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

# Rete Ferroviaria Italiana S.p.A.

# 2016

# ANNUAL REPORT

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

Company with sole shareholder, 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: €31,525,279,633.00

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 company responsible for managing the 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 now makes up RFI's assets) and the portion acquired subsequently using own funds. The infrastructure was previously funded through third party financing, then through capital injections from the government and 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 cargo 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 infrastructure from railway companies, and any other necessary or useful activities in pursuing the corporate purposes assigned by the relevant national and EU authorities.

Within this scope, the main functions consist of:

- 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 operators, particularly throughout the European Union.

## COMPANY OFFICERS AND INDEPENDENT AUDITORS

**Board of directors:**

| | |
|---|---|
| Chairperson | Claudia Cattani(1) |
| CEO | Maurizio Gentile |
| Directors | Maurizio Mauri |
| | Francesca Serra |
| | Luciano Grazzini(2) |

(1) Appointed by shareholders' resolution of 17 May 2016
(2) Appointed by shareholders' resolution of 26 July 2016 to replace Domenico Maricchiolo

**Statutory auditors:**

| | |
|---|---|
| Chairperson | Paolo Marcarelli |
| Standing statutory auditors | Serenella Lucà |
| | Leonardo Quagliata |
| Alternate statutory auditors | Maria Cristina Moretti |
| | Giuseppe La Regina |

| | |
|---|---|
| **Manager in charge of financial reporting:** | Vera Fiorani |
| **Independent auditors:** | KPMG S.p.A. (for 2014-2016) |

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**CHAIRMAN'S LETTER**

Dear Shareholder,

In line with results since 2007, Rete Ferroviaria Italiana (RFI) recognised a profit for the year of €181 million, increasing once more on the previous year.
Such results are particularly significant in light of the amendments made to legislation and regulations (approval by the Transport Regulator ("ART") of the new tolling system for the minimum access package with Resolution no. 75 of 1 July 2016 and tariffs for various services from the minimum access package approved with Resolution no. 80 of 15 July 2016) which notably impacted the current management of the company's activities.
Specifically, the company's efforts led to improved results, both through cutting costs, which do not fluctuate greatly, and increasing revenue, highlighted by the achievement of the financial goals set in the annual budget.
The company achieved this result in complete compliance with the safety standards on the national railway infrastructure, which had already reached excellent scores in recent years compared to those in other major European countries. This is confirmed by certain safety indicators (CSIs) developed by the EU which in 2016 show the highest values since 2006.
The company reported a large increase in the gross operating profit compared to the previous year, mainly due to the corresponding growth in revenue only partially offset by the corresponding increase in operating costs.
Efficiently using the public funding it received, the company achieved goals related to infrastructure investments aimed at developing and maintaining the railway network.
Starting from 2015, government funds for railway infrastructure investments rose considerably, reaching a total of over €20,000 million in 2015 and 2016.
Specifically, it set up infrastructure investment programmes in 2016 for over €4,000 million, up 17% on the same period of the previous year. Such investments referred to large infrastructure and maintenance projects on the traditional network and, for the remaining part, works all over the country.
The Ministry of Infrastructure and RFI signed the 2015 and 2016 updates of the 2012-2016 Government Programme Contract – Investments during the year.
In more detail, the 2015 update provides for the contractual agreement of additional funds of approximately €10,000 million and the implementation of definancing of roughly €1,000 million.
Allocating additional funds under the 2016 Stability Act, the 2016 update provides for the contractual agreement of additional funds of over €9 billion and the implementation of definancing of roughly €338 million.
Subsequently, the following additional provisions were issued:

- the Infrastructure Operating Plan of the 2014-2020 Development and Cohesiveness Fund, which provides for investments of €11.5 billion, of which roughly €2 billion for works in the railway industry;
- Law no. 232 "Government budget for the 2017 fiscal year and three-year budget for 2017-2019" (the 2017 Budget), which provided for, *inter alia*, the setting up of a Fund to ensure funds for investments and infrastructural development of the country.

Law decree no. 210/15 defined the framework of the new 2016-2021 Government Programme Contract – Services, making innovations, in line with the development of the reference legislative and regulatory framework (Legislative decree no. 112/2015 and ART Resolution no. 96/2015), both in regulating funding of ordinary and extraordinary maintenance of national railway infrastructure and in relations with the government for the funding

of services providing assistance to people with reduced mobility. The contract was approved by the CIPE at its meeting held on 10 August 2016 and the completion of the approval procedure is pending.
In September 2016, RFI's board of directors approved the new business plan for the 2017-2026 ten-year period in line with the business plan of Ferrovie dello Stato Italiane group, focusing on five strategic cornerstones: passenger modal integration, integrated logistics, integrated infrastructures, international development and digitalisation, and customer centricty.
RFI's plan is chiefly aimed at leveraging its activities financially and integrating its infrastructure with the European network in order to create a sole railway market that is interoperable and interconnected with other transport systems (roads, ports, airports) to offer integrated infrastructure services.
Furthermore, the plan provides for the gradual integration of the former "railways under concession" into the national railway infrastructure. The aim is to spread the range of the railway service, boost efficiency and, above all, increase safety thanks to the high technological standards adopted by RFI.
In order to support the development of the new business plan, RFI planned investments of approximately €56 billion for the 2017-2026 ten-year period, with annual average costs of over €5 billion, assuming the disbursement of relevant public funds.
Over the years of the plan, the company shall have to monitor the development of its organisational model to check its compliance with the provisions of Legislative decree no. 112/2015 (Single European railway space) and EU Directive no. 2016/2370 of 14 December 2016 (the "Fourth railway package").
In the preparation of these financial statements, the company has devoted careful attention to the comments made by the Court of Auditors in 2016 in its report on the "K2 discount". Reference should be made to the "Pending investigations and legal proceedings" section for details.
From an organisational standpoint, the company confirmed its commitment to the improvement of the internal control system, based both on the internal auditing of operating and support processes, risk management activities and support provided to the Supervisory Body, also through ongoing updates to RFI's organisational and management model (the "231 Model").
In February 2016, the National anticorruption authority (ANAC) and RFI signed the Collaborative supervision protocol, in order to prevent and monitor possible corruption in RFI's contracts. The protocol integrates the Legality protocols that RFI has previously signed with local institutions and bodies to prevent corruption and support the transparency in works contracted to third parties.
Furthermore, the company has been constant in its commitment to the environment, especially with regard to sustainability (economic, environmental and social), measured using the performance indicators for the group sustainability report. Such report, in which RFI plays a critical role, was prepared in compliance with the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), using the Comprehensive reporting option which fully applies the requirements of the GRI guidelines.
With even greater drive, the company continued to make unused spaces available for reuse for social purposes, including via partnerships with leading bodies and associations active in the environmental, cultural or social assistance fields.

The board of directors
The Chairman

# 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 group’s performance and believes reflect the results of operations and financial trends of its business segments:

- **Gross operating profit**: this is an indicator of the performance of operations and reflects the group’s core business only. It is calculated as the difference between revenue and operating costs.
- **Operating profit:** this is an indicator of the performance of operations and is calculated as the algebraic sum of gross operating profit and amortisation and depreciation, impairment losses (reversals of impairment losses) and provisions.
- **Net operating working capital:** this is the sum of inventories, construction contracts, current and non-current trade receivables, current and non-current trade payables and advances to suppliers.
- **Other assets, net:** these consist of receivables and advances from the Ministry of the Economy and Finance for grants, deferred tax assets, other current and non-current assets and other current and non-current liabilities.
- **Working capital**: this is the algebraic sum of net operating working capital and other assets, net.
- **Net non-current assets**: these consist of property, plant and equipment, investment property, intangible assets and equity investments.
- **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 algebraic 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 algebraic 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 operating revenue.
- **Operating profit margin – ROS (return on sales):** this sales profitability indicator is calculated as the ratio of operating profit to revenue.
- **Financial debt 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 (from the start to the end of year), net of the profit/loss for the year.
- **ROI (return on investment**): this is a profitability indicator for invested capital through core business operations. It is calculated as the ratio of operating profit to average NIC (from the start to the end of the year).
- **Turnover of net invested capital:** this is an efficiency indicator that expresses invested capital's ability to transform into sales revenue. It is calculated as the ratio between operating revenue and average NIC (from the start to the end of the year).

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

- **Computer-based interlocking system:** this is a central management system for control and signalling and station safety.
- **All-relay interlocking system (ARIS):** this centralised device has one single button to control routes and routing and automatically shunts each individual body affected by the route.
- **Transport Regulator (ART):** body in charge of regulating transport and access to related infrastructure along with accessory services.
- **Automatic train control (ATC):** this system automatically controls the train's speed. It is the technological and functional development of the automatic train protection (ATP).
- **High speed/High capacity (HS/HC):** this is the system of lines and means specifically developed for high speed transport and/or high capacity transport.
- **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.
- **Hub:** this is a conventional term to define a railway area that generally coincides with major metropolitan destinations presenting highly dense and relatively complex medium-size to large stations and other railway 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.
- **Computerised traffic control system (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.
- **Train speed control system (TSCS):** this train speed control system is the first functional stage of the ATC system for constant control over train speed, making it possible to activate the emergency brakes if the train exceeds the maximum speed allowed on the line or if it proceeds past stop signals.
- **Intermodal transport**: this is transport using two or more modes of transport (road, rail, sea or river) with the transfer of load units from one mode to another without breaking up the load, i.e., using a roadway vehicle or intermodal transport unit (containers, swap bodies and semitrailers).
- **Train-km:** this is the number of train events per kilometre travelled (tkm).

## HIGHLIGHTS OF THE YEAR

| | | 2016 | 2015 |
|---|---|---|---|
| **ROE** | P/E* | **0.55%** | **0.39%** |
| **ROI** | OP/ANIC | **0.65%** | **0.48%** |
| **ROS** | OP/R | **8.35%** | **6.45%** |
| **GOP/R (GOP MARGIN)** | GOP/R | **13.86%** | **11.22%** |
| **NET ASSET TURNOVER (NAT)** | R/ANIC | **0.08** | **0.07** |
| **FINANCIAL DEBT RATIO** | NFD/E | **0.01** | **0.03** |

**KEY**

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

**OP:** Operating profit

**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

## TRANSACTIONS WITH THE GOVERNMENT

Downstream from the extensive discussion initiated with the relevant Ministries and in accordance with that established by the Interministerial Committee for Economic Planning ("CIPE") in Resolution no. 4 of 2012, transactions between the company and the government are - since 2013 - governed by two contracts rather than one:

- the Government Programme Contract – Investments ("GPD-I"), governing the sustainable planning of investments to develop infrastructure for safety and legal requirements, technologies and "light" and "heavy" projects, in accordance with the strategic guidelines of Italian and EU financial and economic 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 2015 update of the GPC-I for 2012-2016 was examined by the CIPE at its meeting of 23 December 2015. With Resolution no. 112 published in the Official Journal no. 98 dated 28 April 2016, the CIPE approved the update, formulating certain provisions related to both the 2015 and 2016 updates.

The new version of the 2015 update, implementing the CIPE's provisions, was signed on 29 April 2016. MIT then sent it to the relevant parliamentary commissions for their opinion, following the procedure set out in Law no. 238/1993.

The VIII Transport Commission of the Chamber of Deputies and the IX Works Commission of the Senate both expressed their favourable opinion on 21 June 2016, with some observations on upcoming plans.

The 2015 update provides for the contractual agreement of additional funds of approximately €9,976 million and the implementation of definancing of roughly €1,005 million.

The 2015 update implemented the first stage of the government-sponsored "rail therapy" plan. This plan of initiatives aims to achieve the following objectives: greater safety, cutting-edge technology in stations and along the lines, quality and comfort for passengers, swift connections and, above all, specific focus on works on regional and local networks to aid commuters' journeys and all types of investments to help transport goods via rail.

With regard to the 2016 update, in compliance with the CIPE Resolution no. 112/2015 which required the deed to be presented within one month of the publication of the resolution, on 13 April 2016 the company presented a draft 2016 update which considered the new financial framework defined following the enactment of the 2016 Stability Act.

Following the meeting between the MIT, the Regions and RFI held on 23 May 2016, the MIT received an updated version of the deed, within the deadline set by the above-mentioned CIPE Resolution no. 112/2015 and according to the schedule agreed with the MIT.

Finally, after implementing some formal improvements requested by the MIT, the final version of the deed was communicated on 8 June, signed by the MIT and RFI on 17 June 2016 and approved by the CIPE on 10 August 2016.

Furthermore, at its meeting held on 10 August to discuss the plans for 2014-2020, the CIPE also:

- approved €13.4 billion for "Agreements for the south" (Resolution no. 26);
- divided up €15 billion of the "National control room" (Resolution no. 25) between sectors.

The CIPE also approved procedures, admission criteria, monitoring methods, replanning methods, waivers and fund transfer methods.

With regard to the standard procedures set out in Law no. 238/1993 for the approval of government programme contracts, article 10.1 of Law no. 225 of 1 December 2016, which converted Law decree no. 193 of 22 October 2016 (the "Tax Decree"), approved the 2016 update of the GPC. Specifically, it stated that €320 million can be spent for 2016, including for the safety and efficiency of the railway network and €400 million for 2018 for funding works related to "safety and compliance with legal obligations", including those provided for by the planning part of the 2016 update of the GPC-I by the Ministry of Infrastructure and Transport and Rete Ferroviaria Italiana (RFI), which the Interministerial Committee for Economic Planning (CIPE), at its meeting held on 10 August 2016, expressed a favourable opinion and approved. The authorisation of spending related to the previous period is immediately effective for further development of the related works that are implemented in the subsequent GPC-I for 2017-2021.

The 2016 update provides for the contractual agreement of additional funds of approximately €9,271.6 million and the implementation of definancing of roughly €338 million.

The increase on the 2012-2016 GPC-I is the result of the following legislative provisions:

- €8,258.6 million related to addition financial resources allocated by the above-mentioned "2016 Stability Act";
- €272.1 million in grants related to assets deriving from the sale of "electrical assets" to Terna pursuant to article 1.293 of Law no. 190 of 23 December 2014 (the 2015 Stability Act);
- €645.3 million, deriving from 2014-2020 CEF Project;
- €45.2 million, deriving from funds from local bodies.

The decrease can be broken down as follows:

- €300 million included in the Ministry of the Economy and Finance's (MEF) budget section 7122, as part of the funds budgeted in current legislation for accruals and cash, in connection with the adjustable expenditure of each Ministry pursuant to article 21.5.b) of Law no. 196 of 31 December 2009, as provided for by Table E of Law no. 208 of 28 December 2015 (the 2016 Stability Act);
- €25 million, following the replanning of works funded by the Safeguarding Action and Cohesion Plan pursuant to IGRUE (Inspectorate General for Financial Relations with the European Union) decree no. 33 of 5 August 2015 and MIT note no. 276 of 14 January 2016;
- €13 million, under the Safeguarding Plan of the Sardinia Region.

The update of the GPC implemented the provisions expressed by the CIPE when approving the 2015 updating of the GPC-I, relating to:

- preparing specific project frameworks setting out the technical and financial development of the individual works included under the 2016 update of the GPC-I;

- allocating funding in 2016 required to complete the resources needed for the "Pescara-Bari line works: laying of double tracks on the Termoli-Lesina section".

However, RFI and the MIT agreed not to consider the initial results of the planning for the 2014-2020 period of the Development and Cohesiveness Fund ("Agreements for the south", "Agreements for Lazio" and "Control room") as using such funding is subject to a specific CIPE resolution or allocation to specific works by legislation. Such funds will be considered in the next contractual update, notwithstanding the provisions of article 3.2 of the GPC related to the immediate effectiveness of legislative regulations and/or CIPE resolutions subsequent to the approval of the contract.

On 1 December 2016, the CIPE approved the Infrastructure Operating Plan of the 2014-2020 Development and Cohesiveness Fund by the MIT, which provides for investments of €11.5 billion and is broken down into six Thematic Areas with funds available for works in the railway sector of approximately €2 billion ("FSC Control room"), funds which will be contractually provided for the upcoming 2017-2021 GPC-I.

On 11 December 2016, Law no. 232 "Government budget for the 2017 fiscal year and three-year budget for 2017-2019" (the 2017 Budget) was issued, providing for:

- article 1.140-142: under the MEF's section 7550, setting up a specific Fund to be divided up between €1,900 million for 2017, €3,150 million for 2018, €3,500 million for 2019 and €3,000 million for each year from 2020 to 2032, to ensure funds for investments and infrastructural development of the country. The utilisation of the Fund is provided for by one or more decrees by the Prime Minister of Italy, as proposed by the MEF, in agreement with the relevant Ministries, in relation to plans presented by government central administrations;
- article 1.591: authorising that €10 million be spent for 2017, €32 million for 2018 and €42 million for each year from 2019 to 2022, as a grant for the new 2017-2021 GPC-I between the MIT and RFI, to be allocated to fund the new Ferrandina-Matera La Martella railway line.

To provide complete information, cash disbursements for 2017 under the 2017 Budget are also reported below, broken down as follows:

- ✓ €1,037 million in the MEF's section 7122, as a grant related to assets to continue railway investments;
- ✓ €1.7 million in the MEF's section 7123, as a grant related to assets to continue specific works;
- ✓ €400 million in the MEF's section 7124 to build the HS/HC Turin-Milan-Naples system, relating to the total of €8,100 million earmarked under the 2007 Finance Act;
- ✓ €100 million in the MEF's section 7124 for the HS/HC network and €100 million for the traditional network, in the form of fifteen-year grants allocated under the 2006 Finance Act beginning in 2006 and 2007, respectively;
- ✓ €230 million in the MIT's section 7518 for the third Giovi pass;
- ✓ €15 million in the MIT's section 7549 for work to close the railroad crossing funded by the "Get Italy Moving" decree;
- ✓ €25 million in the MIT's section 7550 to upgrade the Cuneo-Ventimiglia railway line to safety standards, funded by the "Get Italy Moving" decree;
- ✓ €15 million in the MIT's section 7563 for the Andora-Finale section.

The company has fully met the disclosure obligations provided for by articles 4.2.i), 4.3.b),6, 7.2.c) and 8 of the 2012-2016 GPC-I.

**The 2012-2014 Government Programme Contract – Services**

The current 2012-2014 GPC-S was extended to 31 December 2016, pursuant to article 7 of Law decree no. 210 of 30 December 2015, containing the "Extension of the deadlines established by legislative provisions", in order to enable the completion of the procedure to formalise and approve the new 2016-2021 GPC-S.

The framework of the new 2016-2021 GPC-S was defined in substantial continuity with the previous contract, making some innovations in line with the development of the relevant legislative and regulatory framework (specifically, Legislative decree no. 112/2015 and ART Resolution no. 96/2015 defining principles and criteria for the determination of railway infrastructure access and use tolls).

The main objective of the contract remains to govern funding of ordinary and extraordinary maintenance of the national railway network. It also governs relations between the operator and the government in relation to funding activities related to management of the railway network (circulation, safety, security, railway ferry) and assistance services offered to people with reduced mobility.

The new version of the contract was approved by the CIPE at its meeting held on 10 August 2016 and the completion of the approval procedure pursuant to Law no. 238/1993 is pending.

**The "Objective" Law**

The main events in 2016 within the scope of the strategic infrastructures provided for by Law no. 443/2001 (the so-called "Objective Law") were as follows:

- article 217.1 of Legislative decree no. 50 of 18 April 2016, published in the Italian Official Journal no. 91 of 19 April 2016, implementing EU Directives 2014/23, 2014/24 and 2014/25, abolished article 1.1-5 of Law no. 443 of 21 December 2001 (the Objective Law) and Legislative decree no. 163 of 12 April 2006 (Code for public contracts related to works, services and supplies implementing EC Directives 2004/17 and 2004/18);
- Section V (articles. 200-203) of the same measure also identified, as new planning and programming tools, the General Transport and Logistics Plan (GTLP) and the Long-term Planning Document (LPD), which list the infrastructures of national interest. The first LPD to be approved within one year of the measure taking effect shall also contain indications of the procedural, physical and financial status of each listed work. Until the first LPD is approved, the planning and programming tools that have already been approved under ruling procedures are valid for planning infrastructure and transport investments.

Furthermore, investments shall no longer be governed by special laws, but instead by ordinary regulations. The new references are contained in the articles of the above-mentioned Section V.

In addition:

✓ at its meeting held on 10 August, the CIPE:

- authorised the launch of construction lot 4 for the Milan-Genoa HS/HC line: Third Giovi pass, for a total amount of €1,630 million and approved the allocation of funding of €1,630 million with Resolution no. 42;

- approved the definitive project for the technological and infrastructural updating of the tunnel under the bed of the River Fiumicello of the Battipaglia - Reggio Calabria railway line with Resolution no. 40;

✓ Resolution no. 17/2016 was published in the Italian Official Journal no. 188 on 12 August, in which the CIPE approved the launch of construction lot 4 of the tunnel at the base of the Brennero for a total amount of €1,250 million, assigning approximately €1 billion to RFI for the works.

**Extraordinary Commissioner activities**

Law no. 21 of 25 February 2016 ("Conversion of Legislative decree no. 210 of 30 December 2015") provided for the replacement of the Commissioner for the construction works on the Naples-Bari and Palermo-Catania-Messina railway sections, assigning the related duties to RFI's CEO instead of to Ferrovie dello Stato Italiane's CEO, appointed with article 1 of Decree law no. 133/2014 (known as the "Get Italy Moving" decree), converted as amended into Law no. 144/2014. The term of the engagement is extended to 30 September 2017, instead of two years from the coming into force of Law decree no. 133/2014 (article 9-bis);

The Commissioner approved the definitive projects for the following works:

- Naples-Bari route: works on the Cancello-Naples to integrate it with the HS/HC line with ordinance no. 21 of 16 May 2016;
- Naples-Bari route: Cancello-Dugenta/Frasso Telesino functional lot 1 and change to the historical Rome-Naples line via Cassino in the municipality of Maddaloni with ordinance no. 22 of 16 May 2016;
- Naples-Bari route: laying of double tracks between Cancello and Frasso Telesino and change to the Rome-Naples line via Cassino in the municipality of Maddaloni. Northern interconnections on the historical Rome-Naples line via Cassino in the municipality of Maddaloni with ordinance no. 24 of 13 July 2016;

in addition to the preliminary projects for the following works:

- Naples-Bari route: laying of double tracks between Frasso Telesino and Vitulano with ordinance no. 25 of 1 September 2016;
- Naples-Bari route: laying of double tracks between Apice and Orsara with ordinance no. 27 of 1 December 2016.

