,006	3,493,006	–	3,153,995	3,153,995	–	339,011	339,011
Social security charges payable	36,152	97,798	133,950	42,177	98,628	140,805	(6,025)	(830)	(6,855)
Other liabilities with group companies	227	19,658	19,885	286	71,202	71,488	(59)	(51,544)	(51,603)
Other liabilities	72,560	374,483	447,043	81,090	325,175	406,265	(8,530)	49,308	40,778
Accrued expenses and deferred income	2,538	16,872	19,411	3,477	23,480	26,957	(939)	(6,608)	(7,546)
Total	**111,478**	**4,001,817**	**4,113,295**	**127,030**	**3,672,480**	**3,799,510**	**(15,552)**	**329,337**	**313,785**

At 31 December 2018, advances for grants related to assets amount to €3,493,006 thousand and can be analysed as follows:

thousands of Euros

	31.12.2017	Increases	Decreases	Other changes	31.12.2018
Advances for grants:					
Ministry of the Economy and Finance	1,267,974	4,444,655	(4,361,607)	(138,116)	1,212,906
Ministry of Infrastructure and Transport	1,396,857	518,465	(239,164)	–	1,676,158
European Regional Development Fund	44,961	166,624	(86,549)	–	125,036
Trans-European network	196,279	4,990	(14,387)	–	186,882
Other PA	220,152	158,351	(90,744)	–	287,759
Other third parties	27,773		(360)	(23,148)	4,265
Total	**3,153,995**	**5,293,084**	**(4,792,810)**	**(161,263)**	**3,493,006**

The net increase of €339,011 thousand in payments on account is due to the combined effect of the increases in the recognition of additional amounts due from the MIT, the MEF and other bodies recognised as other current and non-current assets and current and non-current financial assets, the decreases due to utilisations for their allocation to assets under construction and to cover borrowing costs and net decreases (€161,264 thousand) classified under other changes. In particular, other changes mainly relate to the share capital increases of Società Tunnel Ferroviario del Brennero S.p.A. (€125,068 thousand) as described in the section on "Equity investments", to which reference should be made; the derecognition of the advances made for works on the Andora-Finale section (€30,000 thousand) as described in the note to "Other current and non-current assets", to which reference should be made.

Other current liabilities with group companies amount to €19,658 thousand. The €51,544 thousand decrease on 31 December 2017 is mainly due to:

- the €815 thousand increase in payables to the parent, mainly in relation to the 2017 dividend distribution (€100,000 thousand);
- the €3,627 thousand increase in liabilities for penalties to group companies;
- the €55,787 thousand decrease in liabilities with group companies in relation to the 2017 Freight discount, recognised as a balancing entry to grants from the MEF pursuant to Law no. 190/2014 and reformulated to other railway companies.

Other current liabilities mainly refer to amounts due to personnel (€120,325 thousand), guarantee deposits (€38,860 thousand), holidays accrued but not taken (€27,723 thousand), fund for the pursuit of pro-active policies to support income and employment (€8,414 thousand), other tax liabilities for RFI's withholdings at source on employees and free-lancers (€41,920 thousand) and payments on account for grants disbursed as part of the Freight grant (€115,000 thousand).

The €6,608 thousand decrease in accrued expenses and deferred income compared to the prior year-end balance is mainly due to the reduction in deferred income in the real estate and trade sectors.

24. Current and non-current trade payables

They can be analysed as follows:

thousands of Euros

	31.12.2018			31.12.2017			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Trade payables	12,776	2,621,403	2,634,179	28,830	2,446,311	2,475,141	(16,054)	175,092	159,038
Payments on account	5,946	57,318	63,264	5,877	71,065	76,942	69	(13,747)	(13,678)
Trade payables to group companies	–	512,570	512,570	–	476,085	476,085	–	36,485	36,485
Contract liabilities	–	8,637	8,637	–	9,621	9,621	–	(984)	(984)
Total	**18,722**	**3,199,928**	**3,218,650**	**34,707**	**3,003,082**	**3,037,789**	**(15,985)**	**196,846**	**180,861**

At 31 December 2018, the increase in current trade payables on the previous year-end balance totals €175,092 thousand and is mainly due to the rise in investments during the year.

Current payments on account consist of payments of account received from ordinary customers and group companies totalling €57,318 thousand, down by €13,747 thousand on 31 December 2017. This decrease is mainly due to the reduction in advances for the sale of assets received from Rete S.r.l., amounting to €10,591 thousand.

Current trade payables to group companies increased by a net €36,485 thousand mainly due to the combined effect of the following factors:

- the €5,287 thousand decrease in payables to the parent;
- the €9,852 thousand increase in payables to the subsidiaries;
- the €27,619 thousand increase in invoices to be received from related companies;
- the €17,691 thousand increase in invoices to be received from Fercredit following factoring by third-party and group suppliers;
- the decrease in invoices received from Italferr (€1,632 thousand), Trenitalia (€5,753 thousand) and the elimination of the payables to Centostazioni (€6,356 thousand), following the merger.

Contract liabilities of €8,637 thousand reflect the gross amount due to customers for contracts the costs of which, net of recognised profit margins, exceed progress billing. This caption corresponds with “Construction assets”, to which reference should be made.