**The Institutional Development Contract**

The projects covered by the institutional contracts signed in 2012 (Naples-Bari-Lecce-Taranto railway line and Salerno-Reggio Calabria railway line) and in 2013 (Messina-Catania-Palermo railway line) are under design/construction.

In 2016, the specific "Project Management system" (PMS) monitoring scheme was updated.
The Implementation and Oversight Committee (IOC) held meetings in July and December 2016 regarding the three Institutional Development Contracts (IDCs), over the course of which the committee discussed the progress made in implementing the projects included in the contracts. In particular, during the July meeting, the committee examined and discussed the annual report on the implementation of the IDCs, which the single contract manager had prepared in accordance with the contract.

**Legislative and regulatory framework**

In 2016, the regulatory context in which the infrastructure operator and railway companies operate was characterised by the following:

- in Italy, mainly the implementation of criteria for determining the tolls to use the railway infrastructure and considerations for the provision of services as per ART Resolution no. 96/2015, in addition to the launch of the procedure to find the most suitable way of regulating to ensure the cost effectiveness and efficiency of railway shunting services;
- in the EU, the approval of the Fourth railway package.

**The Transport Regulator ("ART")**

As already discussed in the 2015 Annual Report, to which reference should be made for greater details, on 18 November 2015, ART published Resolution no. 96 of 13 November 2015, definitively adopting, in Attachment 1, the measures regulating the "principles and criteria for the determination of railway infrastructure access and use tolls", including regulatory accounting obligations for:

- the access toll to use the national railway infrastructure (services in the minimum access package);
- the tolls and fees for the national railway infrastructure services not included in the minimum access package toll, if regulated.

To implement the provisions of Measure 8 of this Resolution and to determine the average unit toll, the company has commenced a specific consultation process with the railway companies to define the projected traffic units in the toll period (2021). The first stage of the consultation with the railway companies consisted of the meeting held on 10 December 2015 and the subsequent exchange of correspondence between the infrastructure operator and the railway companies to gain a picture of traffic projections for each railway company over the entire toll period (2016-2021).
Subsequently, on 11 February 2016, in application of Measure 2016 of this Resolution, RFI sent ART the functional specifications for the simulation model for which ART had requested additional information to better define the eligible operating costs, their developments in the regulatory period, the composition of net invested capital and the related rate of return.
This made it necessary to extend the 12 March 2016 term originally established in letter c) of Measure 58 and point 1 of the last sentence of Measure 41 for the operator to present the new toll system. All this considered, ART Resolution no. 28/2016 of 8 March 2016 extended this term to 22 April 2016.
ART then issued Resolution no. 31/2016 of 23 March 2016 in order to provide clarifications on certain aspects of regulatory accounting found in Resolution no. 96/2015.
With its note dated 22 April 2016, RFI presented ART with the new 2016-2021 toll system, accompanied by the documentation provided for by Measure 4 of Resolution no. 96/2015. Subsequently, ART acknowledged the need to investigate and integrate certain aspects contained in the documentation received from RFI. Specifically, clarifying:

- the methodology used for traffic forecast related to the relevant regulatory period and the extent to which the flexibility factor of traffic demand can be influenced by varying tolls;

- whether the structure of the market segments with the sub-structure of services offered by the operator meets equity and anti-discrimination standards;
- the technical and financial information required for the purposes of assessment.

In light of the above, ART deemed it necessary, with Resolution no. 62/2016 of 30 May 2016, to postpone the term initially set by Resolution no. 96/2015 (and already postponed as mentioned above) to 1 July 2016.

ART then held hearings with railway companies (on 7, 8 and 10 June 2016) in order to gather information and critical matters on checking compliance of the toll system, in addition to meetings with RFI (on 9 June and 27 June 2016) for clarifications.

As a result of the above meetings, in order to better ensure compliance with principles of competition and sustainability and meeting production increments for railway companies, in addition to the financial balance of the operator as per article 16 of Legislative decree no. 112/2015, ART deemed it suitable to state with Resolution no. 72/2016 certain application methods for the measures as per attachment 1 to Resolution no. 96/2015, concerning variability limits for toll modulation coefficients related to individual market segments and operating on the basis of binomials forming the foundations of railway services.

In light of the above, ART deemed it necessary to modify the deadlines of the ordinary procedure to update the Network Prospectus - resulting incompatible with the need to provide the railway companies with adequate information above the new toll system - as follows:

- for the 2018 Network Prospectus, the 30 June 2016 deadline for the operator to prepare and publish the first draft and submit it for the approval of all relevant parties was postponed to 22 July 2016;
- as a result, the 31 July deadline for the formalisation of any observations by relevant parties was postponed to 2 September 2016.

With the same Resolution, ART requested further clarifications from RFI in relation to services other than the minimum access package and, accordingly, postponed the presentation deadline to 15 July 2015.

Following the indications on application methods for the measures issued by ART with the above-mentioned Resolution no. 72/2016, on 30 June 2016, RFI presented ART with a new proposal for the 2016-2021 toll system for the minimum access package which, with Resolution no. 75/2016 of 1 July 2016, was ruled to be in compliance with criteria for the determination of railway infrastructure access and use tolls - approved with Resolution no. 96/2015 and subsequent amendments - with the following provisions:

- in calculating the operating costs of the base year, the operator shall refer to the amounts resulting from the audited accounts communicated to ART;
- the Jmin coefficient related to the "Open Access Premium MI or RM" / "Open Access Premium MI & RM" binomial shall not be lower than the limit of 0.85, in order to ensure competition in the related market segment, protecting it from unwanted developments;
- the criteria used to differentiate between the Base and Light sub-categories within the sub-segment Open Access Premium MI or RM, set by the operator on the basis of a threshold of 30% of network use at high service level, is considered compliant up to a maximum limit of 3 million train*km per year for volumes of traffic belonging to the Light sub-category actually operating. Should such volumes exceed this limit, the operator is obliged to send ART a proposal to revise such differentiation criteria, in order to prevent the occurrence of distorting effects on the relevant market segment;

- starting from April 2018, the operator is obliged to inform ART, considering data related to actual traffic volumes, in addition to updating traffic forecasts deriving from track requests related to the subsequent year, about any deviations from forecast traffic volumes assumed as the reference base in defining the 2016-2021 toll system for the minimum access package related to the national railway infrastructure, in order to enable ART to adopt any corrective measures for the purposes of maintaining such toll system's compliance with Legislative decree no. 112/2015.

With regard to services other than the minimum access package, with its note dated 28 June 2016, RFI issued a report containing clarifications and informative integrations, in addition to certain changes to the toll system set out in the note of 22 April 2016. Following discussions with ART - with its note of 14 July 2016 - RFI provided ART with additional information and clarifications, in addition to further changes to the toll system.

In light of the above, ART considered that the introduction of a structured toll related to the length of stay is necessary to ensure efficient use of plant, in addition to efficient utilisation of rolling stock. Therefore, it deemed it suitable to require RFI to implement the automatic recording of length of stay procedure in good time in order to submit a reformulation of the toll system related to such service to ART by April 2018. The above-mentioned changes to the toll system set out in the note of 22 April 2016 led to the need to partially redraft the regulatory accounts, to be audited. Therefore, it was necessary to obtain the relevant report thereon before the date set for the publication of the first draft of the 2018 Network Prospectus and, hence, require RFI to send such documentation to ART before such deadline, set for 22 July 2016 as per Resolution no. 72/2016.

In light of the above process, with Resolution no. 80 of 15 July 2016, ART stated that the new 2017-2021 toll system for services other than the minimum access package presented by RFI is compliant with the criteria approved with Resolution no. 96/2015 of 13 November 2015 and subsequent integrations, with the following prescriptions:

- should RFI wish to modify the toll system for the related services during the relevant regulation period, it shall simultaneously reformulate the modelling of costs to distinguish the variable and fixed components, submitting such modelling and resulting change to the toll system to ART for a check of compliance, in any case in line with the timeframe set out in Measure 1 of Attachment 1 to Resolution no. 96/2015;
- RFI shall implement a procedure for the automatic recording of length of stay of rolling stock in the relevant infrastructure, in order to submit a remodelling of the toll system for rolling stock stay, shed and depot services to ART for a check of compliance within April 2018;
- by 22 July 2016, ART shall receive the report by the independent auditors of the regulatory accounts related to the toll system as per the above-mentioned note of 22 April 2016.

With Resolution no. 30 of 23 March 2016, ART stated that Measure 11.6.2 of Resolution no. 70/2014 - which, specifically, provided that the operator launch public procedures by 30 June 2015 for the tendering of shunting services - shall be applied only to plant where the shunting service took place entirely on RFI-owned areas (Lecco Maggianico and Milan Smistamento - Fascio Segrate), while for all other plants (i.e., plants operated by the Single Manager where shunting activities are not performed entirely on RFI-owned areas), a procedure shall be launched to establish the most suitable method for ensuring the cost efficiency and management effectiveness of shunting services.

To this end, with subsequent Resolution no. 133 of 18 November 2016, ART called a consultation on the regulation framework containing the "Regulatory measures aimed at establishing the most suitable method for ensuring the cost efficiency and management effectiveness of railway shunting services" in order to gather the observations of the various stakeholders of the railway industry in order to then formulate the definitive text of the Regulatory measures.

On 9 February 2017, following the assessment carried out and considering the observations formulated by the consultation participants, ART published Resolution no. 18 approving the "Regulatory measures aimed at establishing the most suitable method for ensuring the cost efficiency and management effectiveness of railway shunting services". Such measures refer to 13 "railway districts", selected as per the criteria expressed with Resolution no. 133/2016 (excluding the Gallarate - Ambrogio plant as it is a private terminal with a sole operator and sole customer), for which the Single Manager will be chosen in compliance with transparency, equity and anti-discrimination standards, notwithstanding the possibility to do their own shunting to be performed in accordance with the law.

**Fourth railway package**

*Technical pillar*

The so-called Technical pillar of the Fourth railway package was definitively approved in May 2016. Such Technical pillar, which introduces significant changes aimed at improving the functioning of the single European rail area, is comprised of three pieces of legislation, as follows:

- Regulation (EU) 2016/796 which, repealing Regulation (EC) no. 881/2004, discontinued the ERA and set up the new European Union Agency for Railways (EUAR), simply known as the "Agency";
- Directive (EU) 2016/797 on interoperability, repealing the previous Directive 2008/57/EC as of 16 June 2020;
- Directive (EU) 2016/798 on railway safety, repealing the previous Directive 2004/49/EC as of 16 June 2020.

Specifically, Directive (EU) 2016/797 of the European Parliament and of the Council sets out provisions for developing and revising technical specifications for interoperability (TSIs), while Directive (EU) 2016/798 of the European Parliament and of the Council sets out provisions for developing and revising common safety methods (CSM), common safety targets (CST) and common safety indicators (CSI).

The above legislation extended and strengthened the scope of jurisdiction of the newly-formed Agency, specifically allocating it the following functions: (i) issuing authorisations for the placing on the market of rolling stock in the EU; (ii) issuing single safety certificates for railway companies in the EU.

*Market pillar*

At its December 2016 plenary session, the European Parliament finally approved the so-called Market pillar of the Fourth railway package, with the consolidated texts published in the European Union Official Journal on 23 December 2016. It is comprised of the following three pieces of legislation:

- amendment to Directive 2012/34/EU (so-called recast) related to the opening of domestic passenger transport services by rail and the governance of the railway infrastructure which shall be adopted by member states by 25 December 2018;
- amendment to Regulation no. 1370/07 related to the opening of the domestic passenger transport services by rail;

- repeal of Regulation (EEC) no. 1192/69 related to common rules for the normalisation of the accounts of railway companies.

In detail, the main points amended related to:

- the introduction of a "new definition of Infrastructure manager", meant as the body or company attributed with performing four specific tasks, i.e., operation, maintenance, renewal and participation in the development of rail infrastructure;
- the introduction of the definition of "vertically-integrated companies" which covers the governance model characterising Ferrovie dello Stato Italiane group;
- governance rules aimed at ensuring organisational and decision-making independence of the Single Manager in performing two key functions (i.e., "assigning railway tracks" and "setting tolls for using infrastructure");
- full liberalisation of domestic passenger transport (high speed and long haul services) starting from the 14 December 2020 timetable, without changing the possibility to limit access should the financial balance of the Public Service Agreements be compromised as assessed by Regulatory Body;
- new rules in assigning "public passenger transport services by rail" with preference to bids for tender, except the possibility to directly assign the service up to 25 December 2023 for contracts of no more than 10 years.

## 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, 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, standard 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.

In the period beginning on 1 January 2016 and ending on 10 December 2016, the market presented:

- 39 railway companies with valid railway licences issued by the MIT (including three for traffic originating/terminating in Italy only)[1];
- one railway company with a European railway licence issued by the German authority (TX Logistik);
- 33 railway companies that performed transport services after signing an infrastructure use contract;
- 41 infrastructure use contracts[2], as follows:
  - ✓ 19 for passenger traffic;
  - ✓ 19 for cargo traffic;
  - ✓ three for technical train traffic in order to test the rolling stock.

Specifically, in the period beginning on 11 December 2016 and ending on 31 December 2016, the only changes the market presented compared to the previous year were as follows:

- 32 railway companies that performed transport services after signing an infrastructure use contract;
- 39 infrastructure use contracts[3], as follows:
  - ✓ 19 for passenger traffic;
  - ✓ 19 for cargo traffic;
  - ✓ one for technical train traffic in order to test the rolling stock.

With respect to "applicants" at 31 December 2016, 21 framework agreements/memoranda of understanding are in place, broken down as follows:

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[1] Source: Ministry of Infrastructure and Transport - General Railway Transport Department (http://www.mit.gov.it/documentazione/imprese-ferroviarie-titolari-licenza).

[2] The difference between the number of contracts (41) and the number of railway companies party to such contracts (33) is due to the fact that the railway company Trenitalia has six contracts (cargo, long haul passenger services on the market, long haul passenger transport as part of the universal service, long haul passenger service on the HS network, regional passenger transport and technical trains) and the railway companies TUA, Serfer and Ferrovie Udine Cividale have each signed two contracts (which differ depending on the type of service)

[3] The difference between the number of contracts (39) and the number of railway companies party to such contracts (32) is due to the fact that the railway company Trenitalia has five contracts (cargo, long haul passenger services on the market, long haul passenger transport as part of the universal service, long haul passenger service on the HS network and regional passenger transport) and the railway companies TUA, Serfer and Ferrovie Udine Cividale have each signed two contracts (which differ depending on the type of service)

- 15 signed with public entities (13 regions and two autonomous provinces);
- three businesses;
- three framework agreements signed with railway companies, including two for network passenger service and two for cargo transport services.

**Toll revenue**

**General information**

Toll revenue increased by 5.2% from €1,006.1 million in 2015 to €1,058.3 million in 2016. Such increase is mainly due to the average overall 2.7% rise in production volumes expressed in train-km, with a 12% increase on the HS/HC network.

**Service revenue**

**Access to the GSM-R communications network**

In addition to all railway companies with railway infrastructure use contracts, other qualified entities that, even if they do not operate in transport activities, have access to the network in order to conduct their activities, such as certifying or testing the HS/HC network.

In 2016, compared to the previous year, there was a decrease (-19.5%) in revenue to use the GSM-R network, mainly due to the decline in railway companies' demand to use such service.

**Ferry services**

The most significant aspects of the typical components of the ferry services provided for are detailed below.

***Sicilian ferries***

Railway material was transported according to the operating schedule prepared after the Logudoro ferry (with four tracks) was rolled out. It was revamped for the transport of dangerous and toxic cargo, and offered one railway company, currently its only customer, 10,640 four-track runs in 2016 (2015: 10,681).

Ferry revenue from the railway companies in 2016 is substantially unchanged with respect to the previous year, at €18.2 million.

***Sardinian ferries***

This service is operated using the Scilla ferry boat, which offered 8 runs, using the Villa San Giovanni (RC) terminal on the continental side. The runs were carried out exclusively to cover RFI's transport needs (transport of tracks and machinery for super-structure maintenance).

**Shunting services**

Shunting service revenue decreased from €7.1 million in 2015 to €4.4 million in 2016 (-38%).

This was due to the progressive implementation of the project launched in 2013 to encourage the railway companies to do their own shunting under the infrastructure operator's coordination.

The project is being completed and the service is currently being provided at border plant and maritime hubs only.

Furthermore, in compliance with the requirements of ART Resolution no. 104 of 4 December 2015, RFI launched a public procedure to perform the shunting service as Single Manager at the Lecco Maggianico and Milan Segrate on 31 March 2016. On 30 November 2016, the company communicated the formal awarding of the above-mentioned procedure to TS Traction & Service S.r.l., for both lots.

**Assistance to people with reduced mobility**

This service, which has been included since the 2011 Network Prospectus as a complementary service, became fully efficient with the new ReteBlu IT system, which allows all railway companies with traffic on the national network to see, in real time, the information generated by Sale Blu control room operators and related progress (planned, completed, cancelled).

Using this system, the railway companies can also plan assistance services after direct contact with disabled and reduced mobility passengers, accessing system directly from the Internet.

The number of railway company requests for services is growing (average of roughly +10% per year). Indeed, revenue from this service has risen from €1.9 million in 2015 to €2.5 million in 2016. However, the comparison between the two years is not very significant as, due to the implementation of ART Resolution no. 70 of 31 October 2014 which defined a substantial reduction (approximately -75%) in the toll component relating to the cost, taking effect with the 2014-2015 timetable, the recalculation of 2015 revenue led to a reduction of revenue by approximately €0.6 million on an annual basis.

**Other services**

Revenue from additional services pursuant to former article 13 of Legislative decree no. 112/2015 increased by 7.8% overall compared to 2015, substantially due to the railway companies' greater demand for complementary information.

**Network Prospectus**

In 2016, the 2015 and 2017 Network Prospectuses were updated and the 2018 Network Prospectus was published.

<u>2015 and 2017 Network Prospectus Updates</u>

The 2015 and 2017 Network Prospectuses were updated in the first few months of 2016, with regard to:

- greater details of priority criteria used for investments for reducing cases of interrupted operation;
- framework agreement: inclusion of KPIs of the operators for local public transport services;
- inclusion of a specific excess clause bracket for HS contracts of an amount lower than €6 million;
- procedure for assigning RFI locomotives to railway companies to perform shunting activities themselves and change to the contract term;
- inclusion of obligations to guarantee service quality levels in the contract with the operator and railway companies.

Subsequently, the 2017 Network Prospectus was newly updated in the second half of 2016: changing paragraph 2.4.5 "Rules for managing circulation" following the issuing of the new General Preface to the Timetable through the Operating provision no. 18 of 19 November 2015. Such update also related to chapters 5 and 6, which were amended following ART Resolution no. 80 of 2016. With such Resolution, ART stated the compliance of the new toll system for the 2017-2021 toll period, in relation to services provided by RFI other than the minimum access package, with the principles for determining the tariffs set by ART Resolution no. 96/2015.

On 9 December 2016, the 2017 Network Prospectus was updated again following ART Resolution no. 140 of 30 November 2016, containing guidance and requirements for the 2018 Network Prospectus, which partly apply to the 2017 Network Prospectus as well, related to services other than the minimum access package. In this regard, with regard to methods used to recognise services other than the minimum access package, ART drafted a procedure to record deviations between planned and actual usage of such services. The draft procedure was presented to ART on 9 February 2017 and will be put into operation on 31 March 2017.

Publication of the 2018 Network Prospectus

As part of the annual Network Prospectus update process, on 22 July, RFI published the first draft of the document on its website, simultaneously informing all interest parties, thus launching the consultation stage as per article 14.1 of Legislative decree no. 112 of 2015.

The main changes are summarised as follows:

- consolidation of chapter 2 - special part, deeming that, except for certain specific measures which were maintained, the two chapters contain valid rules and principles for both HS/HC infrastructure and conventional infrastructure;
- implementation of innovations introduced by Regulation 2016/545/EU on "Procedures and criteria related to framework agreements for the allocation of railway infrastructure capacity";
- introduction of the description of the new toll system for the minimum access package, so-called tolling, applicable as of 1 January 2018, stated compliant by ART with its Resolution no. 75/2016 to the regulatory model contained in ART Resolution no. 96/2015.

On 7 December 2016, the 2018 Network Prospectus was published, containing the main changes mentioned above and in compliance with the guidance and requirements contained in ART Resolution no. 140/2016, which, in addition to that already mentioned with reference to the 2017 Network Prospectus, related to the new regulation of framework agreements and the performance regime system.

## MAIN EVENTS OF THE YEAR

### February

**RFI/ANAC sign a protocol against corruption and for collaborative supervision of work in progress**

On 25 February 2016, in Florence, the National anticorruption authority (ANAC) and RFI signed the Collaborative supervision protocol, starting a constructive partnership to prevent and monitor possible corruption in its ongoing contracts. This one-year protocol will also be used to prevent corruption to safeguard the public's (correctness and transparency) and the company's interests and strengthen the company's reputation and its credibility with citizens and stakeholders. The protocol integrates the Legality protocols that RFI has previously signed with local institutions and bodies to prevent corruption and support the transparency of the areas in which RFI's contracts take place.

### March

**Maurizio Gentile appointed Director General**

On 25 March 2016, the board of directors appointed the CEO of RFI, Maurizio Gentile, Director General of the company.

### May

**Maurizio Gentile appointed chairman of CIFI**

In May 2016, the CEO and Director General of RFI, Maurizio Gentile, was appointed Chairman of the Board of Italian Railway Engineers (CIFI) for the 2016-2019 four-year period. The main objectives of the CIFI are to: promote studying scientific, technical, financial and legislative matters related to land transport; work for the best solution to such matters; enhance the value of the function of engineers and transport experts; study, coordinate and support the interests of engineers and transport experts; contribute to improving the technical culture and training of operators in the land transport industry.

**Chairperson of RFI appointed**

At their meeting held on 17 May, the shareholders of RFI appointed Claudia Cattani director and Chairperson of the board of directors of RFI.

### June

**New national operating room of RFI**

The new national operating room of RFI was inaugurated on 16 June 2016. This ultra-technological control tower for national railway traffic has touch screens, high-tech systems for operators and real-time viewing of the circulation of trains in the main rail hubs. The structure monitors the circulation of approximately nine thousand trains/day over more than 24 thousand kilometres 24 hours a day, checks the efficiency status of the national railway infrastructure (tracks, reversal points, signals, technological safety systems, train power system, etc.) and coordinates railway traffic management when emergencies and significant critical issues occur. Furthermore, in synergy and coordination with the 14 local operating rooms, in addition to checking the performance of railway traffic, it manages all the activities necessary and functional to ensure the continuity of railway circulation in the event of irregularities, breakdowns or external events which lead to temporary stops. It is the operating interface of the 33 railway companies and it authorises and monitors all the requested changes to the planned commercial daily service.

**The 2016 Service Charter**

On 10 June 2016, the 2016 RFI Service Charter was published online on the website www.rfi.it in web-accessible format to enable the broadest use, including to people with disabilities via the use of assistive technology.

**July**

**VII capital increase of Tunnel Ferroviario del Brennero – Società di partecipazioni S.p.A.**

On 6 July 2016, RFI paid €50 million to its direct subsidiary TFB S.p.A. for the first tranche of €65 million related to the VII capital increase resolved by the subsidiary's shareholders at their extraordinary meeting held on 15 April 2016.

**September**

**The new 2017-2026 business plan**

On 12 September 2016, RFI's board of directors approved the new business plan for the 2017-2026 ten-year period. The strategic planning document prepared by the operator is an integral part of the new business plan of FS Italiane group, focusing on five strategic cornerstones: passenger modal integration, integrated logistics, integrated infrastructures, international development and digitalisation, and customer centricity. Due to its role, RFI's plan is chiefly focused on infrastructural integration, while also making significant contributions to the other strategic cornerstones.

In such framework and a more defined legislative and regulatory context, following ART's approval of the new toll system for the minimum access package (approved with Resolution no. 75 of 1 July 2016) and the pricing of other services other than the minimum access package (approved with Resolution no. 80 of 15 July 2016), RFI developed a ten-year plan which targets creating a railway network that is increasingly more:

- integrated with the European network, in order to create a single railway market that is interoperable and interconnected with other transport systems (road, port, airport) to offer integrated infrastructure services;
- widespread, branched and connected with local areas to create a network that is spread out through the country;
- customer centred, capable of creating added value for customers, offering solutions that are fully synchronised with their actual needs;
- innovative and safe, by using state-of-the-art technology and high levels of automation, to continue guaranteeing high standards of safety in circulation and, more generally, safety on the railways;

- performing, capable of ensuring high levels of reliability and regularity with increasingly higher performance levels;
- sustainable for the environment and society, to contribute to cutting back on the consumption of non-renewable resources and making the most of the land;
- efficient and profitable, capable of creating value and ensuring adequate remuneration of the invested assets, simultaneously guaranteeing sustainable levels of public contribution.

The plan provides for the gradual integration of the former "railways under concession" into the national railway infrastructure. The aim is to spread the range of the railway service, boost efficiency and, above all, increase safety thanks to the high technological standards adopted by RFI.

In order to support the development of the new business plan, RFI planned investments of approximately €56 billion for the 2017-2026 ten-year period, with annual average costs of over €5 billion, assuming the disbursement of relevant public funds. The sustainability of such spending trend is strongly characterised by the continuation and new launch of works performed for construction lots, the gradual launch of works for eliminating bottlenecks in urban areas, in addition to the performance of works for infrastructural and technological developments of large lines in the south.

**October**

**VII capital increase of Tunnel Ferroviario del Brennero – Società di partecipazioni S.p.A.**

On 19 July 2016, the second tranche of the capital increase totalling €43 million was made to TFB S.p.A.. RFI paid its portion of €38 million to the direct subsidiary. Such tranche completed the VII capital increase, resolved by the subsidiary's shareholders at their extraordinary meeting held on 15 April 2016.

**The MEF and EIB reached an agreement to finance works for the upgrading of the traditional network**

On 27 October 2016, the MEF and the European Investment Bank (EIB) signed an agreement to finance RFI S.p.A.'s action plan for €1 billion. The loan will support railway works around the entire country. RFI simultaneously signed a project contract with the EIB in which the company undertakes to perform a detailed list of works. The agreement is a continuation of that signed in January 2015 (loan of €950 million) to upgrade traditional railway lines and the regional and local lines from northern to southern Italy.

**November**

**Acquisition of the Carini real estate complex**

On 18 November 2016, the company signed a purchase agreement with Ansaldo Breda for the Carini (Palermo) real estate complex for a total of 93,500 square metres, of which 20,000 square metres of warehouses, 3,000 square metres of service buildings (offices, changing rooms, canteen) and 70,500 square metres of equipped areas where maintenance of rolling stock (site vehicles and diagnostic trains) will be performed.

**December**

**Riyadh metropolitan railway Operation & Maintenance project**

On 2 December 2016, the board of directors of RFI authorised the company's participation in the tender issued by the Arriyadh Development Authority (ADA) to select international contractors in order to build a team to manage the maintenance and circulation of the Riyadh metropolitan railway. FS Italiane group will participate via the Flow consortium (Ferrovie dello Stato Italiane S.p.A.: 33.33%, Ansaldo STS: 33.34%, ARAIL: 33.33%), proposing sending approximately 26 managers, of whom two from RFI, to Riyadh.

This initiative is an opportunity for the company to (i) acquire and develop know-how in the international strategic business of metropolitan railways, (ii) gain experience returns, (iii) expand its company references.

**Milan-Verona HS/HC line: activation of the Treviglio-Brescia section**

The new Treviglio-Brescia HS/HC line was inaugurated on 10 December 2016. The Minister for Infrastructure and Transport, accompanied by members of top management of FS Italiane group, the Chairperson Gioia Ghezzi and the CEO and Director General Renato Mazzoncini went on the inaugural journey. Members of top management of Italferr and other FS Italiane group companies also attended, in addition to representatives of local institutions.

**New Andora-San Lorenzo double track railway line**

The double tracks from Andora to San Lorenzo, an integral part of the Genoa-Savona-Ventimiglia line, were put into operation on 11 December 2016. The new railway line, moving the previous line towards the mountains, is roughly 19km long, of which 16km is under a tunnel. Three new stations were built: Imperia (which replaces the city's two current stations of Oneglia and Porto Maurizio), Diano and Andora, with the latter being the connecting point with the line already in operation towards Genoa.

The overall financial investment is over €580 million.

The new double track was inaugurated with a journey on-board a regional train, with the Deputy Minister of Infrastructure and Transport, the Governor of the Liguria Region, the councillor responsible for Employment, Transport, Tourism and Personnel Policies, and the mayors of municipalities involved in the new line, in addition to members of top management of FS Italiane group, in attendance.

**Renewal of the national labour agreement for the railway mobility/contractual area and FS Italiane group's contract**

On 16 December 2016, the agreement was signed for the renewal of the national labour agreement for the railway mobility/contractual area and FS Italiane group's contract, definitively approved on 17 January 2017 following the specific referendum organised by the trade unions among the workers.

**Roll-out of the Livorno Darsena plant**

18 December 2016 saw the roll-out of the new Livorno Darsena plant, the related connection with the Livorno Calambrone station which remotely controls such plant point by point, in addition to connecting Darsena Toscana by rail to the northern section of the Tirrenica line.

The event was attended by the CEO of RFI, the mayor of Livorno, the chairman of the Province and the commissioner of the Livorno port authorities. It was inaugurated on 19 December 2016 in the presence of the

Minister of Infrastructure and Transport and the chairman of the Tuscany Region.

**Grant related to goods as per Law no. 190/2014 – MIT Internal decree no. 61 of 29 December 2016**

On 29 December 2016, MIT's Department of Transport, Navigation, General Affairs and Personnel published Internal decree no. 61 in order to govern the methods used in 2016 and 2017 to determine (article 3) and allocate (article 5) the grant given to railway companies as per Law no. 190/2014 and subsequent amendments and integrations. Pursuant to the above-mentioned article 5, the grant was given to the railway companies via RFI.

**HUMAN RESOURCES**

The company's organisational structure underwent the following changes in 2016 which led to significant modifications in the management of certain company processes:

- launching (starting from 1 March 2016) the new organisational model of the Production Department, which affected approximately 14 thousand employees, aimed at supporting the insourcing of maintenance activities, streamlining the hierarchic chain, eliminating overlapping of responsibilities/activities assessed and allocated on the basis of the "specialisation" criterion, boosting the efficiency of the production cycle thanks to the simplification of processes supporting maintenance activities;
- changing (starting from 1 January 2016) the 2010 RFI-Italferr Contract, via the specific addendum, where RFI reabsorbed into the company certain functions/responsibilities of the position of Process Manager, in order to effectively supervise investment projects;
- strengthening the company's safeguard of across-the-board activities with a long-term strategic impact, by setting up two organisational structures with the CEO's staff, one focused on introducing principles defined by the ISO 5500X international technical standards, aimed at ensuring asset management in order to create value for the company, and the other aimed at studying and developing long-term infrastructure development solutions;
- continuing the "Access control in stations" security project (currently activated in Rome Termini, Milan Centrale and Florence S.M.N.), aimed at increasing passenger safety in stations and, as a result, improving company image;
- launching activities at Officina Nazionale Armamento Fonderia Bari, on 1 January 2016, for processes to produce and sell "cores" in manganese cast steel for rail reversal points, with 97 workers from the acquired business unit assigned to the activities;
- continuing interventions on workforce dynamics which led to hiring personnel aimed at improving the generational mix and professional skills.

Supporting the trends described above were leaving incentives (for workers who are eligible to receive pension benefits) and hiring recent graduates with expertise and infrastructure maintenance professionals.

Furthermore, FS Italiane group's statement of its willingness to contribute to the employment solution for Ansaldo Breda personnel at the Carini site by taking on a limited number of qualified employees, was sealed with an agreement signed on 23 December 2015 at the Ministry for Economic Development between the Ministry itself, FS Italiane group, Finmeccanica, Ansaldo Breda and the trade unions. Subsequently, 63 employees were hired on open-ended contracts starting from 1 November 2016 to work on the industrial project which, following the insourcing of highly-specialised processes performed in previous years, provides for the industrial redevelopment of the Carini real estate complex for performing maintenance of RFI's rolling stock (site vehicles and diagnostic trains).

Below is the development in the RFI workforce from 1 January 2016 to 31 December 2016:

- number of RFI employees at 31 December 2015: 25,409 employees (including 226 managers and 25,183 white collars and junior managers);
- number of RFI employees at 31 December 2016: 25,540 employees (including 227 managers and 25,313 white collars and junior managers).

The balance is due to 925 incoming employees and 794 outgoing employees, including mobility between FS Italiane group companies.

**Industrial relations**

With regard to industrial relations, 2016 was above all dedicated to negotiations for renewal of the national labour agreement for the railway mobility/contractual area and FS Italiane group's contract which expired on 31 December 2014. The renewal agreement - signed on 16 December 2016 and definitively approved on 17 January 2017 - can be summarised as follows:

1. <u>financial part</u>: increase in contractual minimums; a one-off payment for contractual holidays (covering the period from 1 January 2015 to 31 October 2016); increase in the hourly rate for working at night and the daily rate for working on Sundays and public holidays; paying €100 to the Eurofer supplementary pension fund for all employees; increase in the annual individual contribution for supplementary individual assistance; annual payment of €100 for each worker as company welfare, starting from 1 July 2017;

2. <u>legislative part</u>: setting up a specific round table with the trade unions on reorganisation procedures involving FS Italiane group; implementing new legislation in relation to video surveillance and new technologies; implementing specific protective measures for workers affected by changes in tenders;

3. <u>performance bonus</u>: payment of the bonus for the 2013-2016 period.

**Fund for the pursuit of pro-active policies to support income and employment**

In relation to the fund for the pursuit of pro-active policies to support income and employment, three agreements were signed on 28 July 2016, as follows: 1) a procedure agreement to make the already operating Fund pursuant to Interministerial decree no. 86984 of 9 January 2015 immediately active; 2) a lateral agreement containing a qualitative plan of 100 hirings in the infrastructure maintenance division to be fine-tuned in the first half of 2017, against approximately 120 hirings in such Fund to be chosen from among the unsuitable workers, the employees working in circulation/shunting; 3) agreement to integrate and modify the governance of such Fund, which introduced the innovation of "extraordinary solidarity performances for generational change" but which must be implemented by a new Interministerial decree before becoming operative.

The FS Italiane group companies and the trade unions signed an agreement on 28 February 2017 which regulates access to the Fund's extraordinary performances which may involve approximately 350 workers for RFI (mainly unsuitable workers, staff and support personnel).

Furthermore, on the same date, the FS Italiane group companies and the trade union signed an agreement for the qualitative hiring, to be fine-tuned within the first quarter of 2018, of roughly 310 employees for RFI, of which 220 working in infrastructure maintenance and 90 in specialist activities (including university and secondary school graduates).

## ENVIRONMENTAL POLICY

In the pursuit of its business mission, RFI is focused on developing a more environmentally and socially sustainable transport system to benefit the community and the logistics and production system. In this respect, the company has taken steps to improve the quality and extent of accessibility to the railway infrastructure and the services managed, operating in accordance with the rules and criteria that ensure compliance with legislation and conduct and processes based on environmental and social responsibility throughout its entire organisation. In line with its and the group's environmental policy, the company designs and builds new works and carries out maintenance, carefully managing resources used to protect the environment, also focusing on the reuse of materials to, *inter alia*, reduce waste production and planning waste recovery through its activities. Furthermore, RFI has adopted a strict policy to reduce greenhouse gas emissions and save energy, and it carries out projects and builds works that do not disrupt the landscape.

RFI continuously monitors the environmental side of its railway activities and services through complex systems to measure and control environmental variables in the various production processes, which are all carried out within the scope of rules and criteria defined by the integrated safety management system.

In addition to this, over time RFI has implemented an environmental management system, which it uses to conduct corporate environmental analyses by creating a document to identify environmental aspects and assess the significance of impacts on activities. In this regard, the first half of 2016 saw the continuation of the process to expand the environmental management system to all company organisational structures, evidence of RFI's commitment to speed up the process to evolve from a reactive type of management that merely complied with legislation to a more proactive type of management, focused on prevention and the long term.

## MACROECONOMIC CONTEXT AND MARKET PERFORMANCE

### Macroeconomic context

Exposed to a series of growing financial and political risks, which involved both economically-advanced and emerging countries, the global economy showed a slight growth trend in 2016. Such growth was marked by low inflation rates in advanced countries, weak trends in international trade, geo-political tensions caused by conflict in the Middle East and the constant threat of terrorism.

The latest available data highlighted how, once more in 2016, the economic activity of advanced countries has not yet managed to reach pre-crisis growth rates, with an annual average increase of 1.6%. Furthermore, the growth rate in emerging economies weakened slightly (+3.6%) compared to the previous year, reflecting the drop in global demand and decrease in raw material prices.

| **International trade data** | | **2015** | **2016** |
|---|---|---|---|
| | | *(% change on previous year)* | |
| **GDP** | | | |
| | World | 3.1 | 2.8 |
| | **Advanced countries** | 2.0 | 1.6 |
| | US | 2.6 | 1.6 |
| | Japan | 0.6 | 0.8 |
| | Eurozone | 1.9 | 1.7 |
| | **Emerging countries** | 3.7 | 3.6 |
| | China | 6.9 | 6.7 |
| | India | 7.3 | 6.9 |
| | Latin America | -0.2 | -0.7 |
| | | | |
| **Oil (Brent price in US$ per barrel)** | | 53.0 | 44.9 |
| **International trade** | | 2.4 | 1.2 |
| *Source: Prometeia, December 2016* | | | |

The growth in international trade was low (+1.2% in 2016, compared to +2.4% in 2015), also highlighting the drop in its flexibility with regard to GDP.

With regard to trends in oil prices, following the OPEC agreement of 30 November 2016, for curbing supply on offer, prices rose slightly from the minimums at the beginning of the year, hitting an average price of US$44.9 per brent barrel.

Though disappointing compared to previous economic cycles, the US economy was confirmed among the most dynamic of advanced economies with an annual average growth of 1.6%. After a slight weakness in the first two quarters of the year (+0.2 in the first quarter; +0.3 in the second), the expansion trend of the US GDP was fairly strong (+0.8 in the third quarter; +0.6 in the fourth), mainly due to domestic demand, particularly consumption, which benefited from the improvement in wages trends and residential investments. In the short term, an additional contribution should arrive from a more expansive tax policy announced following the election of the new president.

The Japanese economy grew in 2016 more than expected, slightly more rapid than the previous year, mainly driven by domestic demand and the approval of tax incentives by the government authorities. Consumption remain slightly disappointing, with a growth of 0.3%, along with investments. Despite the stimuli of monetary politics, inflation was very negative (-0.3%).

In the main emerging countries, economic growth slowed down considerably due to both external causes and internal imbalances. Some of the main causes were the above-mentioned fall in combined global demand, the depreciation of currencies of these countries as a result of the US's less expansive monetary policy and the negative impact due to the collapse of raw material prices.

Undergoing numerous reforms, once more in 2016 China confirmed the country's growth according to the goals set by the government authorities (+6.7%). In general, the growth was driven by real estate sales and purchases and greater public investments, which offset the slowdown in exports.

After the severe recession of the last two years and with a tough political situation, the Brazilian economy continued to contract in 2016, suffering from the drop in raw material prices, a contraction in investments and cuts in public spending.

Russia's economic situation seems to have stabilised. Its GDP contracted by 0.9% (-3.7% in 2015) which, in addition to the fall in oil prices, was impacted by the economic sanctions imposed by the West due to the Ukrainian crisis.

Among emerging economies, almost all in difficulty, India would appear to be exception, with a very sustained growth in GDP (+6.9%) against very moderate trends in industrial production. The sudden decision taken by the government authorities towards the end of the year to eliminate large bank notes to combat tax evasion and corruption also led to a drop in consumption.

Economic expansion in the Eurozone was moderate, but gradually improving. The growth was spurred by a slight increase in investments, greater consumption - favoured by the fall in energy prices and improvements in employment levels - and the increase in exports. The overall increase in the GDP in 2016 was 1.7%, with low levels of inflation (0.2%) despite the expansive monetary conditions.

| **Eurozone economic data** | | **2015** | **2016** |
|---|---|---|---|
| | | | |
| **GDP** | | *(% change on previous year)* | |
| | **Eurozone** | **1.9** | **1.7** |
| | Germany | 1.5 | 1.7 |
| | France | 1.2 | 1.2 |
| | Italy | 0.6 | 0.9 |
| | Spain | 3.2 | 3.2 |
| | | | |
| **Inflation** | | *(% change on previous year)* | |
| | **Eurozone** | **0.0** | **0.2** |
| | Germany | 0.1 | 0.3 |
| | France | 0.1 | 0.3 |
| | Italy | 0.0 | -0.1 |
| | Spain | -0.6 | -0.5 |
| | | | |
| *Source: Prometeia, December 2016* | | | |

From among the leading Eurozone countries, Germany showed a GDP growth of 1.7% - bolstered by household consumption and exports - though with a slowdown in industrial investments - pending stronger conditions of overall demand - and real estate investments.

France recorded a lower growth (1.2%) than the Eurozone average, which was impacted by a drop in household consumption and a slowdown in exports, despite the increase in investments by companies.

In Spain, the political void in the first ten months of the year did not have negative effects on economic growth. Supported by domestic demand, the GDP rose by 3.2%, well above the Eurozone average. However, though falling, the unemployment rate (20.5%) remained at socially unacceptable levels, especially with regard to young people which remained at over 50%.

**The Italian scenario**

After two years of recovery (+0.2% in 2014 and +0.6% in 2015), the positive trends in GDP confirmed that the Italian economy is in the process of strengthening. In economic terms, the growth in the first few months of the year accelerated slightly (+0.4%), became stagnant once more in the second quarter (+0.1) and then leaped in the summer months (+0.3%) thanks to the positive contribution of consumption and investments. According to the latest signs, economic activity will have risen by 0.2% in the fourth quarter.

| GDP and main components | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| | | | | |
| **GDP** | 0.4 | 0.1 | 0.3 | 0.2 |
| | | | | |
| **Domestic demand** | 0.5 | -0.2 | 0.4 | 0.1 |
| | | | | |
| Spending by households and private not-for-profits | 0.4 | 0.2 | 0.1 | 0.1 |
| Public administration spending | 0.1 | -0.3 | 0.2 | 0.1 |
| | | | | |
| **Gross fixed investments** | 0.6 | 0.0 | 0.8 | -0.1 |
| *construction* | 0.0 | -0.1 | -0.2 | -0.5 |
| *other durable goods* | 1.1 | 0.1 | 1.7 | 0.2 |
| | | | | |
| **Imports of goods and services** | -1.1 | 1.3 | 0.7 | 0.3 |
| **Exports of goods and services** | -1.2 | 2.1 | 0.1 | 0.7 |

*Source: Prometeia, December 2016*

These improvements are above all due to the recovery of domestic demand (+1.3%), weakened by the less favourable performance of foreign demand. Trends were also positive in employment, with a rise in the number of the employed. Thanks to the incentives and effects of the Job Act, December saw the confirmation of the increasing trend in numbers of the employed (+1.1% on an annual basis, equal to 242 thousand employees) and the gradual drop in the unemployment rate, down to 11.6%. There were also slightly positive trends in household consumption, with families benefiting from the rise in available income and improvements in the labour market.