NOTES TO THE INCOME STATEMENT

25. Revenue from sales and services

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

thousands of Euros

	2018	2017	Change
Revenue from transport services	**–**	**4**	**(4)**
Revenue from infrastructure services	**1,185,280**	**1,121,058**	**64,222**
✓ *Fee*	1,175,396	1,103,433	71,963
✓ *Ferry services*	9,884	17,625	(7,741)
Other service revenue	**331,912**	**200,688**	**131,224**
Revenue from traffic-related services	222,722	96,194	126,528
Sundry service revenue	57,562	54,748	2,814
✓ *Health services*	40,570	36,950	3,620
✓ *GSM-R revenue*	3,967	6,319	(2,352)
✓ *Other sundry revenue*	13,025	11,480	1,545
Processing for third parties	46,263	46,789	(526)
Sale of materials	5,365	2,957	2,408
Revenue from contracts with customers	**1,517,192**	**1,321,750**	**195,442**
Sundry revenue	**1,004,195**	**976,039**	**28,156**
✓ *Government grants*	1,015,557	975,557	40,000
✓ *EU grants*	671	376	295
✓ *Freight and other accruals or releases*	(12,033)	106	(12,139)
Revenue from property management	**111,920**	**107,979**	**3,941**
✓ *Leases*	97,004	92,385	4,619
✓ *Recharging of building expense and IRE tax*	10,114	12,901	(2,787)
✓ *Sale of advertising spaces*	4,802	2,693	2,109
Other revenue from sales and services	**1,116,115**	**1,084,018**	**32,097**
Total revenue from sales and services	**2,633,307**	**2,405,768**	**227,539**

"Revenue from infrastructure services" increased by €64,222 thousand, due to the following factors:

- the €71,963 thousand increase in the fee essentially attributable to the cost-of-living adjustment to prices and the increase in production volumes. Furthermore, during the year, the 2018 PIR was subject to an extraordinary update which supplemented the tariffs system applicable to dual traction trains as described in detail in the Directors' report;
- the €7,741 thousand decrease in revenue from ferry services due to the change in the accounting treatment of the trips made, which is no longer pegged to the schedule of potential trips, but to the individual train shipped as part of the continuation of the rail infrastructure.

"Other service revenue" rose by €131,224 thousand due to the combined effect of the following factors:

- the €126,528 thousand increase in revenue from traffic-related services mainly due to:
  - ✓ the growth in revenue from the sale of electrical energy for traction (€126,329 thousand), following Law no. 167 of 20 November 2017 and the rise in oil prices which had a significant impact on wholesale electricity market prices;
  - ✓ the rise in the fees for connecting tracks (€408 thousand), offset, in part, by the decrease in revenue from freight terminal management (€216 thousand);

- ✓ the increase in revenue from parking services (€1,270 thousand) and ancillary services for people with reduced mobility (€375 thousand), offset by the decrease in revenue from shunting services (€869 thousand) and washing sidings (€751 thousand);

- the €2,814 thousand increase in other sundry income, mainly due to the combined effect of the rise in revenue for health services (€3,620 thousand) and in the fees related to other real estate services (€1,138 thousand), offset, in part, by the reduction in revenue from GSMR (€2,352 thousand);

- the €526 thousand decrease in revenue from processing for third parties;
- the €2,408 thousand rise in revenue from the sale of materials, specifically spare and sundry materials.

"Sundry revenue" include the grants from the Government Programme Contract; specifically, in 2018, Laws no. 136 and 145 resulted in an addendum of €40 million for activities linked to people with reduced mobility (PRM), gates and first aid vehicles.

"Revenue from property management" rose by €3,941 thousand as a result of the following changes:

- ✓ the €4,619 thousand increase in leases, mainly due to the rise in other revenue from property (€3,871 thousand) and rights of way (€686 thousand);
- ✓ the €2,787 thousand decrease in revenue from the recharging of building expense and IRE tax, essentially due to the recharging of expenses to GS Retail;
- ✓ the €2,109 thousand rise in revenue from the sale of advertising spaces.

“Revenue from contracts with customers” may be analysed as follows:

thousands of Euros

	2018	2017
Geographical segment		
Italy	1,513,303	1,318,401
EU	2,636	2,294
Non-EU	1,253	1,055
Total revenue from contracts with customers	**1,517,192**	**1,321,750**
Product lines/services*		
Revenue from transport services		4
Revenue from infrastructure services	1,185,280	1,121,058
Revenue from traffic-related services	223,860	96,194
Sundry service revenue	56,424	54,748
Processing for third parties	46,263	46,789
Sale of materials	5,365	2,957
Total revenue from contracts with customers	**1,517,192**	**1,321,750**
Moment of recognition		
At a point in time	45,991	40,090
Over time	1,471,201	1,281,660
Total revenue from contracts with customers	**1,517,192**	**1,321,750**

With respect to the services listed above, the company has a single-segment structure.

The table below provides information about contract assets and liabilities:

thousands of Euros

	31.12.2018	31.12.2017
Contract assets classified under current/non-current trade receivables	325,245	326,600
Contract assets	244,486	78,642
Contract liabilities	(106,298)	(59,562)

Amounts are shown net of accumulated depreciation

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

thousands of Euros

	Contract assets	Contract liabilities
Revenue recognised during the year included in the opening balance of “contract liabilities”		1,450
Increase in contract liabilities due to collections, net of amounts recognised under revenue during the year		(48,187)
Reclassifications from “contract assets” recognised at the beginning of the year	(166,689)	
Increases in contract assets due to the provision of services	108,033	
Business combinations	(6)	
Other changes	224,506*	
Changes in assets / liabilities	**165,844**	**(46,736)**

*the change is due to the issue of 2017 credit notes in 2018 mainly as a consequence of Law no. 167/2017.

26. Other income

This caption can be analysed as follows:

thousands of Euros

	2018	2017	Change
Other sundry income			
Income and sundry services	95,988	74,745	21,243
Gains	61,184	57,213	3,971
Total	**157,172**	**131,958**	**25,214**

The €25,214 thousand increase in "Other sundry income" is due to the combined effect of:

- the €21,243 thousand increase in income and sundry services, mainly due to the rise in performance regime penalty income (€6,343 thousand), other penalty income (€10,744 thousand) and the releases of advances for insurance compensation received in prior years (€6,195 thousand), offset, in part, by the decrease in reimbursements of legal fees and disputes (€2,349 thousand);
- the €3,971 thousand increase in gains, substantially due to the growth in revenue from the sale of disused material no longer used in operations. (€4,043 thousand), offset, in part, by the €72 thousand decrease in gains on property.