Investments also strengthened (+1.9%), promoted by tax policy measures implemented to support companies.

Inflation recorded an average drop of 0.1% in the year, impacted by the long-term fall in raw material prices, specifically, energy prices.

## PERFORMANCE

### Income statement

*millions of Euros*

| | 2016 | 2015 | Change | Changes % |
|---|---|---|---|---|
| **REVENUE** | **2,575** | **2,486** | **89** | **4%** |
| Revenue from sales and services | 2,274 | 2,178 | 96 | 4% |
| Other income | 301 | 308 | (7) | (2)% |
| **Operating costs** | **(2,218)** | **(2,207)** | **(11)** | **0%** |
| Personnel expense | (1,417) | (1,418) | 1 | (0)% |
| Other costs, net | (801) | (789) | (12) | 2% |
| **GROSS OPERATING PROFIT** | **357** | **279** | **78** | **28%** |
| Amortisation and depreciation | (94) | (94) | – | 0% |
| Impairment losses (reversals of impairment losses) | (23) | (11) | (12) | 109% |
| Provisions | (25) | (14) | (11) | 79% |
| **OPERATING PROFIT** | **215** | **160** | **55** | **34%** |
| Net financial expense | (34) | (36) | 2 | (6)% |
| **PRE-TAX PROFIT** | **181** | **124** | **57** | **46%** |
| Income taxes | – | 5 | (5) | (100)% |
| **PROFIT FROM CONTINUING OPERATIONS** | **181** | **129** | **52** | **40%** |
| Profit (loss) from assets held for sale, net of taxes | – | – | – | – |
| **PROFIT FOR THE YEAR** | **181** | **129** | **52** | **40%** |

The main changes in these captions between 2016 and 2015 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 €96 million, mainly due to the following factors:

- €52 million increase in toll revenue attributable mainly to the increase in production volumes;
- €41 million increase revenue from the sale of electrical traction in accordance with Law no. 116/2014, which provided for the reformulation of the electrical toll system of Ferrovie dello Stato Italiane.

Other income decreased by €7 million, mainly due to the following:

- €12 million decrease in revenue from property management;
- €6 million decrease in revenue for work on behalf of third parties;
- €38 million increase in revenue from sundry services, chiefly due to greater revenue from maintenance and energy conduction of the high voltage lines of RETE S.r.l. (€34 million);
- €4 million decrease in revenue from penalties and sanctions, mainly due to the rulings of the Rome Court against Asfalti Sintex S.p.A. in 2015;
- €9 million decrease in revenue due to payables verified as already settled;
- €7 million decrease in insurance compensation;

- €4 million lower revenue from the sale of material no longer in use and removed from production.

In 2016, personnel expense was more or less in line with 2015, recording a decrease of €1 million. Such drop was due to the reduction of personnel expense for employees and other related costs of €8 million, as a consequence of the company's efficiency process which determined a reduction in the average workforce and a generational change, offset by greater accruals and releases carried out in 2016 totalling €7 million.

Other costs, net rose by €12 million, as the combined effect of the following factors:

- total increase of €138 million in "Raw materials, consumables, supplies and goods", mainly due to the following changes:
  - €173 million increase in consumption of materials, of which €144 million for investments and €29 million for operations;
  - €41 million 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);
  - €20 million higher electrical energy and fuel costs for the traction of trains, deriving from an increase in HV energy costs (€32 million) following the above-mentioned changes in the conditions of the electrical market (Law no. 116/2014), partially offset by lower costs linked to the net effect of prior year income and expense (€12 million);
- €27 million increase in service costs, mainly due to the combined effect of:
  - €28 million increase in costs to maintain and repair property and chattels, of which €16 million due to line maintenance and €11 million for rolling stock maintenance;
  - €4 million increase in transport service costs;
  - €4 million increase in costs for cleaning and other contracted services;
  - €2 million decrease in revenue for work on behalf of third parties, linked to the related fall in revenue;
  - €4 million decrease in costs for administrative and IT services;
  - €3 million decrease in external communication services and advertising costs;
  - €3 million lower insurance costs;
  - €3 million decrease in Polfer (railway police) costs;
  - €2 million decrease in facilities costs;
  - €7 million net increase in other costs for accruals and releases. In particular, in 2016, €17 million was accrued, including €16 million for civil court proceedings and €1 million for the performance regime;
- €5 million increase in the use of third-party assets, mainly due to the different ways in which vehicles needed for the industrial fleet are acquired (vehicle rental);
- €21 million increase in operating costs, mainly deriving from costs incurred for compensation (€7 million), prior year expense (€6 million) and greater accruals for other operating costs (€6 million);
- €179 million increase in internal work capitalised, mainly due to the development of the effect of the investment activity internationalisation process launched in 2014, in addition to the huge volume of investments recorded in 2016, linked to greater attention paid by the government to the development and maintenance of the infrastructure network and to the commitment undertaken by RFI with regard to the government to maximise the impact of the "flexibility clause".

Depreciation of 2016, amounting to €94 million, is in line with the previous year.

Net reversals of impairment losses increased by €12 million on the previous year, chiefly due to:

- greater accruals to the allowance for impairment (€5 million); specifically, such accruals amounted to €10 million in 2016, of which €6 million related to the non-collection of the receivable due from the Calabria Region for invoices related to "2007-2014 ordinary maintenance costs pursuant to the framework agreement of 29 August 2006 for the Gioia Tauro infrastructure" which resulted not due;
- greater impairment losses on intangible assets (€3 million) and on property, plant and equipment (€4 million).

An accrual of €25 million was made in 2016 to the fund for the pursuit of pro-active policies to support income and employment, up €11 million on the 2015 accrual. The aim is to accompany personnel who have reached the necessary requirements to the old age or early pension, as described in more detail in the "Human resources" section hereof.

Net financial expense improved by €2 million, mainly due to:

- a decrease in financial income (€2 million), mainly attributable to interest income on the VAT receivable;
- a decrease in financial expense (€4 million), mainly due to lower interest expense of post-employment benefits (€2 million) and lower interest expense on loans (€2 million).

The €5 million decrease in income tax is attributable to the recognition of a positive component of income tax relating to 2014 in the 2015 tax return.

**Reclassified statement of financial position**

millions of Euros

| | 31.12.2016 | 31.12.2015 | Changes |
|---|---|---|---|
| **ASSETS** | | | |
| Net working capital | (1,222) | (1,290) | 68 |
| Other assets, net | 602 | 103 | 499 |
| **Working capital** | **(620)** | **(1,187)** | **567** |
| Non-current assets | 35,122 | 35,362 | (240) |
| Equity investments | 133 | 133 | – |
| **Net non-current assets** | **35,255** | **35,495** | **(240)** |
| Post-employment benefits | (694) | (713) | 19 |
| Other provisions | (522) | (499) | (23) |
| **Post-employment benefits and other provisions** | **(1,216)** | **(1,212)** | **(4)** |
| **Net assets held for sale** | **–** | **–** | **–** |
| **NET INVESTED CAPITAL** | **33,419** | **33,096** | **323** |
| Net current financial position | (1,082) | (1,234) | 152 |
| Net non-current financial debt | 1,353 | 1,343 | 10 |
| **Net financial debt** | **271** | **109** | **162** |
| **Equity** | **33,148** | **32,987** | **161** |
| **COVERAGE** | **33,419** | **33,096** | **323** |

The main changes in these captions between 31 December 2015 and 2016 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 €323 million increase in net invested capital is the result of the €567 million improvement of working capital, the €240 million decrease in net non-current assets, the €19 million reduction in post-employment benefits and the €23 million increase in other provisions.

Working capital improved by €567 million due to the €68 million increase in net working capital and the €499 million increase in other assets, net.
In particular, net working capital improved mainly due to higher current trade payables (€87 million), higher advances to suppliers (€28 million) and the increase in inventories (€81 million), offset by higher current trade receivables (€139 million).

Other assets, net increased mainly due to lower receivables from the MEF, EU and other ministries (€708 million) and the decrease in the related payments on account (€1,676 million) with a total negative impact of €968 million, partially offset by lower other current and non-current liabilities (€358 million) and greater other current and non-current payables (€112 million).

The €240 million decrease in net non-current assets is almost fully attributable to the reduction in non-current assets; specifically, intangible assets increased (€56 million) while property, plant and machinery decreased (€296 million) following the new grants from the government and other bodies allocated to work carried out at 31 December 2016.

At 31 December 2016, post-employment benefits underwent a €19 million decrease, while other provisions are up by €23 million due to the combined effect of new provisions (€79 million) and sundry utilisations, releases and transfers (€56 million).

Coverage increased by €323 million as the net effect of the worsening of the current net financial debt (€152 million), the non-current net financial debt (€10 million) and the €161 million increase in equity.
In detail, net financial debt worsened overall (by €162 million) mainly due to the following:

- worsening of net current financial debt (€152 million), mainly due to the combined effect of the increase in current loans and borrowings (€300 million), the decrease in the interest-bearing intercompany current account (€101 million), the increase in the treasury current account (€270 million), the increase in the current portion of bank loans and borrowings (€5 million), the increase in the current portion of financial liabilities to the parent (€10 million), and the current portion of financial liabilities to others (€14 million) and the increase in the current portion of financial assets (€6 million);
- worsening of the net non-current financial debt (€10 million), mainly due to the combined effect of the decrease in receivables from the MEF for fifteen-year grants (€479 million) and the decrease in the non-current portion of financial liabilities to the parent (€256 million), loans and borrowings from other financial backers (€27 million) and bank loans and borrowings (€183 million), in addition to the increase in other non-current loan assets (€3 million).

Finally, equity increased by €161 million, mainly due to profit for the year.
Equity recognised in the reclassified statement of financial position include hedging derivatives. Therefore, the following reconciliation schedule is provided for greater disclosure:

millions of Euros

| | 31.12.2016 | 31.12.2015 | Change |
|---|---|---|---|
| Reclassified equity | **33,148** | **32,987** | **161** |
| Hedging derivative included in equity | **(34)** | **(37)** | **3** |
| **TOTAL EQUITY** | **33,114** | **32,950** | **164** |

# INVESTMENTS

## NETWORK DEVELOPMENT

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

### Projects and roll-outs

Definitive projects were launched in 2016, mainly related to connections, strengthening, technological upgrading and laying of double-track lines.

In addition, certain roll-outs were completed, chiefly related to new computer-based interlocking systems, laying of double-track lines and connections.

### Progress of investments

In 2016, infrastructural investments totalled €4,172.5 million, up by €619.2 million (roughly 17.4%) on the previous year.
Approximately €88 million was granted to TFB as a share capital increase.

The huge volume of investments recorded in 2016 is linked to greater attention paid by the government to the development and maintenance of the infrastructure network and to the commitment undertaken by RFI with regard to such the government to maximise the impact of the "flexibility clause".

Investments of approximately €1,552.7 million were allocated to large-scale infrastructural projects (including €63.4 million for technological development projects) and roughly €2,619.8 million to maintain the efficiency of infrastructure and for work throughout Italy (including €299.1 million for technology-related projects).

### Main investments in railway operations

In 2016, work continued to complete and roll out planned railway operation investments. In particular:

- new single-track lines rolled out: 63.9 km;
- new double-track lines rolled out: 26.9 km;
- automatic block rolled out: 28.8 km;
- axle-counter block delivered: roughly 52.7 km;
- reverse flow: 90.6 km;
- railroad crossings: 34 railroad crossings were eliminated;
- remote controlled (control system with multi-station computer-based interlocking system) lines rolled out: 256.4 km;
- remote controlled (control system) lines rolled out: 79.7 km;
- remote controlled (control system) lines rolled out: 32.7 km;
- remote controlled (control system with multi-station computer-based interlocking system) lines rolled out: 20.5 km;
- codified currents > 4 codes rolled out: 9.1 km;

- Train speed control system (TSCS) rolled out: 162.4 km;
- central electrical route device: six new devices rolled out;
- central computerised device: 12 new devices rolled out.

**INTEGRATED TECHNOLOGIES**

In 2016, as part of projects related to interoperable corridors and the ERTMS migration, ERTMS coordination activities continued on the Mediterranean Corridor and the Alpine Rhine Corridor, the (technical) roll-out of the pilot line on Mediterranean Corridor for the Milan Lambrate-Pioltello-Treviglio section, using the Level 2 ETCS system overlapping with TSCS, making them compatible with the side activities underway on the Treviglio-Brescia HS/HC section, the works to overlap the Level 1 ETCS equipped with Infill radio on the CMT system along the Domodossola – Novara section on the interoperable Alpine Rhine Corridor. In addition, the executive project was approved to update the computer-based interlocking system and ETCS L2 overlapping the TSCS on the Milan Centrale-Milan Smistamento-Monza Chiasso line.

Finally, in agreement with the MIT, the RFI ERTMS 2016-2020 investment plans were updated, along with the ERTMS development plant with reference to the new technical specifications for interoperability (TSIs) control command and signalling (CCS) for 2016.

**Telecommunications**

With regard to the GSM-R network, the entire RFI GSM-R network was certified Module Sb and the Treviglio-Bresica and Andora S. Lorenzo HS/HC section rolled out at the end of 2016 was certified Module SF.

**EU FUNDING OF INVESTMENTS**

**European regional development fund resources – 2000-2006 NATIONAL OPERATING PROGRAMME - TRANSPORT**

The 2000-2006 National Operating Programme was concluded in December 2014 with the MIT's announcement of the definitive allocation of the financing decided by the European Commission following the final audit among the various beneficiaries. The final audit covered all beneficiaries and showed structural irregularities at "country level", which led the Commission to apply a one-time cut of 10% on unaudited expenses.

RFI was subject to initial definancing of a total of €77 million.

Following checks by the MEF - IGRUE (Inspectorate General for Financial Relations with the European Union), the MIT informed FS Italiane group in March 2016 that it would be subject to another cut of roughly €9 million.

Subsequently, with its note dated 19 April 2016, Ferrovie dello Stato Italiane S.p.A., in agreement with RFI, communicated the division of such additional cut among the different beneficiaries, attributing €8.2 million to RFI.

Accordingly, the final definancing regarding RFI amounts to €85 million.

**European regional development fund resources – 2007-2013 NETWORK AND MOBILITY NATIONAL OPERATING PROGRAMME**

On 31 December 2015, the period of eligible costs under the 2007-2013 network and mobility national operating programme was concluded. Accordingly, during 2016 and running into the early months of 2017, all activities related to the closure of such programme were completed.

On 28 December 2016, the management authority for the network and mobility national operating programme issued decree no. 513 with which it updated eligible costs for the various projects and added another three projects to the existing list of projects.

Such update led to a €29 million increase in grants assigned, setting the overall amount of grants assigned to RFI at €1,310 million, of which €811 million was already collected at 31 December 2016, up €168 million on the previous year end.

**European regional development fund resources – 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.

The programme, intended to fund infrastructures in the less developed regions (Campania, Puglia, Sicily, Calabria and Basilicata), entails the disbursement of a total of €1,844 million to EU member states, including €1,383 million (75%) from the European Regional Development Fund and €461 million (25%) through national co-funding.

The programme is organised into the following priority areas:

- Priority area I - Encourage the creation of a unique European space for multi-modal transport with investments in the Trans-European network-T;
- Priority area II - Develop and improve sustainable transport systems from an environmental point of view (including with low noise levels) and low carbon emissions, including internal navigable routes and maritime transport, ports, multi-modal connected and airport infrastructure, in order to promote sustainable regional and local mobility";
- Priority area III - Technical assistance to the programme.

RFI mainly participates in priority area I, to which approximately €1,095 million are allocated, equal to roughly 60% of the overall budget for the 2014-2020 National Operating Programme.

RFI applied for a total of €1,051 million, which is currently being assessed by the ruling governing authorities. Specifically, €554 million relates to works already funded under the 2007-2013 network and mobility national operating programme which will conclude under the 2014-2020 programme and €497 million relates to new works.

**Trans-European Network ("TEN-T") resources**

***2007-2013 plan***

Against an overall disbursement of €246 million for the company, the total amount collected at 31 December 2016 was €189.4 million, down by €3.9 million on 31 December 2015.

This decrease is due to the combined effect of the following:

- the European Commission requested the refund of pre-financing previously collected as the schedule could not be complied with within the admissible period of time established by the respective funding decisions (€8.6 million for the "Trieste/Divaca cross-border railway line: study and design of the Trieste-Divaca-Ljubljana–Budapest-Ukrainian border cross-border line"; €0.8 million for the "Genoa railway hub: streamlining of plant to improve traffic flow");
- the collection of €0.6 million for the "Study and implementation of the main sections of the corridor for goods transport - Regulation no. 913/2010", €2.4 million for the "Treviglio-Brescia HS/HC section: civil works (stage)" and €2.5 million for the "Technological strengthening of the Turin-Padua line, implementation of technologies for improving circulation efficiency in the Milan railway hub".

***Connecting Europe Facility (CEF)-2014-2020 plan***

The amount funded to date comes to €104 million.

Following the publication, on 5 November 2015, of the second tender for the assignment of CEF funds, RFI participated in the tender with seven proposals within the 16 February 2016 deadline, requesting grants of €99.4 million, of which only €49.7 million approved for funding.

Specifically, on 17 June 2015, RFI received the decision of the European Commission from the INEA (Innovation and Networks Executive Agency which manages infrastructural and research projects in the transport, energy and telecommunications industries), containing the results of the selection process applied to projects approved for funding.

With regard to the projects presented by RFI, the INEA proposed co-funding the following two projects:

"ERTMS trackside equipment on Italian sections of the ERTMS Corridors/Core Network Corridors in compliance to the Breakthrough Program" for €45.7 million;

"Planning of the connection between Venice airport and the national railway network" for €4 million.

The individual grant agreements were signed by the MIT, as the beneficiary, and the INEA respectively on 13 and 28 October 2016.

Finally, on 13 October 2016, another tender was published for the assignment of CEF funds. RFI participated in the tender with two new proposals. The assignees will be announced in July 2017.

**INFRASTRUCTURE**

The following table shows the main data for the RFI network at 31 December 2016.

| **OPERATING RAILWAY LINES (1)** | **16,788** | **KM** |
|---|---|---|
| Classification | | |
| Main lines | 6,367 | KM |
| Complementary lines | 9,466 | KM |
| Hub lines | 955 | KM |
| Type | | |
| Double-track lines | 7,647 | KM |
| Single-track lines | 9,141 | KM |
| Power | | |
| Electrical lines | 12,023 | KM |
| *- double track* | 7,570 | KM |
| *- single track* | 4,453 | KM |
| Diesel fuel lines | 4,765 | KM |
| TOTAL TRACK LENGTH | 24,435 | KM |
| Traditional line | 23,085 | KM |
| HS line (2) | 1,350 | KM |
| RAILWAY PLANT | | |
| Stations that can serve passengers (3) | 2,195 | NO. |
| INNOVATIVE TRAIN SPEED PROTECTION TECHNOLOGIES (4) | | |
| Remote control systems for traffic (CCS/CTC+DPC) | 12,626 | KM |
| TSCS - train speed control system | 12,083 | KM |
| SSC - steering support controls | 4,014 | KM |
| ERTMS - for interoperability on the HS/HC network | 704 | KM |

***Notes***

*(1) 67 km of which on foreign networks*
*(2) referring to sections equipped with ERTMS (excluding Treviglio-Brescia) and the related connections to other service locations*

*(3) data referring to the 11 December 2016 - 9 December 2017 schedule*

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

**Productivity indicators**

Infrastructure development is monitored using the following productivity indicators: line km/agents (both considering and not considering shunting) and the percentage of remote controlled lines. The 2016 indicators are reported below, in comparison with the previous year:

| Productivity indicators | 2016 | 2015 |
|---|---|---|
| a) line km/agent (including shunting) | 2.08 | 2.02 |
| b) line km/agent (excluding shunting) | 2.11 | 2.05 |
| c) % of remote controlled lines (1) | 75% | 74% |

*(1) The figure for remote controlled lines relates to the technical maintenance lines and not commercial lines.*

The a) and b) indicators are ratios of total operating line km to agents operating in the RFI's handling sector, including personnel responsible for shunting in a) and excluding shunting personnel in b). Both indicators are slightly up due to the loss of 50 agents (55 including shunting).

The c) indicator shows the percentage of lines that can be remotely controlled (DCO/CTC, DCO/SCC).

**Unavailability of the infrastructure**

The new performance indicators agreed with the Ministry of Infrastructure and Transport in the new 2012-2014 GPC-S - extended to 31 December 2016 - are broken down with the classification of the lines according to the degree to which they can be used, measured on the basis of train-days using the parameters specified below. The indicators are calculated based on the ratio of the number of infrastructure faults involving more than three trains and the line km for each line group.

If the company exceeds the thresholds, it is charged the fines established in the Service Contracts.

The following table shows the 2016 indicators compared with the levels provided for by the Ministry of Infrastructure and Transport, highlighting RFI's sound performance in the year.

| Line group | Fault level indicator | Actual level in 2016 |
|---|---|---|
| GR1 | 0.60 | 0.28 |
| GR2 | 0.70 | 0.59 |
| GR3 | 1.25 | 1.00 |
| GR4 | 2.10 | 1.99 |
| GR5 | 1.00 | 0.19 |

Where:

GR1 = train line/day < 40

GR2 = line 40< train/day <100

GR3 = train line/day >=100

GR4 = group of hubs

GR5 = HS lines

## LOGISTICS AND WAREHOUSES

The total value of RFI's stock at 31 December 2016 is €508 million (valued at standard prices), up by €82.5 million on 31 December 2015.
During the year, the company's purchases of supplies, calculated at standard prices, totalled €572.9 million, up by roughly 40% on 2015 (€410 million).
During the year, 1,865 orders were issued for contracts in place (total of approximately €633 million) to meet user structures' requests for materials directly from suppliers.
Actual consumption came to €592.1 million, up on the previous year (€180 million).

### National workshops

After RFI acquired the business unit from Bari Fonderie Meridionali S.p.A. with public deed dated 29 December 2015, on 1 January 2016, Officina Nazionale Armamento Ferroviario (ONAF, based in Bari) joined the network of national infrastructure workshops for the production of spare parts, equipment, related materials and semi-products (cores, plates, expanders and rolling stock).
RFI's production plant relating to the national super-structure workshop and electrical equipment is currently at the following locations:

- Bologna (electrical device), which in 2016, recorded 164,481 hours of direct service production using 108 employees;
- Pontassieve (super-structure), which in 2016, recorded 131,788 hours of direct production using an average of 89 employees;
- Bari (super-structure), which in 2016, recorded 157,279 hours of direct production using an average of 97 employees.

During the year, the national electrical device workshop (Bologna site) built/inspected and issued stocks, upon production, material and equipment orders totalling roughly €7.4 million, while the national super-structure workshop (Pontassieve site) issued spare track equipment of €66.5 million.
The national super-structure workshop produced cores in manganese cast steel for an amount of €17.3 million.

## THE STATIONS

The initiatives set out in the 2017-2026 business plan include intermodal integration to strengthen connections with airports and ports and an increase in the level of integration of stations with other mobility services.
Specifically, the company plans to implement actions destined to boost the quality and role of stations, considered a crucial factor in raising the overall quality of railway services. The initiatives for stations related to both the quality of physical spaces and public information services (the "Easy station project" to improve the usability, accessibility, safety, functionality and tidiness and to integrate it with other types of transport and information on arrivals and departures) and the development of passenger terminals in central hubs of the new standard for area development comprised of smart cities (RFI's new "Smart stations project") where materials infrastructure on offer is amplified, improved and made more broadly and easily accessible to everyone through the integration and availability of information generated and managed via digital technologies. Closely integrated with each other, the two projects refer, first and foremost, to the network's 620 busiest stations (14 Grandi Stazioni network stations, 103 Centostazioni network stations and 503 RFI stations) and develop throughout the entire business plan period.

Furthermore, following the demerger of Grandi Stazioni S.p.A. into Grandi Stazioni Rail S.p.A. and Grandi Stazioni Retail S.p.A., aimed at separating retail activities from real estate, infrastructural and services activities that are more closely linked to rail transport, the agreement signed between RFI Ferrovie dello Stato Italiane S.p.A., Ferrovie dello Stato Sistemi Urbani and Grandi Stazioni S.p.A. on 14 April 2000 was terminated and the following conventions were signed in July 2016:

- between the RFI Ferrovie dello Stato Italiane S.p.A., Ferrovie dello Stato Sistemi Urbani and GS Retail S.p.A. covering the management, utilisation and economic exploitation of the real estate complexes of the 13 main Italian railway stations;
- between the RFI Ferrovie dello Stato Italiane S.p.A., Ferrovie dello Stato Sistemi Urbani and GS Rail S.p.A. covering the performance of ordinary and extraordinary maintenance work and the management and utilisation of rail areas, in addition to the management of contracts and the operation of the 13 main Italian railway stations;
- between RFI and GS Retail S.p.A. covering the redevelopment and utilisation of the real estate complex of the Rome Tiburtina station;
- between RFI and GS Rail S.p.A. for the management, utilisation and economic exploitation of rail areas, in addition to the functional management, operation and ordinary maintenance of the real estate complex of the Rome Tiburtina complex.

**The Service Charter**

The Service Charter is the document that, each year, RFI uses to report its service performance and commitment to providing quality services to the public. It reports the results achieved in the previous year and the targets set for the year in progress, using indicators such as the quality of services at stations, traffic safety and security ratios and the operator's commitment to the environment and sustainability.

After being submitted to consumer associations and people with disabilities for observations, as always, the 2016 RFI Service Charter was published online on 10 June 2016 on the website www.rfi.it in web-accessible format to enable the broadest use, including to people with disabilities via the use of assistive technology.

All of the objectives for 2016, referred to the 19 indicators representing the company's various fronts of action and focus that have greatest relevance for the public, were successfully reached. These include those referred to perceived quality, linked to customer satisfaction surveys, and those referred to quality offered, checked via internal/third-party monitoring.

Regarding the latter, in close correlation with environmental sustainability performances which are annually monitored for the group's Sustainability report, the objective of strengthening RFI's environmental management system was achieved, extending the ISO 14001:2004 certification to all production units, along with the objective to complete the European bid for tender for the supply of over 100,000 LED lights for energy efficiency at stations and offices. With regard to circulation safety, the objective of maintaining the ratio of the total annual number of "fatalities and serious injuries" to the total number of kilometres covered by trains on the RFI network below the national reference value (NRV) assigned to Italy for the category of railway risk for "society as a whole". With regard to services to people with disabilities or reduced mobility, the three objectives were achieved, as follows:

1. completing "at least 60 works" to improve the physical accessibility of areas in the station (train-side platforms raised to a height of 55 cm, escalators, lifts, etc.);

2. including "at least 5 new stations" in the circuit of stations equipped with Sale Blue assistance services;
3. fitting "at least 5 additional stations" of the Sale Blu circuit with lifts to help wheelchair users on and off the train; expanding to "at least 600 stations" the number of stations surveyed in the online information service on www.rfi.it InfoAccessibilità stazioni (approximately 130 at the start of 2016), in order for passengers with disabilities to find out in advance the accessibility features at the network's main stations and details on any assistance services offered.

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

With regard to perceived quality goals, linked to the percentage of passengers satisfied with the services offered at stations, the results of the 2016 customer satisfaction surveys showed a general strengthening of the percentages reached in 2015. Due to investments and/or improving actions carried out on a management and infrastructural level, such percentages were in a range of 89% to 99%, thanks to the widespread trend of improvement experienced in recent years and still continuing for "weaker" service aspects (i.e., with percentages of satisfied passengers lying in the lower part of the range). Indeed, significant improvements were recorded with regard to modal integration, where the percentage of customers satisfied with connections between the stations and urban/suburban public transport came to 89.9% (+1.2% on 2015). With regard to public information under critical circulation conditions, the percentage of satisfied customers rose to 91.8% (+1.6% on 2015), further closing in on the percentage recorded for public information under normal circulation conditions (98.3%).

With reference to ease of use and comfort of stations, the perception of quality overall remained more or less unchanged, recording a percentage of satisfied customers of 95.7% with regard to the entire network. However, when analysed by category, it dipped slightly for Platinum stations (down 1.4% compared to 2015). The opposite was the case for cleanliness. Against largely unchanged percentages compared to 2015 with regard to the entire network (98.2%), due to management optimisation, satisfaction with the Silver stations rose 96.1% in 2015 to 97.5%, almost reaching the levels of Platinum and Gold stations, respectively 99.1% and 98.1%.

In parallel, for all three categories of stations covered in the customer satisfaction surveys, we find the percentages of passengers satisfied with the lighting in tunnels, bridges and walkways, with Platinum at 98% (+1.1% on 2015), Gold at 95.8% (+1.7% on 2015) and Silver - confirming the effectiveness of investments made under the 500 stations projects - at 93.5% (+2.9% on 2015), a significant result with regard to perceived security, i.e., the perception of stations as a safe place, considered as such by 89% of passengers.

The percentage of passengers with disabilities and reduced mobility satisfied with the Sale Blu assistance services remained at the excellent rates already recorded in previous years as seen in a specific survey. In 2016, it came to 99% with an average satisfaction rate of 8.6 (on a scale of 1-9), significantly higher than that expressed for other indicators covered in the survey.

**HS/HC stations under construction**

The new HS/HC stations under construction, completion and planning are: Florence Belfiore, Naples Afragola and Vesuvio Est:

- **Florence Belfiore** – Work is underway at the station. Following the completion of the building of all the HS station poles, a level 0 crawl space is being created and is set to be completed within the first quarter of

2017. Work at the HS bypass site is still suspended as, following the issuing of the opinion of the Ministry of the Environment (the "MATTM") on 15 April 2016 regarding the classification of land to be excavated for the bypass, the operator issued the updated land use plan requested on 22 November and it is currently being examined by the MATTM. The critical aspects relating to the landscape authorisation (which is expired) for the bypass (south section) have been overcome as it was issued by the Florence municipal authorities on 31 March.

The roll-out date depends on the current critical matters being resolved.

- **Naples Afragola** – The time needed to carry out the work and begin operations at the station is currently slated for completion in April 2017 and the HS section of the station is scheduled for roll-out in June 2017. The part of the station serving regional traffic will be rolled out when the "Naples-Cancello variation" section begins operating;
- **Passenger building at the Vesuvio Est station** – This project is identified in Section 2 - Planned works of the 2016 update of GPC-I 2012-2016. With Resolution no. 26 of 10 August 2016, the CIPE approved the funding "Agreements for the south - Railway and metropolitan sector" and, specifically, the "Vesuvio Est interchange station between the mountain-side section of the HS/HC Vesuvio line and the Circumvesuviana" was included among the works to be funded with FSC - Campania region funding for an amount of €36 million to be drawn from the 2014-2020 Development and cohesiveness fund (FSC). Therefore, the rescheduling of the activities was launched, forecasting the structure to be opened within 2021 under the assumption that the funding will be made available within the first quarter of 2017.

**RFI's directly managed stations**

In 2016, RFI continued the procedure to contract cleaning and tidiness activities at the stations that it manages directly. With the prequalification stage completed, the bids received are now being assessed.

<u>LPT projects</u>

As for the development of the local public transport ("LPT") investment plan, in line with the objectives of the business plan and the operator's commercial plan for the local public transport business, three projects have been identified to improve the customer services at the network stations, totalling €392 million at 31 December 2016:

- raising the walkways to the standard height of 55 cm;
- implementing an information system with computerised messages for the public;
- improving station accessibility (lighting, lifts, ramps, tactile walkways and maps, fixed signs, shelters, etc.).

<u>The "500 stations" project</u>

Specific steps taken for the stations in the project go in different directions but are consistent with the indications in the business plan, and are detailed below:

- <u>Investments</u> - A portion of the funds available for LPT investment projects was used for work on 65 stations, in connection with accessibility (including raising walkways to the standard height of 55 cm), lighting and public information, in addition to normal extraordinary maintenance activities. The cost over the entire course of the project amounts to €123 million, with 28% currently used.
- <u>Commercial enhancement</u> - Based on the results of the engagement to enhance the stations included in the project and their association with the businesses, including innovative businesses, a feasibility study

was launched to identify the availability of areas, management models and focusing on certain commercial services.

- Comfort - The company is continuing its renewal of furniture (interior and exterior benches, waste bins, ashtrays, etc.) currently affecting 170 stations.
- Cleaning and tidiness – A minimum (average/high level) work plan was introduced for cleaning at the stations included in the project, which will be extended to all network stations when new contracts are agreed in 2017. The standard will be introduced in contracts currently in place, in line with contractual capacity.
- Car parks - The stations involved in the project already have 23 operating car parks under management by Metropark and another eight car parks have been included in the company's development plans included in its 2017 business plan. A joint round table has been set up (for technical and commercial issues) to discuss the feasibility and potential returns of another 25 new car parks.

**The Grandi Stazioni network**

The development of the investment plan for the Grandi Stazioni network is about 95.3% complete in terms of the total amount of RFI's portion of the project.

Interior redevelopment sites inside the Turin Porta Nuova, Milan Centrale, Naples Centrale, Verona Porta Nuova, Venice Santa Lucia, Florence Santa Maria Novella, Genoa Brignole, Genoa Porta Principe, Bari Centrale and Venice Mestre have been completed.

Work at the Bologna Centrale station were largely completed in December 2016. With regard to work at the Palermo Centrale station, after the contractor declared insolvency, the work to complete the redevelopment has yet to be assigned.

The sites for external work in connection with complementary infrastructure under the Objective law on the Venice Santa Lucia, Florence Santa Maria Novella, Genoa Porta Principe, Genoa Brignole, Verona Porta Nuova, Milan Centrale and Turin Porta Nuova stations were completed, while the sites where work is still underway have the following schedules:

- by 2016: Venice Mestre;
- by 2017: Palermo Centrale;
- by 2019: Bari and Naples Centrale;
- by 2020: Rome Termini;
- by 2021: Bologna Centrale.

**The Centostazioni network**

The development of the investment plan for the Centostazioni network is about 79.2% complete in terms of the total amount of RFI's portion of the project.

In 2016, the company developed and delivered the final revisions of the definitive redevelopment project of the roofing of the Ventimiglia station and the following executive projects:

- redevelopment of the roofing of the Savona station;
- rehaul of the drainpipes of the passenger building, completing the works partially carried out at the Ancona station;
- repair of water leakages at the Naples Campi Flegrei station;

- updating of the fire alarm system at the Padua station;
- updating the fire prevention plant at the Bergamo station to comply with legislation;
- repair of water leakages and asbestos reclamation at the Macerata station.

There are 12 sites under construction, where work began in 2016 continued, at the following 10 stations: Arezzo, Chiavari, Foggia, Mantua, Milan Lambrate, Naples Mergellina, Naples Campi Flegrei, Rome Ostiense, Salerno, Trento.

**ELECTRICITY AND OTHER ENERGY ISSUES**

Law no. 21/2016, which converted Legislative decree no. 210/2015, introduces the three-way structure of rates related to the overheads of the electricity system and indicates that the tariff structure for overheads must be in line with the criteria used for network service rates (transmission, distribution and measurement), considering the varied nature of costs and rates.

Network service rates are currently broken down into three parts, as follows:

- a fixed component that considers the number of points from which energy is withdrawn (withdrawal points);
- a component proportional to power;
- a component proportional to the energy withdrawn.

Setting out the application of additional tariff components, resolution no. 654/2015/R adopted by the Electricity, Gas and Water Regulator on 23 December 2015 introduced a measure that leads to an increase in traction energy costs to be incurred only by "market railway services", i.e., HS and long haul passenger transport.

RFI promptly appealed resolution no. 654/2015, as well as the related subsequent resolutions, as described in more details in the Other investigations section hereof.

With Resolution no. 138/2016/R issued on 30 March 2016, governing the "Launch of the procedure for determining tariff components related to overheads of the electricity system for non-domestic users, pursuant to Law no. 21/2016", ART stated that:

a) it would launch a procedure to formulate measures to reform the current tariff component structure related to the overheads of the electricity system for non-domestic users in very high, high, medium and low voltage, pursuant to article 3.2.b) of Law decree no. 210/15, as converted, with amendments, by Law no. 21/16;

b) under the procedure mentioned in letter a), it would introduce more suitable application methods for the new tariff structure for overheads for the special tariff regime as per Presidential decree no. 730/63, in compliance with the purposes of such special system, including in light of the measures set out in article 29 of Law decree no. 91/14. The measure also provides that, pending the procedure mentioned in letter a), the tariff components for the system overheads would be provisionally applied to non-domestic users, as payments on account and subject to final balance adjustment, to be carried out in accordance with the methods to be defined with the measure adopted following the outcome of the procedure mentioned in letter a).

With Resolution no. 255/2016/R/eel, on 24 May 2016, the Electricity, Gas and Water Regulator published the document subject to the consultation procedure announced with Resolution no. 138; the introduction to such

document states that Law no. 21/2016 indicates that the tariff structure for overheads must be in line with the criteria used for network service rates, considering the varied nature of costs and rates.
In July, RFI provided its observations on the consultation document to safeguard the principles of its special tariff regime.
In April 2016, RFI and Enel Distribuzione activated a national framework agreement for the prompt daily signalling of planned interruptions to the electricity supply for RFI's electricity users powered by Enel Distribuzione. This automated procedure enables information on power failures to be received at least three days in advance, thus enabling RFI technicians to organise the mitigation of the event.
With Decree law no. 244 of 30 December 2016 ("1,000 extensions"), the introduction of the three-way tariff structure for system overheads is postponed to 2018, keeping the current two-way structure in effect, and the AE tariff component for non high-energy consumption companies is reintroduced.

**NEGOTIATIONS**

RFI's negotiations in 2016 suffered a general slowdown with respect to plans, mainly due to the new Contract Code 50/2016 coming into effect which requires a study and investigation stage.
Despite such slowdown, the company undertook the direct management of 303 new negotiations, for a total of approximately €4 billion, of which 211 tenders were awarded and 92 are pending. Overall, 490 contracts were signed, for an amount of roughly €2 billion. The average tender mark-down was approximately 13%.
In particular, RFI's negotiations in 2016, broken down by purchased goods and services, are illustrated in the table below:

| 2016 CONTRACTS | PENDING | AWARDED | TOTAL | SAVING | AWARDED CONTRACTUAL AMOUNTS | TOTAL AMOUNT OF CONTRACTS TO BE NEGOTIATED (pending) | NO. LOTS AWARDED |
|---|---|---|---|---|---|---|---|
| **WORKS** | 10 | 53 | 63 | -18% | 741 | 1,278 | 109 |
| **SERVICES** | 15 | 52 | 67 | -29% | 272 | 316 | 201 |
| **SUPPLIES** | 67 | 106 | 173 | -8% | 872 | 560 | 180 |
| **TOTAL DAC** | **92** | **211** | **303** | **-13%** | **1,885** | **2,153** | **490** |

With respect to the types of tenders called, 18% of those concluded in 2016 (38% of the total awarded amount) were carried out in accordance with company certification systems, 28% (approximately 32% of the total awarded amount) were awarded through tenders/agreements on government procurement, while the remaining negotiations were carried out through direct allocation, multiple negotiations and unsolicited offers.
Specifically, managing the certification systems led to an examination of the certification and class or category extension requests and carrying out technical visits to the companies' plant, to periodically check that they effectively meet the requirements as stated in order to maintain the certification already awarded.

The existence of the certification systems was published in the Official Journal of the European Union, the Official Journal of the Italian Republic, the MIT's website, two national daily newspapers and RFI's websites, making all the necessary documentation for registration and all other useful information available to interested financial operators.
Finally, in 2016, all companies awarded tenders were checked for compliance with legal requirements, pursuant to ruling legislation, and their accuracy was checked by acquiring the relevant certificates from ruling bodies (social security compliance, anti-mafia, tax, supervision of public contracts, people with disabilities, digital company register, criminal records registry, prevention measures, group database, bankruptcy). Such checks of requirements were carried out for 455 companies in 2016.

## RAILWAY OPERATING AND INFRASTRUCTURE SAFETY

### Railway operating safety

### Safety (rate of railway accidents)

2016 results confirm the ongoing efficiency of the actions taken by RFI to constantly improve its safety performance, which are in any case supported by excellent scores compared to main European countries.
Safety targets are monitored for the events involving the national railway infrastructure that RFI manages using the data stored in its databases in accordance with the current international standards endorsed by ERA.
For each risk category (group of people that could potentially be harmed in a railway accident), the table below compares the Italian railway system's performance (measured in terms of fatalities and weighted serious injuries[4]) with common safety targets (CST) and the specific national reference values (NRV) assigned to Italy.

| **Safety targets (relative amounts)** | **Entire Italian railway system** *(Cumulative figure at 31/12/2016)* | **National Reference Value NRV ($x10^{-9}$)** | **Common Safety Target CST ($x10^{-9}$)** |
|---|---|---|---|
| Passengers | 1.0 | 38.1 | 170.0 |
| Employees or contracting companies | 0 | 18.9 | 77.9 |
| Railroad crossing users | 15.4 | 42.9 | 710.0 |
| Other people on or not on the pavement | 0 | 6.7 | 14.5 |
| People crossing the railway tracks in violation of rules | 165.3 | 119.0 | 2,050.0 |

The above analysis shows that, during the year, the category of "People crossing the railway tracks in violation of rules" exceeded the NRV for Italy, although it was within the CST.

To this end:

- the figures refer to the entire railway system and, accordingly take account of any damage due to events caused by either the infrastructure operator or other parties in the railway system, such as railway companies operating within it, third parties, etc.;
- as for liability, no harm to people recorded in 2016 was caused by reasons attributable to RFI;
- the data analysed are those currently recorded in RFI's dangers database.

All results were achieved thanks to RFI's commitment to pursuing high safety standards through its focus on specific actions, such as:

- identifying priority action areas on the basis of a performance assessment;
- planning projects and actions in the areas identified;
- continuously monitoring the progress of projects and actions;

[4] Fatalities and Weighted Serious Injuries (FWSI)

- checking the effectiveness of the actions taken by checking that accident rates and irregular situations have effectively diminished.

There were 89 **significant accidents**[5] in 2016 involving the infrastructure managed by RFI, considering the ERA classification criteria.
They are broken down below by amount and type, compared with the previous year.

| **CSI accidents (ERA classification[6])** | **Accidents (number)** | |
|---|---|---|
| | 2016 | 2015 [7] |
| Train collisions | 2 | 5 |
| Train derailings | 2 | 3 |
| At railroad crossings | 9 | 19 |
| Fires involving rolling stock | 0 | 2 |
| Other | 3 | 2 |
| Injuries to people involving moving rolling stock | 73 | 67 |
| **total** | **89** | 98 |

The analysis of events in 2016 shows an increase in the number of accidents with people involving moving rolling stock, while accidents at railroad crossings and train collisions decreased significantly compared to the previous year. Accidents involving moving rolling stock and railroad crossings are the consequence of voluntary actions by people and are absolutely intentional, but not foreseeable or preventable. In 2016, RFI was only responsible for four events, including a train derailing and three collisions.

**QUALITY AND SAFETY**

**Integrated safety management system**

As part of the activities in connection with the integrated train and railway operation safety management system, in 2016, the process continued to extend the environmental management system to all company organisational

[5] The ERA 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.

[6] The breakdown of significant accidents, according to the types set out in the table, meets the definition of Ministerial decree of 26 June 2015, implementing Directive 2014/88/EU of the European Commission dated 9 July 2014, which amends attachment I to Directive 2004/49/EC, with regard to common safety indicators and common calculation methods for costs related to accidents.