27. Personnel expense

This caption can be analysed as follows:

thousands of Euros

	2018	2017	Change
Employees	**1,465,437**	**1,416,567**	**48,870**
√ *Wages and salaries*	1,080,578	1,036,580	43,998
√ *Social security contributions*	303,855	293,675	10,180
√ *Other expense for employees*	(1,021)	(1,666)	645
√ *Post-employment benefits*	71,625	70,513	1,112
√ *Accruals/releases*	10,400	17,465	(7,065)
Consultants and freelancers	**106**	**33**	**73**
√ *Wages and salaries*	74	13	61
√ *Social security contributions*	32	20	12
Other costs	**31,892**	**28,595**	**3,297**
√ *Temporary workers/Seconded personnel and trainees*	3,579	901	2,678
√ *Other costs*	28,313	27,693	620
Total	**1,497,435**	**1,445,195**	**52,240**

"Personnel expense" increased by €52,240 thousand on 2017, mainly due to the rise in the cost of employees (€48,870 thousand), the growth in other costs (€3,297 thousand) and greater costs for consultants and freelancers (€73 thousand).

For additional information, reference should be made to the directors' report section on "Human resources".

Average	2018	2017	Change
Managers	230	226	4
Junior managers	5,794	5,758	36
Other	20,018	19,724	294
TOTAL	**26,042**	**25,708**	**334**

28. Raw materials, consumables, supplies and goods

They can be analysed as follows:

thousands of Euros

	2018	2017	Change
Raw materials and consumables	793,774	582,393	211,381
Electrical energy and fuel for traction	169,405	(18,328)	187,733
Lighting and driving force	47,385	44,593	2,792
Accruals/Releases	(191)	9,080	(9,271)
Total	**1,010,373**	**617,738**	**392,635**

The total increase of €392,635 thousand in raw materials, consumables, supplies and goods is mainly due to the following factors:

- the €187,733 thousand increase in costs for electrical energy and fuel for train traction, due to the effects of Law no. 167 of 20 November 2017;
- the rise in consumption of materials (€205,816 thousand) due to the combined effect of greater consumption for investments (€177,690 thousand), following the increase in investments during the year, and for operations (€28,126 thousand), due to the rise in ordinary maintenance activities;
- the €12,093 thousand increase in purchase costs for consumables;
- the €10,973 thousand increase in the purchase price of inventories;
- €17,501 thousand increase in revenue from internal work, due to an increase in production of cores, diverters, glued insulating joints and devices by Officina Nazionale Infrastrutture e Apparecchiature Elettriche (Bari, Pontassieve and Bologna plants);
- the €2,792 thousand increase in costs for lighting and driving force;
- the €9,271 thousand decrease in accruals to the allowance for impairment, following the analysis carried out of obsolete and slow-moving items to be written down or off.

29. Services

This caption can be analysed as follows:

thousands of Euros

	2018	2017	Change
Transport services	**9,801**	**9,379**	**422**
Other transport-related services	(64)	(327)	263
Shunting services	512	1,177	(665)
Ferry services	5,021	3,122	1,899
Freight transport services	4,332	5,407	(1,075)
Maintenance, cleaning and other contracted services	**370,676**	**343,798**	**26,878**
Contracted services and work for third parties	32,890	34,143	(1,253)
Contract cleaning and other services	98,971	89,664	9,307
Maintenance and repair of intangible assets and property, plant and equipment	238,815	219,991	18,824
Maintenance accruals and releases	–	–	–
Property services and utilities	**113,852**	**106,952**	**6,900**
Administrative and IT services	**80,146**	**74,973**	**5,173**
External communications and advertising expense	**1,590**	**1,966**	**(376)**
Other sundry services	**119,438**	**146,105**	**(26,667)**
√ Consultancies	750	275	475
√ Insurance	7,227	14,702	(7,475)
√ Professional services	8,750	8,499	251
√ Agencies' fees	1	16	(15)
√ Group-wide costs	1,982	2,234	(252)
√ Other	108,054	102,385	5,669
√ Accruals/releases	(7,326)	17,993	(25,319)
Total	**695,503**	**683,173**	**12,330**

Costs for services increased by €12,330 thousand on 2017, mainly as a consequence of the combined effect of the following factors:

- the €1,253 thousand decrease in costs for contracted services and work;
- the €9,307 million increase in costs for cleaning and other contracted services;
- the €18,824 thousand increase in costs for maintenance of real estate and chattels;
- the €6,900 thousand increase in costs for property services and utilities;
- the €5,173 thousand increase in administrative and IT service costs mainly due to the rise in costs for hardware and software maintenance and repairs;
- the €26,667 thousand decrease in sundry costs mainly due to the reduction in accruals (€20,355 thousand) and the rise in releases (€4,964 thousand) for a total of €25,319 thousand, the €7,475 thousand decrease in insurance costs offset, in part, by testing (€4,526 testing) and the €2,002 thousand increase in facility costs.

30. Use of third-party assets

This caption can be analysed in the table below.

thousands of Euros

	2018	2017	Change
Lease payments, building expenses and IRE (registration tax)	40,831	39,738	1,093
Leases and indemnities for rolling stock and other	2,653	2,591	62
IT and other services	10,237	10,326	(89)
Total	**53,721**	**52,655**	**1,066**

Use of third-party assets increased by €1,066 thousand, mainly due to the combined effect of the following factors:

- the €1,093 thousand increase in leases, primarily resulting for higher building expense;
- the €62 thousand increase in leases and indemnities for rolling stock and other;
- the €89 thousand decrease in lease payments for hardware and software.