[7] The number of accidents of 2015 was modified compared to that recorded in the 2015 Annual Report as the data were still being verified while such report was being prepared.

The verification process for data linked to railway accidents is broken down into three stages: feeding data into the dangers database; internal investigation, the outcome of which may modify the information related to causes, responsibility, damage and significance; and receiving the results of the investigations performed by the judicial authorities from the MIT.

structures. Such extension enabled the company, on the one hand, to include all operating processes that have a significant impact on the company's environmental performance and, on the other, to roll out the completion of the certification of the integrated train and railway operation safety management system in accordance with ISO 14001 standards.

**2016/2017 integrated annual safety plan and 2015 annual safety report**

The annual train traffic and operating safety plan and the annual workplace safety and environmental protection plan are company tools to plan and monitor initiatives in place to maintain and improve safety (integrated safety plan).

For the annual train traffic and operating safety plan, the general guidelines for the identification of mitigation actions under the plan are established in RFI's safety policy: "... cancel out operating accidents ...". Similarly, the general guidelines for the identification of mitigation actions under the annual workplace safety and environmental protection plan are established in RFI's safety policy: "... cancel out workplace accidents and environmental impact ...".

The 2017 annual train traffic and operating safety plan and the annual workplace safety and environmental protection plan, together comprising the integrated safety plan, were drafted in 2016.

Furthermore, in implementation of article 13.4 of Legislative decree no. 162/2007 and subsequent amendments and integrations, the company prepared the 2015 annual safety report and sent it to ANSF (the national authority for railway safety). Such report, along with the attached tables, was prepared in compliance with the new and recent Guidelines no. 5841/2016 issued by ANSF on 25 May 2016.

**Safety authorisation**

In 2016, RFI continued to carry out its activities as national railway infrastructure operator, with the legally-required safety authorisation pursuant to Directive 2004/49/EC, implemented in Italy with Legislative decree no. 162 of 2007, which ANSF issued in June 2014.

ANSF issues safety authorisation after analysing and approving RFI's safety management system. The safety management system is a series of rules that RFI that has set for itself to ensure that the activities that affect railway operational safety are perfectly followed and that the organisation as a whole is capable of continuously improving the internal processes and its safety performance. The safety authorisation therefore attests to the efficiency of the "safety management system", which in RFI's case is one of the three components (operations, work and environment) of the larger integrated safety management system.

**Infrastructure safety**

**Tunnel safety**

RFI finished drafting the annual report on safety in railway tunnels for 2015 pursuant to article 14 of Ministerial decree of 28 October 2005 and sent it to the MIT and ANSF on 10 August 2016, communicating the results of recalculation of the railway risk curves updated in line with new traffic data and infrastructural modifications carried out on 339 tunnels and 46 back-to-back tunnels in use and over 1,000 metres in length (article 11 of Ministerial decree of 25 October 2005).

Activities continued to support the local prefectures in making the emergency and first aid plans available related to tunnels in use and over 1,000 metres in length.

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

With regard to seismic vulnerability testing on infrastructural works along strategic national lines pursuant to article 2.3 of Civil Protection Ordinance no. 3274 of 2003, the company finalised the testing, inspection and investigation of an additional 310 bridges compared to the 300 works delivered in 2015. Furthermore, the company prepared definitive planning of seismic improvement/development works for 121 bridges that did not pass the seismic checks.

## RESEARCH AND DEVELOPMENT

**Research**

The company's function, set up in 2015, dedicated to research and development activities became fully operational in 2016. Its areas of responsibility mainly refer to:

- the study, research and development of new designs for railway plant and systems;
- monitoring national and EU funding opportunities for relevant projects;
- benchmarking along with other foreign infrastructure operators, assessing the innovative solutions proposed by the industry, in addition to defining and managing a network of innovation with universities, research centres and industry bodies;
- providing support in testing and building internal prototypes and in certification processes and defining standards for the systems and products developed.

The company continued to participate in the following projects in 2016:

- the railway transport research cluster, TESYS RAIL, jointly financed by the Ministry of Education, Universities and Research;
- the In2rail European research project to determine the track geometry by performing diagnostics with commercial trains and to identify non-destructive systems for measuring neutral track temperature.

The company also took part in international activities with CER, ERA, UIC, GEIE ERTMS User Group, CENELEC and GEIE Mediterranean and Alpine Rhine Corridors and it continued to participate in, *inter alia*:

- revising the EN 50129 standard (for the development of electronic signalling systems);
- revising the EN 50126 standard (for the definition of RAMS processes).

The European 3Insat project was concluded and on-site testing began at an experimental site in Sardinia on the Cagliari-San Gavino section for the ERSAT (ERTMS Satellite) project, co-funded by the EU as part of the Call Horizon 2020 project, with an international workshop with the directors of ERA and GSA held on the subject.

At CER, technical talks were held once more to review the technical specifications for interoperability (TSIs) safety in railway tunnels.

A special effort was made in organising presentations and visits to plants as part of the WCRR 2016, UIC ERTMS World Conference and CIFI Seminars.

In conclusion, the project related to the "Osmannoro technological demonstrators" was approved. The aim of such project is to set up a hub of excellence on all technological aspects of railway signalling and telecommunications, i.e., building a group of technological demonstrators that reproduce specific types of signalling systems, both traditional (ACEI, etc.) and innovative (ACC/ACC-M, ERTMS/ETCS).

**Technological development**

**General information**

In 2016, actual spending for investments in technological innovation totalled €46.3 million. The following table analyses the amount of these investments by the main operating segments:

*millions of Euros*

| Operating segment | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Safety technologies | 36 | 44.7 | 7 | 9.1 | 5.9 |
| Innovative diagnostics | 0.1 | 0.8 | 0.8 | 4 | 0.2 |
| Studies and tests on new parts and systems | 10.2 | 18.4 | 2.6 | 10 | 1.9 |
| **TOTAL** | **46.3** | **63.9** | **10.4** | **23.1** | **7.9** |

Spending for technological development shows a sinusoidal trend. Specifically, developments for automatic control of railroad crossings began in the previous year reached completion in 2016 when they were rolled out.

Spending in technology for safety in 2016 is mainly attributable to the following:

- increasing the safety and regularity of railroad crossings, entailing spending of €18 million for automatic protection (PAI-PL);
- multifunction portals and weights, amounting to €8.2 million;
- adjustment to ERTMS on lines at the borders, amounting to €6.3 million;
- developments for ERTMS technologies for €1.4 million.

Activities to both continue/conclude products that began in previous years and work that began in 2016 related to the following main areas.

Activities for the mechanised detection system for the condition of coverings of over 330 tunnels (for a total of roughly 240 km) and over 160 tunnels (for a total of roughly 180 km) were concluded. Such activities will enable the planning of ordinary and extraordinary maintenance work on the tunnels examined.

In collaboration with Università di Napoli Federico II in Naples, an analysis was completed of the lateral stability of the reinforced track built with pre-compressed reinforced concrete sleepers and equipped with underlying sleeper pads to improve geometric track quality. Moreover, studies were completed on the stability of the track in various configurations, along with testing for the use of drones to perform inspections at railway bridges.

In collaboration with the Sant'Anna high school of Pisa, the company continued developing infrastructural monitoring using optical fibre sensors and technical testing of wideband transmission to expand data transmission networks supporting RFI's technological systems.

Activities on the following projects continued:

- development, building and roll-out of the new swing-nose actuator with breakdown and tailgating detection for hydraulic power shunting systems and the hydraulic power control unit for hydraulic power shunting systems;
- prototyping of an experimental wireless control command and data transmission system for electric traction disconnectors of stations self-regulated by the contact line;
- creating the integrated monitoring system (MISTRAL) to provide objective support for the analysis of irregularities in the off-board and on-board ERTMS/ETCS systems;
- designing and supplying prototypes for transversal load measurement systems;
- installing vertical load measurement systems;
- installing multi-function portals, with the completion of assembly of the Oulx portal (Turin local production department), and developing interfacing with the signals of seven portals to date installed in SIL4;
- testings extended to automatic protection for PL (PAI-PL) aimed at expanding existing suppliers/standardising new products/systems.

Activities were launched for the following:

- developing Siglo Verisim IT tools and training networks to support security assessments on changes to the RFI network, pursuant to Regulation 2013/402/EU;
- performing executive planning, building, trials and on-site tests on four prototype monitoring/warning systems to protect the railway track bed from rapid gravitational phenomena (large objects falling, rapid and widespread landslides and sink holes), in collaboration with the Geological risk prediction, prevention and control research centre at La Sapienza University, Rome (CERI).

In collaboration with the Politecnico University of Milan, testing continued on the light diagnostic system to check the quality of train/track quality, which connects with a central command station to dispatch in real time and alarms when certain thresholds are exceeded, which can lead to problems on or off board the train (infrastructure or contact lines).

## PERFORMANCE OF SUBSIDIARIES

### Bluferries S.r.l. (100%)

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 profit for 2016 of €1.9 million, up by approximately 31% on the previous year. It achieved this result mainly thanks to the combined effects of certain factors, such as: the 11% increase in revenue from the heavy road transport segment (€1.4 million) - the company's core business, which offset the difficulties recorded in the car segment operated as a going concern, though to a residual degree; the reduction of the personnel expense linked to the reduced timetable on the Messina-Villa San Giovanni route compared to the previous year and the fall in consumption, chiefly due to the decrease in fuel prices recorded in the first half of 2016, partly offset by higher depreciation and costs for hiring replacement ships. The additional positive result is due to the most important event of 2016 for the company's business development, i.e., the launch of works for the construction of a new bi-directional ship, involving an investment of €12.7 million fully self-financed with the company's actual and forecast profits, which will be delivered at the end of 2017.

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

The related company CEMAT set up this company on 16 May 2008 with quota capital of €10 thousand. Its purpose 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; 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 recorded a profit for 2016 of €2.2 million. Due to the significant increase in income tax, caused by the tax credit being offset by prior year losses, the profit for the year improved on the previous year less than the results obtained through operations.

2016 operating costs fell slightly on 2015 (-0.2%), against a 1.9% increase in revenue, mainly due to the increase related to income on shunting services and stays.

The comparison of loads handled with the previous year shows a decrease in production of roughly 2%, which was impacted by RFI's withdrawal from the Milan Certosa terminal on 1 January 2016.

### Tunnel Ferroviario del Brennero – TFB (87.16%)

The purpose 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.

Specifically, at their extraordinary meeting held on 15 April 2016, the quotaholders resolved the seventh quota capital increase up to a maximum of €158 million, in two tranches of €65 million and €43 million, respectively, for a total of €108 million. At 31 December 2016, total quota capital amounts to €499 million and consists of 498,790,910 quotas with a nominal amount of €1 each. After the seventh quota capital increase was subscribed, the portion attributable to RFI fell, due to different subscription trends by other quotaholders, from 88.79% to 87.16% of quota capital, equal to €435 million at 31 December 2016.
With regard to the progress of work on building the Brennero tunnel, in 2016 the subsidiary of TFB, BBT SE, contracted the work for constructing the main tunnels in Italy for a net amount of €993 million.
From a purely management viewpoint, TFB reported a profit for 2016 of approximately €0.1 million, exclusively due to financial income on bank deposits. The profit for the year was down on 2015 due to the change in socio-economic conditions which lower bank interest rates.

**Nord-Est Terminal S.p.A. in liquidation (51%)**

In 2016, the credit collection activities performed directly by the company were completed by factoring the receivable without recourse, via a tender offer. Furthermore, the case at the Brescia court was ruled in the company's favour on 13 May 2016. This originated from claims related to security following an incident occurred at the Brescia terminal on 25 September 2009. In addition to VAT credits, there are also receivables and payables due from and to Ferrovie dello Stato Italiane group companies at 31 December 2016. Considering the activities performed, the interim liquidation accounts at 31 December 2016 shows a profit of €85 thousand. With regard to the liquidation of the company, a process begun in 2009, the liquidators stated that they will be able to prepare the final liquidation accounts in the first few months of 2017, subsequent to the approval of the 2016 Annual Report.

**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.

**LITIGATION AND DISPUTES**

This section details the most significant criminal proceedings, proceedings pursuant to Law no. 231/2001 and general disputes (arbitration proceedings, appeals and other proceedings) existing at 31 December 2016. To date, no information arose indicating that the company is exposed to contingent liabilities or material losses and no information is presently known with a material impact on its financial position or results. Accordingly, no accruals have been recognised. Furthermore, where the circumstances require, the company has appeared in civil court proceedings.

With respect to the latter, in 2016, no senior managers (company officers or general managers) were definitively found guilty of:

- particularly serious crimes with wilful intent entailing substantial damage to the company or leading to the application of restrictive measures;
- crimes with wilful intent that fall within the scope of Legislative decree no. 231/2001;
- other crimes with wilful intent that fall within the scope of Law no. 190/2012.

To meet disclosure requirements, the paragraph below includes information on criminal proceedings and contingent assets and liabilities arising from the most significant civil, administrative, arbitration proceedings and proceedings before the Italian and EU authorities, even if they are not contingent assets and liabilities or accruals to provisions for risks and charges.

Reference should be made to the notes to the financial statements for details on material disputes and proceedings in place and for which, where necessary, accruals were made to specific provisions for risks and charges. Details on contingent assets and liabilities, as defined in the group's policies, are also provided in the notes.

**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 or results, no accruals have been recognised.

**Proceedings pursuant to Law no. 231/2001**

There were no developments in the following proceedings pursuant to Law no. 231/2001:

- Arguments are being heard in proceedings no. 5643/10 in the general register of crimes pending before the Sassari Court, following a fatal accident involving the driver of train 8921 when it hit an obstacle on the tracks after an exceptional, unexpectedly large mudslide;
- Proceedings no. 4656/2009 in the general register of crimes pending before the Messina Court concerning injuries due to negligence for alleged violations of anti-accident legislation in connection with an accident involving an employee on 21 February 2008 at the former national procurement warehouse in Messina;

- Criminal proceedings no. 1933/2011 in the general register of crimes are pending before the Latina Preliminary investigation judge in connection with the fatal accident on 25 February 2011 involving an employee of an outside company who was cutting down trees at km 47+100 on the Campoleone-Cisterna di Latina section;

There were developments in the following proceedings compared to disclosures made in the 2015 Annual Report:

- Criminal proceedings no. 2554/13 in the general register of crimes with the Foggia Public Prosecutor's office related 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. At the hearing held on 4 May 2016, the first level Judge consolidated such proceedings to the criminal proceedings no. 3253/2010 in the general register of crimes for manslaughter against an RFI employee and two Fersalento S.r.l. employees, in which RFI received a summons for third party liability. At the same hearing, the civil parties discontinued their case as they were fully compensated.
- Proceedings no. 6305/09 in the general register of crimes pending before the Lucca Public Prosecutor, following a railway accident in Viareggio on 29 June 2009. At the hearing held on 31 January 2017, the Lucca Court issued its first-degree ruling, setting a 90-day term for filing motives, with the subsequent possibility to make the related appeal before the Court of Appeals. Specifically, the Court absolved five RFI managers for not having committed the crime, along with the pro tempore CEO of Ferrovie dello Stato Italiane S.p.A., limited to the claims attributed to him in such role, and the CEO and pro tempore Chairman of FS Logistica S.p.A.. The Court also excluded the administrative liability as per Legislative decree no. 231/2001 of Ferrovie dello Stato Italiane S.p.A. and FS Logistica S.p.A. on the grounds that the fact is not a crime. On the other hand, RFI, together with Trenitalia S.p.A., was declared liable for administrative violation as per article 25-septies of Legislative decree no. 231/2001 for which each was issued with a fine of €700,000 and a ban on publicising goods and services for a period of three months. Such penalties were reduced as per article 12.2.a) of Legislative decree no. 231/01 as the parties paid the fine or, in any case, acted effectively in that regard. Furthermore, the Court ruled against 12 natural persons related to FS Italiane group, including RFI's two pro tempore CEOs who held office one after the one between 2001 and 2009, and six operators of the same company. With regard to the four legal persons and the 15 natural persons external to the group involved, three companies were sentenced for liability as per Legislative decree no. 231/01 along with 11 natural persons, while the rest were acquitted. In addition, the Court ruled that those charged as above, jointly and severally liable and with the related civil liabilities, shall reimburse the damage (in addition to legal and defence fees) to the relevant civil parties, mostly referring to the civil courts for the related settlement and, simultaneously, equitably assigning compensation and provisional amounts, to just some of such parties. All of the sentences, except for the provisional ones, are not executive until the judgement becomes definitive.
- Criminal proceedings no. 10095/2010 in the general register of crimes pending before the Catania Court for RFI S.p.A.'s alleged administrative liability in relation to the workplace accident that occurred on 1 September 2008 in Motta Sant'Anastasia, in which two RFI employees lost their lives. The first stage was concluded at the hearing on 14 April 2016 with the company being acquitted on the grounds that the fact is not a crime. The ruling became definitive on 21 May 2016.
- Criminal proceedings no. 9592/2008 in the general register of crimes pending before the Milan Court of Appeals, held on 24 November 2015, in which RFI faces charges, pursuant to Legislative decree no.

231/2001, in relation to the ATI CLF employee hit at the Milan Rho-Certosa site on 6 March 2008. The first level Judge's acquittal of all defendants issued on 9 January 2016 became definitive.

- Arguments are being heard in criminal proceedings no. 7906/2009 in the general register of crimes with the Latina Court concerning alleged injuries due to negligence in connection with alleged violations of anti-accident legislation (accident on 10 August 2009) during maintenance near Fondi, for which three RFI managers are being investigated, in addition to the company itself as a non-natural person pursuant to Legislative decree no. 231/01. The Court ruled that the company has civil liability upon the request of the civil parties.
- The Public Prosecutor's Office with the Gela Court initiated criminal proceedings no. 1430/2014 in the general register of crimes against an employee of RFI who is line manager for the Canicattì-Gela section with respect to the alleged crime pursuant to article 589.1/2 and final paragraph (negligent manslaughter in violation of workplace safety regulations) after three RFI maintenance workers were fatally hit by regional train 12852 travelling from Gela to Caltanissetta on 17 July 2014, near km 217+728, between the Falconara and Butera stations. On 14 July 2016, RFI (and subsequently also those who, previous and near to the event, held the positions of CEO, Technical manager, Director of the Palermo local production department, Manager of the Caltanissetta technical unit, Central operational manager in Palermo, Site manager in Agrigento - Caltanissetta technical unit, Head of the planning department at the Palermo technical unit and Line manager for the Canicattì-Gela section) was notified of the conclusion of preliminary investigations for administrative offence resulting from the crime as per article 25-septies of Legislative decree no. 231/01 (in relation to article 5 of the latter decree) with reference to the above-mentioned crime (article 589 of the Penal Code - negligent manslaughter). The company appointed a defence lawyer and appeared before court. The preliminary hearing is pending on 14 June 2017. The allegation - concerning the administrative office resulting from the crime as per article 25-septies of Legislative decree no. 231/01 (in relation to article 5) with reference to the crimes as per articles 113 and 589.1/2 and final paragraph of the Penal Code (participation in negligent manslaughter) alleged against the CEO in office at the time of the events - did not change compared to that set out in the notification of the conclusion of preliminary investigations received on 14 July 2016.

**Other significant criminal court proceedings**

There were no developments in the following criminal court proceedings:

- Criminal proceedings no. 20765/2014 form 21 in the general register of crimes (previously no. 356/2014 in the general register of crimes against unknown persons) are pending before the Florence Public Prosecutor's office, against an RFI manager for negligent manslaughter of a Trenitalia shunting employee in violation of workplace safety regulations on 12 January 2014 at the Santa Maria Novella station in Florence;
- Criminal proceedings no. 6765/2012 with the general register of crimes are pending before the Lecce Court of Appeals in connection with a claim relating to an accident involving the Freccia Argento 9351 train and a lorry on 24 September 2012 at the railroad crossing on km 710+403 of the Bari-Lecce section near the Cisternino (BR) station. In these proceedings, RFI appeared along with Trenitalia S.p.A..

There were developments in the following proceedings compared to disclosures made in the 2015 Annual Report:

- Criminal proceedings no. 3034/2012 with the general register of crimes with the Rossano Public Prosecutor's Office, subsequently transferred to the Castrovillari Public Prosecutor's Office, relate to an accident in which a train hit a car with six people inside at the private railroad crossing at km 155+849 on the Rossano C.-Mirto

Crosia section. The Public Prosecutor issued notification of the conclusion of preliminary investigations into the managers and employees of RFI (some of whom in retirement) and parties external to FS Italiane group.

The company is also aware of the following criminal court proceedings pending against RFI personnel where the company appeared before court as holding civil liability and for which no insurance coverage is in place:

- Criminal proceedings no. 1744/2014 with the general register of crimes are pending before the Palmi Court against an employee accused of a crime as per article 590 of the Penal Code in relation to the injury suffered by a passenger on 2 September 2013 at Rosarno station. Arguments are being heard;
- Criminal proceedings no. 2899/2009 with the general register of crimes are pending before the Avellino Court against, *inter alia*, four former managers of Ferrovie dello Stato S.p.A. accused of crimes as per articles 110, 589 and 590.2/3/4/5 of the Penal Code to the damage of workers at the Isochimica site in Avellino. Arguments are being held and the company also appeared in court as a civil party against the accused;

**Arbitration proceedings with general contractors**

In 2013, all pending arbitration proceedings were concluded and general contractors received a very low percentage of the amounts claimed. These amounts mainly related to cost components entailing an increase in the value of work performed plus interest due for the deferred payment of higher construction costs.
Court developments in appeals against arbitration awards are described below.
With regard to the RFI-FIAT (now FC-Fiat Chrysler Automobiles N.V.) arbitration award related to the Novara-Milan subsection, reference should be made to the "Contingent assets and liabilities" of the notes to the financial statements.