31. Other operating costs

This caption can be analysed as follows:

thousands of Euros

	2018	2017	Change
Other costs	132,375	117,572	14,803
Losses	2,091	398	1,693
Accruals/Releases	3,068	16,668	(13,600)
Total	**137,534**	**134,638**	**2,896**

Other operating costs increased by €2,896 thousand mainly due to:

- the €4,476 thousand increase in penalties connected to the performance regime;
- the €2,056 thousand increase in registration, waste collection and occupation of public property tax;
- the €1,571 thousand increase in losses on sales of assets;
- the €3,136 thousand increase in other costs, mainly due to the recognition of the damage compensation to the subsidiary Bluferries due to the inability to use the bridges;
- the €13,600 thousand decrease in accruals/releases due to the reduction in accruals for local property taxes (IMU/TASI);
- the €5,176 thousand increase in costs related to the Free Travel Cards.

32. Internal work capitalised

This caption amounts to €1,053,044 thousand and refers to internal costs for the use of personnel and overheads of €331,839 thousand and costs for materials used in investments of €721,205 thousand.

The €178.093 thousand increase in internal work capitalised in 2018 compared to the previous year is due to the use of materials for the substantial technological upgrading, development works and extraordinary maintenance of the infrastructure.

33. Amortisation and depreciation

This caption can be analysed as follows:

thousands of Euros

	2018	2017	Change
Amortisation	3,955	3,907	48
Depreciation	100,388	103,738	(3,350)
Depreciation of investment property	1,686	78	1,608
Total	**106,029**	**107,723**	**(1,694)**

Depreciation decreased on 2017, despite the rise in the depreciation cost which is mainly due to the change in the rate applied to the HS/HC network (Line G).

34. Impairment losses (gains)

This caption can be analysed as follows:

thousands of Euros

	2018	2017	Change
Impairment losses on intangible assets	–	–	–
Impairment losses on property, plant and equipment	4,027	37,336	(33,309)
Net impairment losses and gains	1,035	1,688	(653)
Total	**5,062**	**39,024**	**(33,962)**

Impairment losses (gains) decreased by €33,962 thousand on 2017, mainly due to:

- the €33,309 thousand decrease in impairment losses on property compared to the previous year;
- the €654 thousand increase in impairment losses and gains essentially due to the FTA of IFRS 9.

35. Provisions

Provisions made in 2018, of €26,000 thousand, relate to the extraordinary portion of the fund for the pursuit of pro-active policies to support income and employment, as discussed in more detail in the "Human resources" section of the directors' report.

36. Financial income

This caption can be analysed as follows:

thousands of Euros

	2018	2017	Change
Other financial income	545	13,894	(13,349)
Exchange gains	172	337	(165)
Dividends	–	–	–
Total	**717**	**14,231**	**(13,514)**

This caption decreased by €13,514 thousand on 2017, mainly due to greater interest income on the VAT credit (€11,443 thousand) and smaller default interest (€1,883 thousand).

37. Financial expense

This caption can be analysed as follows:

thousands of Euros

	2018	2017	Change
Interest on financial liabilities *	38,774	41,149	(2,375)
Impairment losses on financial assets	(503)	62	(565)
Exchange losses	116	473	(357)
Accruals/releases *	–	3,577	(3,577)
Total	**38,387**	**45,261**	**(6,874)**

* For a better accounting presentation, accruals and releases have been reclassified from interest on financial liabilities to accruals/releases

Financial expense decreased by €6,874 thousand, mainly due to the following factors:

- the €1,306 thousand decrease in interest cost on post-employment benefits and the €1,653 thousand reduction in interest and other expense to others, partly offset by greater interest and other expense to the parent (€601 thousand);
- the €3,577 thousand decrease in accrued financial expense;
- the €357 thousand decrease in exchange losses;
- the €565 thousand decrease in the loss allowance for financial assets mainly as a consequence of the FTA of IFRS 9.

38. Capitalised financial expense

It was calculated based on the portion of financing allocated to assets under construction and amounts to €20,090 thousand.

39. Current and deferred taxes

The company's tax balance is nil for both IRES and IRAP purposes due to decreases in tax items which have led to a negative tax base (loss). The most significant of these decreases is due to fiscally-driven depreciation in excess of that accounted for under Italian Civil Code criteria.

The following table provides a breakdown of the depreciable cost used for tax purposes which, pursuant to article 1.86 and 87 of Law no. 266/2005, is shown gross of the corresponding government grants related to assets to the railway infrastructure operator.

thousands of Euros

	2018
Depreciable cost under Italian Civil Code criteria	4,812,554
Government grants related to assets up to 2018	39,486,853
Government grants related to assets for 2018 extraordinary maintenance	3,665,025
Government grants related to assets up to 2060	41,735,561
Impairment loss as per IFRS, reducing the historical cost	3,583,125
Total depreciable cost under tax criteria	93,283,117
Total fiscally-driven portion	**2,075,863**

40. CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities mainly relate to the disputes underway described in the Litigation and disputes section of the Directors' report to which reference should be made for additional details.

The main contingent assets of the company are reported below.

Novara - Milan sub-section: appeal against RFI – FIAT (now FCA-Fiat Chrysler Automobiles N.V.) arbitration award

At the outcome of the appeal against the arbitration award, regarding part of the claims recognised as ongoing contracts by FCA, the case is pending before the Court of Cassation, on FCA's appeal and for which RFI filed a cross-claim for an amount of over €170 million.

FCA's revision before the Rome Court of Appeal, whose hearing of conclusions was held on 6 June 2018, was deferred for judgement.

RFI vs. ANAS – Satap: proceedings pending before the Civil court of Rome

The dispute originated from a series of agreements signed by former TAV S.p.A. with ANAS S.p.A. and the concession-holder for the Turin - Milan motorway ASTM (now SATAP) regarding the completion of motorway upgrading and improving works as part of the general redevelopment of the Turin-Milan multimodal corridor, along with the completion of the new Turin-Milan HS/HC section.

As far as the agreements above are concerned, TAV/RFI and ANAS/SATAP have not yet been able to reach a joint solution, as ANAS/SATAP have rejected RFI's requests to charge the former with the portion of costs for the above-mentioned redevelopment of the multimodal corridor regarding the motorway upgrading and improving works.

Consequently, on 9 June 2016, ANAS/SATAP received a writ of summons before the Court of Rome, claiming over €1,000 million, plus related charges.

On 17 July 2018, the Rome Court rejected RFI's requests, stating that "the claimant was not entitled to any amount from the defendants in respect of the relevant works".

41. AUDIT FEES

Pursuant to article 37.16 of Legislative decree no. 39/2010 and article 2427.16bis of the Italian Civil Code, it is noted that the total amount of the fees due to the independent auditors and their network is €559 thousand in 2018, including fees paid to them for services other than the statutory audit (€246 thousand).

42. DIRECTORS' AND STATUTORY AUDITORS' FEES

The following fees were paid to directors and statutory auditors for the performance of their duties, as per the relevant resolutions.

thousands of Euros

	2018	2017	Changes
Directors *	303	303	–
Statutory auditors	84	84	–
Total	**387**	**387**	**–**

* In addition, fees of €45 thousand were paid to the non-group members of the Supervisory body.

43. MANAGEMENT AND COORDINATION

The key figures of the direct parent at 31 December 2017 are available on the company's website www.fsitaliane.it and at the head office of Ferrovie dello Stato Italiane.

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

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

44. RELATED PARTIES

Transactions with key managers

The general conditions that govern transactions with key managers and the parties related to them are not more favourable than those applied, or that could have been reasonably applied, to similar transactions with managers other than key managers associated with the same entities at market conditions.

thousands of Euros

	2018	2017
Short-term benefits	4,672	3,500
Post-employment benefits	307	227
Termination benefits	0	0
Total	**4,979**	**3,728**

In addition to short-term benefits, a variable portion is to be paid in 2019, for an amount not exceeding €1,300 thousand, once checks have been made on whether objectives have been reached.
The key managers did not carry out any transactions, directly or through close family members, with the company or companies controlled directly or indirectly by the latter.

Related party transactions

The main related party transactions which were all carried out on an arm's length basis, are described below.

Company	Assets	Liabilities
Subsidiaries		
Bluferries S.r.l.	Trade and other: health services, provision of services, leases, reimbursement of personnel expense, company officers.	Trade and other: ferry services, fuels and lubricants and sundry leases.
Blu Jet S.r.l.	Trade and other: reimbursement for company officers.	-
Terminali Italia S.r.l.	Trade and other: lease of areas and premises to manage terminals, reimbursement for seconded personnel and company officers.	Trade and other: charges for owned chattels, services (utilities), use of third-party assets (rolling stock), lighting and driving force, operating buildings.
Grandi Stazioni Rail S.p.A.	Trade and other: repurchase instalments, revenue from services, supplies and works. Group repayments.	Trade and other: expense for failure to vacate some properties, building expense, leases and ancillary charges related to premises. Expense for maintenance of operating buildings.
Associates		
Quadrante Europa S.p.A.	Trade and other: company officers. Financial: shareholder loan.	-
Centostazioni Retail S.p.A.	Trade and other: repurchase instalment	Trade and other: advertising services
Parents		
Ferrovie dello Stato Italiane S.p.A. (a)	Trade and other: sundry services, personnel services, training, health services and leases. Financial: interest income on VAT credit and intragroup current account.	Trade and other: licences to use the trademark, seconded personnel, leases and ancillary charges related to premises, building expenses, information services, labour lawyer, finance area, external relations and institutional affairs. Recruitment and development services, professional training and consultancy. Financial: non-financial fees, interest expense on intragroup current account, bank and postal commissions
Other related companies		
Sita S.p.A. in liquidation	Trade and other: leases	-