<u>Third Giovi pass – General Contractor COCIV consortium. Appeal against RFI-COCIV arbitration award on 20-21 June 2013.</u>
With the scope of assessing the value of certain design activities previously carried out by COCIV consortium, the arbitration award was initially appealed by RFI and subsequently by COCIV. The ruling is pending (the hearing of conclusions is scheduled for 17 March 2017).

**Other investigations**

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

With respect to that indicated in the 2015 Annual Report, to which reference should be made for additional details, in relation to the two cases currently pending before the Lazio regional administrative court against URSF (the office that regulates railway service) Decisions nos. 18/2006 and 83/2007, a public hearing is scheduled for 14 June 2017.
With respect to the appeal for compliance filed by the railway companies against the ruling of the Council of State to cancel Ministerial decree 92T, while reference should be made to the 2015 Annual Report for a detailed description of events to date, on 26 September 2016, the *ad Acta* Commissioner's delegate presented the final report on the outcome of the examination, identifying 1 January 2006 as the date of effect of the K2 discount and 30 June 2009 as the expiry date, except for traffic generated with rolling stock which, prior to 30 June 2009, met the conditions to be operated by a single driver (building of SST ground technological equipment, installation of the related on-board SSB system and issuing of regulations and procedures for governing train driving by a single driver). The *ad Acta* Commissioner's delegate thus quantified the individual amounts including interest accrued at

the legal rate as of 30 September 2016 to be paid to the four appellant railway companies involved in the dispute (i.e., Rail Traction Company, NordCargo, SBB Cargo and DB Schenker) at approximately €20 million.
Therefore, RFI began work to organise a round table with the four appellant railway companies, with the MIT also attending, aimed at a rapid conclusion of the matter, also by defining a possible settlement between the counterparties.
The company recognised the payable due to the railway companies of the above-mentioned amount, in addition to a related receivable from the MEF, against a disbursement of €30 million provided for in the 2015 update of the GPC-I for "costs due to the application of Ministerial decree no. 44T/2000" as part of the overall disbursement for "circulation and efficiency technologies".
Furthermore, the company recalculated and integrated the specific provision to cover any interest and related charges to be incurred pending the reimbursement of the amounts that it may have to pay in advance to the railway companies as due.

**Anti-Trust Authority proceedings no. A389 (leased locomotives) – Appeal to the Council of State**

With respect to that indicated in the 2015 Annual Report, to which reference should be made for additional details, with its ruling of 21 December 2016, the Council of State approved the appeal made by the Anti-trust Authority, definitively ruling that the wording of the text of the commitments approved under the A389 anti-trust procedure does not make express reference to leased rolling stock.

**ART resolutions nos. 70/2014 – "Regulation for fair and equal access to railway infrastructures and commencement of proceedings to define the criteria for the definition of the toll to use railway infrastructures" and 96/2015 "Principles and criteria for the determination of railway infrastructure access and use tolls" - Appeals before the Piedmont regional administrative court**

On 3 March 2015, RFI lodged an extraordinary appeal with the President of the Italian Republic for the cancellation of ART Resolution no. 70/2014, subsequent Resolution no. 76/2014 ("Instructions for the procedure relating to the 2015 Network Prospectus") and related attachments and deeds.

NTV, Trenitalia, Grandi Stazioni, Centostazioni and Associazione FerCargo were also notified of the appeal as they are concerned.
With this appeal, RFI intends to argue that there is a series of errors relating to procedure, substance and preliminary procedures in ART's measures, namely the regulatory measures concerning the HS toll, clearing the infrastructure, assistance services for passengers with reduced mobility and the assignment of spaces at train stations.

Upon the challenges lodged by NTV and ART, the appeal was transferred to the Lazio regional administrative court (no. 5406/2015 general register). The same resolutions were also independently repealed by NTV, Centostazioni and Grandi Stazioni. All such appeals were subject to public hearing on 9 March 2016, also in order to consider the claim against the territorial jurisdiction made, in the meantime, by the Lazio regional administrative court. After such hearing, the Lazio regional administrative court declined jurisdiction, referring all the appeals to the Piedmont regional administrative court. Accordingly, RFI, NTV and Grandi Stazioni summarised their appeals to such court.

With its extraordinary appeal to the Head of State notified on 17 March 2016, RFI challenged ART Resolution no. 96/2015 which provides criteria for the determination of railway infrastructure access and use tolls.

With such action, RFI's main intention was to censor the total illegality of the new regulatory framework with specific reference to certain premonitory measures of a potential financial imbalance of the operator. Specifically, the appeal questions three specific reasons for illegality in some of the measures included in Annex 1 to resolution no. 96/2015, specifically:

a) the provision for an annual minimum efficiency rate of the IO's unit operating costs, set by ART at 2% (gross of the inflation rate);
b) the prevention of RFI recovering part of the costs incurred for new infrastructural investments to be carried out in the form of self-financing (i.e., using RFI's share capital or taking out loans);
c) the introduction, for the entire tariff period (2016-2021) of a system of restrictions in the calculation algorithm and the setting of a cap to the toll applicable to certain railway services (specifically: regional service, cargo service, services which used the network classified by resolution no. 96 as "high level services").

Similar extraordinary appeals were made by Trenitalia and Grandi Stazioni and the other interested parties challenged such appeals before the regional administrative court.

Following such challenges, each of the appellants (RFI, Trenitalia and Grandi Stazioni) brought the original appeal before the Piedmont regional administrative court.

Furthermore, NTV brought a court action against the same ART Resolution no. 96/2015. This is already pending before the Piedmont regional administrative court and RFI appeared in court.

In July 2016, with Resolutions nos. 75 and 80, ART issued a favourable assessment of the compliance of the new 2016-2021 toll system proposed by RFI referred to the minimum access package and services other than the minimum access package.

Following checks and investigations performed together with the external legal advisor, RFI deemed that its interests were adequately protected via the grounds of the appeal for the cancellation of ART Resolution no. 96/2015. Therefore, it did not present additional grounds related to the two above-mentioned Resolutions nor did it make an extraordinary appeal to the President of the Italian Republic.

Trenitalia and NTV made different assessments, however. They filed an appeal for additional grounds against ART Resolution no. 75/2016 on 28 and 29 September 2016, respectively. Such Resolution was also challenged by certain railway companies operating in the cargo transport sector, with a separate appeal made on 4 October 2016.

The Piedmont regional administrative court scheduled a hearing to discuss the appeals made by Trenitalia and other railway companies operating in the cargo transport sector for 15 March 2017, also stating its intention to discuss all the appeals made against ART Resolutions nos. 70/2014 and 96/2015 at such hearing.

Following the hearing at the Piedmont regional administrative court, after ample discussion among the parties present (RFI, ART, Trenitalia and NTV), only the appeal made by RFI against ART Resolution no. 70/2014 was accepted. The other appeals against ART Resolutions nos. 70-76/2014 and 96/2015 and related deeds were all deferred to the next hearing scheduled for 28 June 2017.

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

On 31 July 2015, with Resolution no. 64, ART notified RFI of the commencement of sanction proceedings for its alleged 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.

For some of ART's challenges (namely, those relating to measures 1.6.4, 3.6.1, 11.6.1 and 11.6.3), during the preliminary stage, RFI presented a series of commitments that ART admitted in Resolution no. 91/2015 and published on its website on 9 November 2015, thereby beginning the market testing stage, which was successfully completed on 9 December 2015 with the presentation of observations from Ferrovie Emilia Romagna in response to which, in January 2016, RFI presented accessory changes in order to fine-tune and improve the content of the initially presented commitments. On 16 March 2016, Resolution no. 24 was published on ART's website, approving and making such commitments mandatory without assessing any infractions by RFI.

On the other hand, for the remaining challenges (namely, those relating to measures 4.6.1, 5.6.1 and 7.6.1) RFI did not believe it necessary to present commitments and instead preferred to file defence briefs, the arguments of which were explained during the hearings before the ART offices and, finally, during last hearing held before the ART panel on 2 March 2016.

With Resolution no. 33 notified to RFI on 24 March 2016, ART definitively closed such sanction proceedings, providing for:

i. the filing of the challenges related to Measures 4.6.1.d) "Dismantling 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 the 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 tolls under contract, applying decreasing percentages as the toll increases" imposing a relevant fine of €20 thousand.
iii. the assessment of the violation of Measure 5.6.1.d) "Introduction of an excess clause system for non-utilisation of track 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 portion 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 Network Prospectuses - 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 Network Prospectuses on its website and promptly notifying all interested parties.

RFI complied with the above within the due date, publishing the updates of the 2015 and 2017 Network Prospectuses and paying the due fine.

Notwithstanding the above, to protect its own interests, RFI made an appeal to the Piedmont regional administrative court on 23 May 2016, challenging Resolution no. 33/2016 solely related to the assessment of the above-mentioned violations.

The date of the hearing has not yet been set, unless the opportunity arises to motion to accelerate the hearing.

**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 presented 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 cargo 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).

Reference should be made to the "Legislative and regulatory framework" paragraph hereof

Resolution no. 654/2015 has also been challenged by some railway companies. The date of the hearing has not yet been set.

**TAX DISPUTES**

Updates on the main tax disputes are described below.

- An appeal was filed against the notice of tax assessment concerning regional tax on productive activities (IRAP) for 2011, file no. TJBOC0100229/2016 notified on 24 November 2016 by the tax authorities – Lazio Regional Department - Large Taxpayers Office.
- The company received a notice of tax assessment concerning regional tax on productive activities (IRAP) for 2012, file no. TJBOC0100251/2016 notified on 22 February 2017 by the tax authorities – Lazio Regional Department - Large Taxpayers Office. The company will appeal against such notice to the relevant Provincial Tax Court within the deadline.

**Tax assessments**

As already mentioned in the 2015 Annual Report, the tax authorities – Lazio Regional Department – Audits and Collection Section – Large Taxpayers Office – served the company with three notices of tax assessment concerning corporate income tax (IRES), regional tax on productive activities (IRAP) and value added tax (VAT) for 2010 on 30 December 2015.

Such notices formalise the findings of the general tax assessment carried out on RFI in 2013 and additional investigations performed following the assessment.

With respect to that indicated in greater detail in the 2015 Annual Report on the contents of the individual disputes raised in the above-mentioned notices of tax assessment, the following developments have occurred:

With respect to findings on <u>corporate income tax (IRES)</u>:

<u>Finding no. 1</u>

"Tax treatment of assets under construction and payments on account for the purposes of depreciation of infrastructure".

Undue deduction of the depreciation of extraordinary maintenance expenditure classified in the financial statements under assets under construction and payments on account.

Although they did not challenge the substance of extraordinary maintenance costs, the tax authorities nevertheless did not believe that these costs were deductible/depreciable in 2010, given their formal classification as assets under construction and payments on account in the caption "Property, plant and equipment" in the 2010 financial statements. Indeed, according to the tax authorities, because the costs relating to assets under construction and payments on account refer, due to their nature, to investments that are not yet considered in total production, they are not depreciable in 2010.

On the other hand, during discussions as part of a mutually-agreed assessment, the company presented additional briefs and documentation aimed at proving that if the related depreciation of extraordinary maintenance expenditure does not refer to 2010, as established on the basis of the previous defence brief and specific accounting documentation already filed, then it should at most be ascribed to 2013 during which the amounts of such expenditure were reclassified from assets under construction (where they had been classified) to the relevant asset captions.

In light of the above, following the outcome of the discussions, the tax authorities:

(i) confirmed that the relevant extraordinary maintenance expenditure is now subject to taxation for the 2010 tax year and, as a result, the reduction of the tax losses declared by the company by the same amount (equal to approximately €45.3 million);

however, at the same time,

(ii) recognised the company's right to deduct such depreciation in 2013, i.e., in the tax period in which such extraordinary maintenance expense was reclassified from assets under construction (where they had been classified in 2010) to the relevant asset captions and, as a result, the company's right to reintegrate the higher tax loss of the same amount (equal to approximately €45.3 million) in the tax period to which such depreciation actually refers, i.e., 2013.

The consent to the mutually-agreed assessment settlement procedure for IRES purposes was signed on 25 July 2016 and finalised on 2 September 2016 following the payment within the deadline of the sole fine as per article 9.1 of Legislative decree no. 471 of 18 December 1997 for "Keeping accounts not in compliance with the law", reduced to one third of the total.

<u>Finding no. 2</u>

"Correct calculation of tax-deductible depreciation of railway infrastructure".

Undue deduction of the depreciation of extraordinary maintenance expenditure relating to the HS/HC network.

The tax authorities did not believe that the depreciation charges applied to the extraordinary maintenance costs relating to the HS/HC network which the company estimated it would incur up to the end of the concession were deductible/depreciable in the 2010 tax year. Indeed, according to the tax authorities, IFRS do not permit the depreciation of estimated costs to be incurred (up to the end of the concession), including those to maintain the HS/HC network's efficiency (extraordinary maintenance), as full government funding of such costs would not be guaranteed. Such investments can, however, be considered for the purposes of depreciation when actually realised.

During the discussions held in relation to the mutually-agreed assessment procedure, in light of the briefs and additional documented produced by RFI, the tax authorities definitively ruled on the lack of grounds of the finding under discussion. Specifically, the tax authorities recognised that the company had demonstrated the fact that the amount of future investments for expansion and/or completion of the network was not considered in the calculation of tax-deductible depreciation of railway infrastructure related to the HS/HC network, but also the extraordinary maintenance expenditure fully funded by the government which, as such, can be considered for the purposes of depreciation.

In light of the above, when defining the mutually-agreed assessment agreement signed on 25 July 2016 and finalised on 2 September 2016, the tax authorities cancelled the finding for IRES purposes as a self-protective measure.

With respect to findings on regional tax on productive activities (IRAP):
The finalisation of the consent to the mutually-agreed assessment settlement procedure for IRES purposes which also generated positive effects for the company for IRAP purposes as a similar definition, with reference to findings nos. 1 and 2, was also made for IRAP purposes via partial court settlement (pursuant to article 48 of Legislative decree no. 546/1992) as part of the tax dispute arisen following the notification on 27 May 2016 of the legal action against the related notice of tax assessment.
Specifically, including for IRAP purposes:

(i) with reference to finding no. 2, the tax claim was defined as a self-protective measure with the related cancellation by the tax authorities;
(ii) with reference to finding no. 1, no tax payment was made as the assessed IRAP in relation to 2010 was fully offset by the higher IRAP paid in excess by the company in relation to 2013 as it was deemed the relevant tax period; however, also for IRAP purposes, the company only had to pay one fine at a reduced amount proportional to the higher taxation assessed in relation to 2010.

The conciliation agreement was signed on 1 December 2016 and finalised on 16 December 2016 following the payment, within the deadline, of the sole fine reduced to one third of the amount.
In conclusion, with reference to findings no. 3 contained in the notice of tax assessment related to IRAP (concerning undue deduction of the depreciation of grants related to income, which RFI disbursed to Trenitalia for the free transport service provided to free travel cardholders), to date, neither the tax authorities nor RFI wish to make an amicable settlement. Therefore, the dispute underway will continue.

**Value added tax (VAT)**
With reference to the notice of tax assessment on value added tax (VAT) related to 2010, adhering to the proposed settlement of such notice, RFI finalised the agreement by signing, on 12 April 2016, the relevant settlement agreement upon payment of an overall amount that is significantly lower than that originally disputed.
Again in reference to VAT, but with regard to the tax inspection which the same tax authorities conducted in 2014 on 2011, and which ended with the notification of a preliminary tax assessment report dated 31 October 2014 containing an identical finding to that challenged in relation to 2010, following a specific invitation to hold discussions to put in motion the tax settlement procedure of 5 May 2016, the tax authorities formulated a proposal to settle the dispute in the same manner as that related to 2010.
Also in this case, adhering to the proposed settlement formulated by the tax authorities, RFI finalised the agreement by signing, on 11 May 2016, the related settlement agreement upon payment of an overall amount (taxation and fines) that is significantly lower than that originally disputed.

**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, results of operations and cash flows other than those mentioned in the notes, to which reference should be made, with regard to financial risk management (credit, liquidity, market, currency and interest rate risks).
A summary of other risk factors and the group of activities put in place to monitor them is provided below.

<u>Business plan risks</u>

The process to transform FS Italiane group into a system of integrated, sustainable and global mobility, as plotted by the new business plan, sees RFI actively involved on various fronts in synergy with other group companies.
These initiatives are significant in terms of implementation complexity and potential impact, aimed at building a railway network that is ever more integrated with the European network and the local scene, interconnected with other transport systems, able to further improve the levels of punctuality and reliability, in a customer-centric and sustainable transport system.
In a context of change and opening to new businesses and new ways of doing business, the risks to which the company is exposed evolve and are broken down according to each business plan action. In order to enable the gradual implementation of the plan, the group is building a structured system for governing and monitoring each initiative/project rolled out.

<u>Regulatory and compliance risks</u>

The company operates in highly regulated sectors where changes in regulatory rules, requirements and obligations can impact the performance of operations and forecast results.
To mitigate the risks arising from such factors, 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 open to holding meetings and discussions with such parties and is 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, the company might be exposed to risks of non-compliance due, more generally, from non-compliance with or violation of external legislation, with consequent legal or administrative sanctions, financial losses or damage to its reputation. To uphold these principles, along with monitoring developments in legislation, which the company performs through permanent work groups, it has specific structures to conduct checks and offers training to personnel, with a particular focus on the most important compliance issues.

Industrial and operational risks

Infrastructural investments in the railway system consist of complex projects requiring significant sources of funding 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, with 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, in addition to 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 were implemented during the year aimed at bolstering supervision over investment projects by RFI as the contractor.

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, with a constant focus on updating the public and supplying accessory services to customers.

In particular, to limit possible situations in which the company relies on builders/suppliers for maintenance/assistance, which could prolong recovery and resolution times when there is a fault/issue in the infrastructure, the company has implemented a progressive insourcing of critical maintenance and production processes for railway components.

With reference to stations and related services, the company is continuing work aimed at redeveloping the buildings and areas, including for social purposes, in order to improve accessibility for passengers and projects focused on boosting connections and exchanges with other means of transport. All of these actions are part of a broader project aimed at ensuring additional and complementary services to customers, within the plan, in line with the new unique concept of a station as a hub of integrated mobility (easy and smart station).

ICT (Information and Communication Technology) risks

The company operates using IT systems and platforms to coordinate and plan activities with respect to train operation and the related services, the sale of tracks, 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, cyber-attacks could influence service quality and cause interruptions and slowdowns or block company activities with resulting impacts 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 its security (via vulnerability checks, penetration test, etc.) and business continuity/disaster recovery processes.

RFI also defined a new systems plan in order to grasp innovation opportunities offered by digitalisation and notably improve internal and external customer services.

***Risk management***

2016 was chiefly dedicated to updating control risk self assessment activities focused on the operating and management aspects of the company's main processes (Commercial, Services Production, Investments, Maintenance, Equity, Information & Communication Technology, etc.).

It follows that, specifically, through control risk self assessments, each process owner has:

- identified the processes within its scope of responsibility and the related risks, by describing how they could potentially materialise (undesired events) and potential missed opportunities;
- evaluated process risks in terms of the undesired events' probability of occurrence and the related impact;
- identified and evaluated the existing control system in place to support minimising risks (rules, guidelines, procedures, proxies, IT systems, etc.) and defined improvement actions.

In parallel, design activities, coordinated by the parent, continued for the implementation of the new Enterprise Risk Management Model aimed at providing, based on a specific Risk Catalogue Framework, a breakdown of FS Italiane group's business risks and the related mitigation actions in place and pending.

Most risk controls in place were found to be sufficient and/or adequate, recording a strengthening compared to 2015 due to changes in internal organisational structures and procedural updates implemented.

However, in certain areas, the process owners defined, in some instances jointly, specific action plans to improve the management and supervision of processes and the related flows of information and/or raised awareness and intensified the monitoring of specific aspects.

Therefore, RFI's top management is involved in:

- "vertical" workshops and subsequent follow-up meetings to identify and assess company risks with effects on the group;
- "across-the-board" workshops dedicated to analysing risks on issues common to other group companies, such as human resources and organisation, information technology and cyber, and legal.

The findings are currently being finalised.

**Legislative decree no. 231/2001**

During the year, the Audit Department conducted 30 internal audits, making up about 81% of total audit activities, to perform its duties as Supervisory Body.
It audited the following processes exposed to the risks of crime covered by Legislative decree no. 231/2001:

- administrative and tax management (mineral oil procurement and management, manager in charge of planned checks);
- stock management (management of disassembled parts);
- investments (jointly-funded investments, contractual conditions to protect the correct completion of the investment - tender contracts, capitalisation of internal personnel expense and overheads);

- maintenance/investments (follow-ups on management of sub-contracts, follow-ups on technical/administrative and static trials);
- bargaining and procurement (bargaining activities and signing contracts);
- health, workplace safety and environmental protection;
- information systems development and management (service desk).

The assessment of the above processes showed the structure of the internal control system to be substantially adequate for pursuing good governance and reaching company goals.

**OUTLOOK**

Macroeconomic forecasts for 2017 show a slight recovery for the Italian economy, with GDP set to grow by just 0.8%, confirming the more reduced growth trend of other leading European countries. The Brexit effect, political events and terrorist issues in the European and International scene lead to expectations of majorly unstable trends in foreign demands and interest rates on global markets. Investments grow at a faster rate than the GDP, though not fully recovering from the slump seen during the recession in past years.

Risks associated with the international scene are still chiefly low. The fragile economic recovery, low inflation rates in industrialised countries and uncertain dynamics of emerging countries, despite some stabilisation of the growth of Asian markets, continue to be risk factors. On top of these we have geopolitical tensions and the risk that the international economy may slow down further once the driving force of low commodity prices dwindles. Economic indicators do not provide signs of cyclical strengthening and the confirmation of this moderate global growth is mainly tied to unreserved monetary policies.

The average inflation rate for 2017 is estimated at 0.9% in Italy[8]. The increase is due to trends in oil prices and expected tax policy (measures for tax breaks on investments) that the government intends to adopt for 2017 contained in the recent Stability Act.