Ferservizi S.p.A. (b)	Trade and other: operating building leases, health services and reimbursement for company officers.	Trade and other: global service provider activities, IT services, administrative services, personnel management, training, accounting and treasury services, procurement services, facilities, railway hotels, administrative management of catering, seconded personnel costs and building expenses.
Italcertifer ScpA (b)	Trade and other: health services, leases, GSM utilities, repayments for testing, certification and consultancy.	Trade and other: preliminary activities and investigations for the certification of components and railway systems and rolling stock maintenance.
Mercitalia Logistics S.p.A. (b)	Trade and other: GSM users, health services, works and supplies.	Trade and other: freight transport, seconded personnel, leases and ancillary charges.
Mercitalia Transport & Services S.r.l.	Trade and other: health services.	Trade and other: freight transport and shipping.
Mercitalia Rail S.r.l.	Trade and other: operating and non-operating property leases, leases of land, revenue from GSM utilities, services provided to the railway companies (sale of energy and electrical energy used for traction), health services, revenue from works and supplies and performance regime penalty income.	Trade and other: transport and shipping services, rolling stock maintenance, carriage hire, contracting services, group contractual penalties and performance regime penalty expense.
Mercitalia Shunting & Terminal (formerly Serfer S.p.A.)	Trade and other: operating and non-operating property leases, leases of land, GSM utilities, services provided to the railway companies (sale of energy, ferry services and electrical energy used for traction), health services, works and supplies, professional training and fees. Performance regime penalty income.	Trade and other: rolling stock maintenance, third party services and performance regime penalties.
Fercredit S.p.A. (b)	Trade and other: health and other services.	Trade and other: supplier analyses. Financial: default interest.
Italferr S.p.A. (b)	Trade and other: health services, group repayments, operating building leases, professional training and revenue from GSM utilities.	Trade: network investment works oversight, design and control, training and training courses.
Metropark S.p.A.	Trade and other: lease of buildings and areas, reimbursement for seconded personnel, health services and revenue from supplies and services.	Trade and other: seconded personnel services, services.
Mercitalia Intermodal S.p.A. (formerly Cemat S.p.A.)	Trade: leases of freight terminals and health services.	-
Grandi Stazioni Immobiliare S.p.A. (b)	-	Trade and other: lease and building expense
Trenitalia S.p.A. (b)	Trade and other: fees, traction, ferry and shunting services, health services, reimbursement of Polfer (railway police) charges, leases, GSM utilities, sale of high-voltage electrical energy, land leases, train traffic ancillary services, supplies and services and performance regime penalty income.	Trade and other: transport services for employees for work and leisure, IT services, carriage hire, purchase and maintenance of rolling stock, shunting and freight transport services, travel and seconded personnel expenses, other services and performance regime penalty expense.
TX Logistik AG	Trade and other: fees, traction, shunting and traffic-related services, freight terminal leases, health services and professional training; performance regime penalty income.	Trade and other: performance regime penalty expense.
TX Austria Gmbh	Trade and other: services provided to the railway companies (fee).	-
Thello Sas	Trade and other: health services.	Trade and other: seconded personnel services.
FS Sistemi Urbani S.r.l. (b)	Trade and other: provision of works, services and supplies, health services and sundry reimbursements for company officers.	Trade and other: leases and ancillary charges related to premises.
Trenord S.r.l.	Trade and other: fees, traction and shunting services, health services, revenue from GSM utilities, sale of HV energy, traffic-related services, leases, services and supplies, performance regime penalty income.	Trade and other: performance regime penalty expense.

BUSITALIA - Sita Nord (b)	Trade and other: health services, revenue from GSM utilities and performance regime penalty income.	Trade and other: transport and BoD fees.
BUSITALIA - Campania S.p.A. (b)	Trade and other: health services, leases and land leases.	-
BUSITALIA Rail Service	Trade and other: health services, leases for vehicle parking areas.	Trade and other: services.
SITAF S.p.A.	Trade and other: level crossings and special accesses.	Trade and other: road tolls for vehicles.
ATAF Gestioni S.r.l.	Trade and other: health and other services.	-
Busitalia Veneto S.p.A.	Trade and other: health services.	-
Ferrovie Sud Est S.r.l. (b)	Trade and other: health services, professional training, revenue from services, works and supplies.	Trade and other: seconded personnel services.
ANAS group	Trade and other: level crossings and special accesses, other services, works and supplies.	Trade and other: leases and ancillary charges related to premises.
Associates of subsidiaries		
BBT S.p.A.	Trade and other: reimbursement for company officers, leases, level crossings and accesses to railway companies, sundry services and supplies.	Trade and other: seconded personnel services.
Terminal Tremestieri S.r.l.	Trade and other: company officers.	-
Group associates		
Eurogateway S.r.l.	Trade and other: reimbursement for company officers.	-
LI-NEA S.p.A.	Trade and other: health services.	-
Other related parties		
CDDPP group	Trade and other: high-voltage network maintenance, level crossings and special accesses, network operation and remote control.	Trade and other: lighting and driving force, processing for third parties and electrical energy for train traction, utilities. Financial: loans.
ENEL group	Trade and other: leases, land leases, level crossings and special accesses. Financial: interest on guarantee deposits.	Trade and other: utilities (water, energy, gas), lighting and driving force and electrical energy for train traction.
ENI group	Trade and other: level crossings and special accesses; land and operating area leases; fees for work on connecting tracks.	Trade and other: gas utilities and fuel, use of vehicles and service trucks.
Leonardo group	Trade and other: leases, level crossings and special accesses, GSM-R utilities, penalties and default interest.	Trade and other: line maintenance and services for processing for third parties.
GSE group	-	Trade and other: electrical energy for train traction, lighting and driving force and energy utilities.
Invitalia Group	Trade and other: level crossings and special accesses and services for processing for third parties.	-
IstPolZeccaStato Group	-	Trade and other: purchases of spaces for legal notices, press advertising and events.
Poste Italiane group	Trade and other: operating and non-operating building leases and land lease. Financial: current accounts.	Trade and other: postal charges and sundry services.
RAI group	Trade and other: leases, level crossings and special accesses.	Trade and other: leases.
SOGIN Group	Trade and other: level crossings and special accesses.	-
EXPO Group	Trade and other: level crossings and special accesses, land leases.	-
EUROFER/PREVINDAI pension funds	-	Trade and other: withholdings and social security contributions.
Other pension funds	-	Trade and other: insurance policies, social security charges and legal fees.
CONSAP S.p.A.	-	Trade and other: issue of Bunker Oil certificates.
Fondazione FS	Trade and other: leases, land leases, provision of services and health services.	Trade and other: donations, charges related to events and exhibitions.
Ferrovie Nord Milano's subsidiaries	Trade and other: health services, level crossings and special accesses.	Trade and other: use of third party assets.

Scarl, associations, EEIG, partnerships	Trade and other: recharging of services	Trade and other: membership fees

Company carrying out management and coordination activities (direct parent)
Company managed and coordinated by (a)

Related party transactions

The table below summarises the statement of financial position and income statement balances as at and for the year ended 31 December 2018 generated by related party transactions.

Financial transactions between the parent and its related parties are shown separately, i.e., without offsetting positive against negative components, although these components refer to similar transactions (e.g., repayments). Consequently, the figures presented do not necessarily coincide with those set out in the corresponding tables of the notes to the financial statements.

Trade and other transactions

thousands of Euros

	31 December 2018			2018	
	Assets	**Liabilities**	**Guarantees**	**Costs**	**Revenue**
Subsidiaries	**13,815**	**23,160**	**–**	**82,571**	**10,961**
Bluferries S.r.l.	492	4,426	–	7,120	300
Blu Jet S.r.l.	10	–	–	–	10
Terminali Italia S.r.l.	10,248	3,187	–	1,374	1,431
Grandi Stazioni Rail S.p.A.	3,065	15,547	–	74,078	9,220
Associates	**638**	**25**	**–**	**495**	**900**
Quadrante Europa S.p.A.	30	–	–	–	30
Centostazioni Retail S.p.A.	608	25	–	495	871
Parents	**158,854**	**25,168**	**2,008,793**	**48,077**	**2,875**
Ferrovie dello Stato S.p.A.	158,854	25,168	2,008,793	48,077	2,875
Other related companies	**400,741**	**489,521**	**–**	**180,786**	**1,251,889**
Sita S.p.A. in liquidation	67	2	–	–	(17)
Ferservizi S.p.A.	1,799	20,864	–	71,510	1,037
Italcertifer ScpA	447	1,590	–	17	722
Mercitalia Logistics S.p.A.	2,705	1,717	–	321	155
Mercitalia Transport & Services S.r.l.	327	10,133	–	3,558	2
Mercitalia Rail S.r.l.	29,775	19,192	–	11,165	75,694
Mercitalia Shunting & Terminal (formerly Serfer)	1,037	661	–	532	911
Fercredit S.p.A.	24	204,440		135	25
Italferr S.p.A.	2,963	150,728	–	882	426
Metropark S.p.A.	544	112	–	171	371
Mercitalia Intermodal (formerly Cemat)	1,098	442	–	–	18
Grandi Stazioni Immobiliare S.p.A.	–	369	–	1,263	–
Trenitalia S.p.A.	271,471	69,116	–	86,765	1,039,317
TX Logistik AG	1,538	298	–	219	3,756
TX Logistik GmbH	29	–	–	–	24
TX Austria Gmbh	33	–	–	–	38
Thello	92	–	–	(87)	34
FS Sistemi Urbani S.r.l.	11,462	6,939	–	3,226	1,223
Trenord S.r.l.	36,430	1,928	–	1,782	119,054
BUSITALIA Sita Nord S.r.l.	225	26	–	41	546
BUSITALIA Campania S.p.A.	29	–	–	–	69
BUSITALIA Rail Service	9	13	–	11	47
SITAF S.p.A.	–	49	–	4	18
ATAF Gestioni S.r.l.	65	–	–	–	355
Busitalia Veneto S.p.A.	47	–	–	–	177
Busitalia Simet	15	–	–	–	–
Sitalfa S.p.A.	1	1	–	–	–
TELT Sas	27,000	–	–	–	–
Ferport S.r.l. in liquidation	27	–	–	–	–
Terminal Alptransit	1	–	–	–	1
FSE S.r.l.	8,144	–	–	(731)	6,600
ANAS group	3,336	899	–	2	1,288
Associates of subsidiaries	**6,385**	**33**	**–**	**(1,288)**	**6,408**
BBT S.p.A.	6,085	33	–	(1,288)	6,407
Terminal Tremestieri S.r.l.	300	–	–	–	1
Group associates	**97**	**–**	**–**	**–**	**116**
Eurogateway S.r.l.	80	–	–	–	81
FNM S.p.A. (formerly Ferrovie Nord Milano S.p.A.)	–	–	–	–	–
F.N.M. Autoservizi S.p.A.	1	–	–	–	–
LI-NEA S.p.A.	16	–	–	–	36
Other related parties	**81,934**	**190,777**	**191,553**	**534,525**	**15,055**
CDDPP group	11,087	93,522	24,200	68,710	10,512
ENEL group	74,860	90,075	17,245	65,270	1,174
ENI group	1,595	1,931	108	2,492	1,147
Leonardo group	37	71,356	–	974	1,252
GSE group	–	2,859	150,000	378,715	–
Invitalia Group	51	1,067	–	–	121
IstPolZeccaStato group	11	45	–	538	–
Poste Italiane group	377	12	–	–	356
ENAV group	14	4	–	–	–
RAI group	7	5	–	2	10
SOGIN group	3	3	–	–	1
EXPO group	5	–	–	–	(17)
EUROFER/PREVINDAI pension funds	4	5,298	–	7,125	–
Other pension funds	(6,367)	(75,557)	–	6,982	–
CONSAP S.p.A.	2	2	–	2	–
Fondazione FS	184	13	–	2,364	405
Ferrovie Nord Milano's subsidiaries	61	63	–	1	80
Scarl, associations, EEIG, partnerships	3	80	–	1,349	15
TOTAL	**662,465**	**728,684**	**2,200,346**	**845,166**	**1,288,20**

1) Individual investees of the MEF, as per the list above, shall be considered within their own group and added to other related parties pertaining to the same group. For example, any relations with TERNA shall be added to other relations with companies of the same group under the caption: Cassa Depositi e Prestiti S.p.A. Group (CDDPP)
2) Any negative amounts, where present, reflect balances that are not offset

Financial transactions

thousands of Euros

	31 December 2018			2018	
	Assets	**Liabilities**	**Guarantees**	**Expense**	**Income**
Associates	**265**	**–**	**–**	**–**	**–**
Quadrante Europa S.p.A.	265	–	–	–	–
Parents	**91,416**	**2,200,156**	**187,838**	**28,410**	**348**
Ferrovie dello Stato Italiane S.p.A.	91,416	2,200,156	187,838	28,410	348
Other related companies	**–**	**254**	**–**	**13**	**–**
Fercredit S.p.A.	–	254	–	13	–
Other related parties	**2,188**	**115,224**	**–**	**–**	**–**
Poste group	2,188	–	–	–	–
CDDPP group	–	115,224	–	–	–
TOTAL 1	**93,869**	**2,315,633**	**187,838**	**28,422**	**348**

1) Individual investees of the MEF, as per the list above, shall be considered within their own group and added to other related parties pertaining to the same group. For example, any relations with TERNA shall be added to other relations with companies of the same group under the caption: Cassa Depositi e Prestiti S.p.A. Group (CDDPP)

45. GUARANTEES

thousands of Euros

Guarantees		**31 December 2018**	**31 December 2017**
1. RISKS			
1.1 Sureties		253,622	325,231
Total	**1**	**253,622**	**325,231**
2. OTHER			
2.1 Sureties issued by third parties in favour of the company		4,786,580	4,819,148
Total	**2**	**4,786,580**	**4,819,148**

Risks mainly refer to the sureties that RFI issued to the public administrations (the Ministry of the Environment, regions and provinces) affected by the laying of HS/HC lines.

Sureties issued in favour of the company mainly refer to guarantees issued by Ferrovie dello Stato Italiane on behalf of RFI in favour of third parties (the tax authorities for VAT credit, GSE for energy, etc.) and guarantees given in favour of the company by the general contractor, contracting bodies and suppliers.

46. THIRD-PARTY FINANCIAL COMMITMENTS

Developments at 31 December 2018 in the captions related to commitments undertaken by bodies including the government and the EU in favour of the company following the issue of loans, in the form of share capital increases or sundry contributions, are shown below:

Investments financed by the Government and the EU between 1993 and 2018:

thousands of Euros

	Available resources	Disbursements	Recognised receivables	Recognised	*Amounts to be received from the Government and the EU for investments to be made*	*Residual amounts for loans and borrowings received and not yet used*
At 31 December 2017	115,024,439	73,269,288	6,112,651	71,156,014	*35,642,500*	*2,113,274*
At 31 December 2018	123,076,782	77,209,233	7,290,565	76,012,903	*38,576,984*	*1,196,330*
Delta	8,052,343	3,939,945	1,177,914	4,856,889	*2,934,484*	*(916,944)*

Specifically, total available resources considered at 31 December 2018 amount to approximately €123 billion. This amount includes loans and borrowings "on an accruals basis" pursuant to several Stability Acts and those pursuant to ad hoc legislative measures as well as the resources from the European Union. Available resources rose €8,052,343 thousand on 31 December 2017 due to the new loans granted to the company in 2018. At 31 December 2018, the disbursements received in respect of the above granted amounts amount to €77,209,233 thousand and include total disbursements from public sources provided by the different Stability and Budget Acts and long-term financing laws, as well as EU funds.

At 31 December 2018, disbursements of €76,012,903 thousand were recognised, up €4,856,889 thousand on the previous year, due to the amounts recognised during the year in respect of the above disbursements.

Assets recognised in respect of the above disbursements were included under "Available resources" and amount to €7,290,565 thousand. They include assets recognised following the amendment to the criterion used to disburse government resources for investments, previously accounted for as share capital increases and now as grants related to assets pursuant to article 1.86 of the 2006 Finance Act, due from the MEF and the MIT for disbursements arising from Finance Acts and long-term financing laws, not yet disbursed.

47. DISCLOSURE PURSUANT TO LAW NO. 124/2017

The disclosure required by article 1.125 and 126 of Law no. 124/2017 is provided below and in other sections of this document.

The financial figures refer to cash inflows and outflows for 2018.

The following table provides the disclosure required by article 1.125 of Law no. 124/2017 about 2018:

In Euros

Grantor	Type	2018
Local bodies	Grants related to assets	70,202,967
MEF	Grants related to assets	3,393,570,003
MIT	Grants related to assets	162,509,711
EU	Grants related to assets	171,613,881
EU – local bodies	Grants related to assets	2,231,920
Other	Grants related to assets	38,963,211
MEF	Grants related to assets Ordinary maintenance	1,015,556,791
CSEA (environmental and energy services fund)	Grants	370,276,211
MIT - Section 1274 Incentives for freight transport	Grants	4,500,000
Fondoimpresa	Training grants (art. 31)	7,628

The following table provides the disclosure required by article 1.126 of Law no. 124/2017 about 2018:

In Euros

Beneficiary	Type	2018
Fondazione Fs Italiane	Grant	5,266,000
Associazione Nazionale DLF	Grant	1,428,674
Municipalities	Agreements	3,373,153
Provinces	Agreement	82,290
ART and Fondazione Politecnico	Membership fees	987,642

48. EVENTS AFTER THE REPORTING DATE

February

ART resolution no. 11/2019

ART resolution no. 11/2019 was issued on 15 February 2019 in which the Authority ordered the infrastructure operator to implement a series of corrective measures, also considering RFI's willingness (expressed in the note dated 4 February 2019) to adjust the eligible operating costs for the purposes of calculating the MAP) fee and the fees for the services not included in the minimum access package starting from 1 January 2019. Reference should be made to the Legislative and regulatory framework section of the directors' report for additional information.

ALLOCATION OF PROFIT FOR THE YEAR

The financial statements as at and for the year ended 31 December 2018 show a profit for the year of €274,196,193.04.

The board of directors proposes allocating 5% of the profit for 2018, amounting to €13,709,809.65, to the legal reserve, a €100,000,000.00 dividend, arising from market activities, in line with the provisions of Legislative decree no. 139/2018, implementing the Fourth Railway Package, to the shareholder, and the residual €160,486,383.39 to retained earnings.

Rome, 5 March 2019

The board of directors

The Chairwoman

The CEO