Such macroeconomic scene is at the basis of the 2017-2026 business plan approved by the company's board of directors on 12 September 2016, focused on five strategic cornerstones: passenger modal integration, integrated logistics, integrated infrastructures, international development and digitalisation, and customer centricty.

Specifically, the targets of the 2017-2026 business plan are focused on a railway network that is more:

- integrated with the European network, in order to create a single railway market that is interoperable and interconnected with other transport systems (road, port, airport) to offer integrated infrastructure services;
- widespread, branched and connected with local areas to create a network that is spread out through the country;
- customer centred, capable of creating added value for customers, offering solutions that are fully synchronised with their actual needs;
- innovative and safe, by using state-of-the-art technology and high levels of automation, to continue guaranteeing high standards of safety in circulation and, more generally, safety on the railways;
- performing, capable of ensuring high levels of reliability and regularity with increasingly higher performance levels;
- sustainable for the environment and society, to contribute to cutting back on the consumption of non-renewable resources and making the most of the land;
- efficient and profitable, capable of creating value and ensuring adequate remuneration of the invested assets, simultaneously guaranteeing sustainable levels of public contribution.

In addition, the plan provides for the gradual integration of the former "railways under concession" into the national railway infrastructure. The aim is to spread the range of the railway service, boost efficiency and, above all, increase safety thanks to the high technological standards adopted by RFI.

[8] Source: MEF draft 2017 budget.

The 2017-2026 business plan mirrors the significant confirmation of financial results and positive operating performances achieved with regard to cost efficiency and important investment plans (with expected disbursements of approximately €56 billion) aimed at updating and developing the network (specifically, building the HS/HC system with particular reference to the so-called horizontal axis and Naples-Bari section) and boosting circulation safety and the level of technological equipment. The excellent results that it has achieved enable the operator to offer railway companies and their users a safe, high-tech, competitive and efficiently-managed network to ensure both economic and environmental sustainability, key values for the growth of the overall railway sector.
In the pursuit of its business mission, RFI is focused on developing a more environmentally and socially sustainable transport system to benefit the community and the logistics and production system.

The business plan is placed in a scene that is already regulated following ART's approval of the new toll system for the minimum access package with Resolution no. 75 of 1 July 2015 and the pricing of other services other than the minimum access package with Resolution no. 80 of 15 July 2015, both valid until December 2021.
Specifically, in compliance with Measure 58 of Resolution 96 "Regulations on the new toll system coming into force", the tariffs for the minimum access package were defined on a provisional basis (from 1 January 2016 to 9 June 2017; extended to 1 January 2018 with letter d) of Resolution no. 72/2016) using the 2016 tariffs adjusted by the planned inflation rate for 2017, as per the 2015 economic and financial document.
Starting from 2017, tariffs applied for other services supplied to railway companies are those regulated as per Measure 40 of Resolution no. 96/2016 using the following methods broken down by individual service:

| SERVICES PROVIDED BY RFI | | | Rate type | Comparison |
|---|---|---|---|---|
| Guaranteed-access plants and services | | **Passenger transport stations**<br>• ticketing areas, technical premises,<br>• BSS, mobile desks,<br>• ticket punchers | • €/m$^2$<br>• €/seat<br>• €/seat | Currently lease payment |
| | | Cargo hubs | • €/access | NEW |
| | | Shunting hubs | • €/access | NEW |
| | | Long-term parking (> 1 hour) | • €/access | NEW |
| | | Fuelling areas | | |
| | | Maintenance centres | • €/m$^2$ | Existing service |
| | | Washing platforms | • €/wash | Existing service |
| Complementary | | Traction power supply | • €/electric train-km | Existing service |
| | | Pre-heating/air conditioning | • €/pre-heating | Existing service |
| | | Water supply | • €/refuelling<br>• Commercial offer (tr-km) | Existing service |
| | | Traffic control for trains carrying hazardous cargo | • €/train-km MP | Currently cost recharging |
| | | Special train traffic assistance | • €/authorisation | Existing service |
| | | Shunting | • €/shunting | Existing service<br>Will not be provided from 2018 |
| | | Assistance to people with reduced mobility | • (€/repair) | Existing service |
| | | Parking | • €/parking<br>• €/hour | NEW |
| Auxiliary | | Provision of complementary information | • €/announcement or poster<br>• €/use | Existing service |
| | | Access to the telecommunications network | • €/use and roaming min. | Existing service |

The regulatory and legislative framework is experiencing a time of uncertainty exclusively referred to issues related to traction energy costs which will be regulated in the future by the Electricity, Gas and Water Regulator, in line with Decree law no. 244 of 30 December 2016 ("1,000 extensions"). The latter postpones the introduction of the three-way tariff structure for system overheads to 2018, keeping the current two-way structure in effect, and reintroduces the AE tariff component for non high-energy consumption companies.

Furthermore, at its December 14 plenary session, the European Parliament approved the Council's position on a first reading of the Market pillar of the Fourth railway package, adopted on 17 October 2016, with the consolidated texts published in the European Union Official Journal on 23 December 2016 and which should be implemented in Italy within 24 months.

Specifically, the Market pillar introduces a "new definition of Infrastructure manager", meant as the party attributed with performing the operation, maintenance, renewal and development of rail infrastructure and renews governance rules aimed at ensuring organisational and decision-making independence of the operator, simultaneously providing a definition of "vertically-integrated companies" which covers the governance model characterising Ferrovie dello Stato Italiane group. It also defines full liberalisation of domestic passenger transport (high speed and long haul services) starting from 2020 and establishes new rules in assigning "public passenger transport services by rail" with preference to bids for tender, except, up to 25 December 2023, for contracts of no more than 10 years.

In relation to public funding for railway investments, starting from 2015, government funds for railway infrastructure investments changed considerably compared to previous years, significantly increasing funding for investments (so-called "rail therapy"):

- the 2015 Stability Act provided for the disbursement of €12,350 million for railway infrastructure investments, of which €4,250 million to cover long-term commitments for extraordinary maintenance. These are joined by an additional €864 million accrued under the so-called "Get Italy Moving Decree");
- the 2016 Stability Act provided for the disbursement of an additional €8,200 million.

Such large volumes of disbursements (€20,550 million in total) lay the foundations for the development of the investments set out in the 2017-2026 business plan (equal to €56 billion).

Specifically, requirements for 2017 amount to roughly €10 billion and will be covered by the "Fund to be divided up for funding investments and the infrastructural development of the country" provided for by Law no. 232 "Government budget for the 2017 fiscal year and three-year budget for 2017-2019", already mentioned earlier in this report.

In parallel, in line with the government's greater focus on funding the development of the railway network, the planning of the 2014-2020 Development and cohesiveness fund (FSC) is being completed. As mentioned earlier, this provides for the funding of a large portion of RFI's investments, totalling €2.4 billion, which is currently still being defined. To date it provides for:

- €0.5 billion allocated by the CIPE with Resolution no. 26 of 10 August 2016 in order to implement works to be carried out in the regions and cities of southern Italy via institutional "Agreements for the south";
- €1.9 billion allocated by the CIPE at its meeting held on 1 December 2016 under the "Infrastructure Operating Plan" formulated by the Ministry of Infrastructure and Transport (also known as former "Control room" FSC funds).

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"). The funding candidacies presented by the company are currently being assessed.

The overall volume of actual and potential funding requires that they be used rapidly to effectively roll out the investment plan. This is why the procedures to make such funds operational are sped up, enabled by the legislator with its approval of the 2016 update of 2012-2016 Government Programme Contract – Investments via Law no. 225 of 1 December 2016 converting Law decree no. 193/2016 (so-called Tax Act).

The funds to be granted to RFI under the above-mentioned "Fund to be divided up for funding investments and the infrastructural development of the country", whose actual allocation shall be determined via decrees of the Prime Minister of Italy, as is the case for funding as per the 2014-2020 Development and cohesiveness fund, as well as for new resources jointly financed by the European Union will be formalised in the new 2012-2016 Government Programme Contract – Investments, of which the company was informed by the Ministry of Infrastructure and Transport at the end of January 2017.

With regard to current public funding, regulated by the Government Programme Contract – Services ("GPC-S"), the current 2012-2014 GPC-S was extended, pursuant to Law decree no. 244 of 30 December 2016, converted, with amendments, by Law no. 19 of 27 February 2017 at the same terms and conditions, until the approval of the 2016-2021 Contract and, in any case, up to and no later than 30 September 2017.

The draft of the new contract for the 2016 to 2021 period was signed, with the CIPE issuing a positive opinion thereon at its meeting held on 10 August. The completion of the authorisation procedure is still pending.

In brief, thanks to the guidelines of long-term goals set out in the 2017-2021 business plan, the clarity of the regulatory framework for the first 2016-2017/2021 five-year period and a contractual framework in relations with the government over the same period that is expected to become stable within the coming year, it is reasonable to state that the company has created a solid basis to tackle the next few years in a context that is decidedly more positive at last.

# FINANCIAL STATEMENTS AT 31 DECEMBER 2016
# FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL POSITION

| | | | *Euros* |
|---|---|---|---|
| | **Notes** | **31.12.2016** | **31.12.2015** |
| **Assets** | | | |
| Property, plant and equipment | *(6)* | 33,546,932,341 | 33,843,274,185 |
| Investment property | *(7)* | 1,137,534,622 | 1,137,195,788 |
| Intangible assets | *(8)* | 437,945,222 | 381,277,097 |
| Deferred tax assets | | – | – |
| Equity investments | *(9)* | 132,701,549 | 133,169,705 |
| Non-current financial assets (including derivatives) | *(10)* | 2,166,252,083 | 2,642,194,108 |
| Non-current trade receivables | *(13)* | 1,719,032 | 1,726,187 |
| Other non-current assets | *(11)* | 1,976,562,225 | 1,856,647,317 |
| **Total non-current assets** | | **39,399,647,074** | **39,995,484,387** |
| Inventories | *(12)* | 500,751,549 | 420,138,012 |
| Construction contracts | *(12)* | 30,955,352 | 24,668,472 |
| Current trade receivables | *(13)* | 867,931,291 | 780,819,700 |
| Current financial assets (including derivatives) | *(10)* | 697,102,641 | 791,716,809 |
| Cash and cash equivalents | *(14)* | 1,168,778,808 | 897,239,254 |
| Tax assets | *(15)* | 17,054,156 | 17,940,857 |
| Other current assets | *(11)* | 2,200,818,272 | 3,361,069,610 |
| **Total current assets** | | **5,483,392,069** | **6,293,592,714** |
| **Assets held for sale and disposal groups** | | **–** | **–** |
| **Total assets** | | **44,883,039,143** | **46,289,077,101** |
| **Equity** | | | |
| Share capital | *(16)* | 31,525,279,633 | 31,525,279,633 |
| Reserves | *(16)* | 47,806,571 | 41,370,395 |
| Reserves for unrealised gains and losses | *(16)* | (235,808,406) | (248,952,925) |
| Retained earnings | *(16)* | 1,596,329,614 | 1,504,042,272 |
| Profit for the year | *(16)* | 180,769,289 | 128,723,519 |
| **Total equity** | | **33,114,376,701** | **32,950,462,894** |
| **Liabilities** | | | |
| Non-current loans and borrowings | *(17)* | 3,519,125,338 | 3,985,538,443 |
| Post-employment benefits and other employee benefits | *(18)* | 693,652,237 | 712,838,841 |
| Provisions for risks and charges | *(19)* | 522,209,108 | 499,535,955 |
| Deferred tax liabilities | | – | – |
| Non-current financial liabilities (including derivatives) | *(20)* | 34,196,208 | 36,689,977 |
| Non-current trade payables | *(22)* | 16,236,085 | 20,909,267 |
| Other non-current liabilities | *(21)* | 124,292,286 | 170,168,383 |
| **Total non-current liabilities** | | **4,909,711,262** | **5,425,680,866** |
| Current loans and borrowings and current portion of non-current loans and borrowings | *(17)* | 783,349,204 | 454,054,371 |
| Current trade payables | *(22)* | 2,653,454,754 | 2,514,693,183 |
| Tax liabilities | | – | – |
| Current financial liabilities (including derivatives) | *(20)* | 3,174,323 | 2,356,703 |
| Other current liabilities | *(21)* | 3,418,972,899 | 4,941,829,084 |
| **Total current liabilities** | | **6,858,951,180** | **7,912,933,341** |
| **Liabilities held for sale and disposal groups** | | **–** | **–** |
| **Total liabilities** | | **11,768,662,442** | **13,338,614,207** |
| **Total equity and liabilities** | | **44,883,039,143** | **46,289,077,101** |

## INCOME STATEMENT

| | Notes | 2016 | 2015 |
|---|---|---|---|
| | | | *Euros* |
| Revenue from sales and services | *(23)* | 2,274,194,752 | 2,178,156,238 |
| Other income | *(24)* | 301,072,651 | 307,644,461 |
| **Total revenue** | | **2,575,267,403** | **2,485,800,699** |
| Personnel expense | *(25)* | (1,416,963,569) | (1,417,583,653) |
| Raw materials, consumables, supplies and goods | *(26)* | (777,538,973) | (639,715,372) |
| Services | *(27)* | (634,872,343) | (607,300,520) |
| Use of third-party assets | *(28)* | (48,889,501) | (43,684,322) |
| Other operating costs | *(29)* | (139,507,042) | (118,180,630) |
| Internal work capitalised | *(30)* | 799,212,786 | 619,639,287 |
| **Total operating costs** | | **(2,218,558,642)** | **(2,206,825,210)** |
| **Amortisation and depreciation** | *(31)* | **(93,866,970)** | **(93,862,321)** |
| **Net reversals of impairment losses** | *(32)* | **(22,607,156)** | **(10,997,589)** |
| **Provisions** | *(33)* | **(25,000,000)** | **(14,590,000)** |
| **Operating profit** | | **215,234,635** | **159,525,579** |
| **Net financial expense** | | **(34,465,346)** | **(36,002,945)** |
| Financial income | *(34)* | 8,452,337 | 10,155,471 |
| Financial expense | *(35)* | (42,917,683) | (46,158,416) |
| **Pre-tax profit** | | **180,769,289** | **123,522,634** |
| Income taxes | *(37)* | – | 5,200,885 |
| **Profit from continuing operations** | | **180,769,289** | **128,723,519** |
| **Profit (loss) from assets held for sale, net of taxes** | | **–** | **–** |
| **Profit for the year** | | **180,769,289** | **128,723,519** |

## STATEMENT OF COMPREHENSIVE INCOME

| | | | *Euros* |
|---|---|---|---|
| | **Notes** | **2016** | **2015** |
| **Profit for the year** | | **180,769,289** | **128,723,519** |
| **Items that will not be reclassified to profit or loss** | | | |
| Actuarial gains (losses) | *(16)* | (10,439,968) | 26,236,334 |
| Tax effect on actuarial gains (losses) | | – | – |
| **Items reclassified to profit or loss** | *(16)* | **21,286,702** | **23,890,315** |
| **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 | *(16)* | 2,297,785 | 7,157,710 |
| Net exchange rate gains (losses) | | – | – |
| Cash flow hedges - tax effect of the effective portion of changes in fair value | | – | – |
| Available-for-sale financial assets | | – | – |
| Tax effect of available-for-sale financial assets | | – | – |
| **Other comprehensive income, net of the tax effect** | | **13,144,519** | **57,284,359** |
| **Comprehensive income** | | **193,913,808** | **186,007,878** |

## STATEMENT OF CHANGES IN EQUITY

(Euros)

| | Share capital | Reserves: Legal reserve | Reserves for unrealised gains and losses: Hedging reserve | Reserves for unrealised gains and losses: Actuarial reserve | Total reserves | Retained earnings | Profit for the year | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **32,007,632,680** | **34,365,922** | **(165,184,925)** | **(141,052,359)** | **(271,871,362)** | **1,403,957,282** | **140,089,463** | **33,279,808,063** |
| Dividend distribution | | | | | | | (33,000,000) | **(33,000,000)** |
| Allocation of profit for the previous year | | 7,004,473 | | | 7,004,473 | 100,084,990 | (107,089,463) | – |
| Decreases from demerger | (482,353,047) | | | | | | | **(482,353,047)** |
| Recognised profits/(losses) | | | | | | | | |
| of which: | | | | | | | | |
| Cash flow hedges - effective portion of changes in fair value | | | 7,157,710 | | 7,157,710 | | | **7,157,710** |
| Actuarial gains | | | | 26,236,334 | 26,236,334 | | | **26,236,334** |
| Other changes | | | 23,890,315 | | 23,890,315 | | | **23,890,315** |
| Profit for the year | | | | | | | 128,723,519 | **128,723,519** |
| **Balance at 31 December 2015** | **31,525,279,633** | **41,370,395** | **(134,136,900)** | **(114,816,025)** | **(207,582,530)** | **1,504,042,272** | **128,723,519** | **32,950,462,894** |
| **Balance at 1 January 2016** | **31,525,279,633** | **41,370,395** | **(134,136,900)** | **(114,816,025)** | **(207,582,530)** | **1,504,042,272** | **128,723,519** | **32,950,462,894** |
| Dividend distribution | | | | | | | (30,000,000) | **(30,000,000)** |
| Allocation of profit for the previous year | | 6,436,176 | | | 6,436,176 | 92,287,342 | (98,723,519) | – |
| Decreases from demerger | | | | | | | | – |
| Recognised profits/(losses) | | | | | | | | |
| of which: | | | | | | | | |
| Cash flow hedges - effective portion of changes in fair value | | | 2,297,785 | | 2,297,785 | | | **2,297,785** |
| Actuarial losses | | | | (10,439,968) | (10,439,968) | | | **(10,439,968)** |
| Other changes | | | 21,286,702 | | 21,286,702 | | | **21,286,702** |
| Profit for the year | | | | | | | 180,769,289 | **180,769,289** |
| **Balance at 31 December 2016** | **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** |

## STATEMENT OF CASH FLOWS

| | | | *Euros* |
|---|---|---|---|
| | **Notes** | **31.12.2016** | **31.12.2015** |
| **Profit for the year** | | **180,769,289** | **128,723,519** |
| Income taxes | *(37)* | | (5,200,885) |
| Amortisation and depreciation | *(31)* | 93,866,970 | 93,862,321 |
| Accruals to the provisions for risks | *(33)* | 79,112,023 | 50,455,000 |
| Impairment losses | *(32)* | 10,560,891 | 122,287 |
| Accruals for employee benefits | *(18)* | 7,488,264 | 9,042,000 |
| **Accruals to provisions and impairment losses** | | **97,161,178** | **59,619,287** |
| Profits on sales | *(24) (29)* | (30,383,167) | (34,942,912) |
| Change in inventories | *(12)* | (86,900,416) | (57,475,587) |
| Change in trade receivables | *(13)* | (87,104,438) | 24,544,909 |
| Change in trade payables | *(22)* | 134,088,390 | (14,022,041) |
| Change in other assets and liabilities | *(11) (21)* | (533,727,482) | 53,193,184 |
| Utilisation of the provisions for risks and charges | *(19)* | (48,268,870) | (62,362,335) |
| Payment of employee benefits | *(18)* | (39,066,504) | (51,188,367) |
| | | | – |
| **Net cash flows generated by (used in) operating activities** | | **(319,565,050)** | **134,751,093** |
| Increases in property, plant and equipment | *(6)* | (4,068,406,411) | (3,307,672,481) |
| Increases in investment property | *(7)* | (319,642) | |
| Increases in intangible assets | *(8)* | (73,623,044) | (79,743,703) |
| Increases in equity investments | *(9)* | (87,780,910) | (132,769,278) |
| **Investments, before grants** | | **(4,230,130,007)** | **(3,520,185,462)** |
| Grants for property, plant and equipment | *(6)* | 4,228,877,365 | 2,990,347,098 |
| Grants for investment property | *(7)* | | – |
| Grants for intangible assets | *(8)* | | |
| Grants for equity investments | *(9)* | 87,780,910 | 132,769,278 |
| **Grants** | | **4,316,658,275** | **3,123,116,376** |
| Divestments of property, plant and equipment | *(6)* | 78,877,723 | 48,013,622 |
| Divestments of investment property | *(7)* | 198,690 | 449,835 |
| Divestments of intangible assets | *(8)* | 664 | 1,377,277 |
| Divestments of equity investments | *(9)* | 153,000 | – |
| **Divestments** | | **79,230,077** | **49,840,734** |
| **Net cash flows generated by (used in) investing activities** | | **165,758,345** | **(347,228,352)** |
| Disbursement and repayment of non-current loans | *(17)* | (437,163,477) | (388,754,583) |
| Disbursement and repayment of current loans | *(17)* | 300,045,208 | 67,986 |
| Change in financial assets | *(10)* | 469,343,028 | 462,538,773 |
| Change in financial liabilities | *(20)* | 21,908,337 | 24,566,121 |
| Dividends | *(16)* | (30,000,000) | (33,000,000) |
| **Changes in equity** | | **–** | **–** |
| **Net cash flows generated by financing activities** | | **324,133,096** | **65,418,297** |
| **Total cash flows** | | **170,326,391** | **(147,058,962)** |
| **Opening cash and cash equivalents** | | **1,126,679,852** | **1,273,738,814** |
| **Closing cash and cash equivalents** | *(10) (14)* | **1,297,006,243** | **1,126,679,852** |
| **of which: intercompany current account** | | **128,228,073** | **229,440,598** |

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Introduction

The financial statements at 31 December 2016 (the "financial statements") have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, the interpretations of 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 force at the reporting date ("IFRS"). RFI availed of its right under Legislative decree no. 38 of 28 February 2005, which regulates the exercise of the options under Regulation (EC) no. 1606/2002 concerning the application of IFRS. Specifically, pursuant to articles 3 and 4 of the above Legislative decree, the company has prepared its financial statements in accordance with IFRS since the year ended 31 December 2010.

## 2. The company

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.

On 23 March 2017, the directors approved the draft financial statements at 31 December 2016 which were submitted to the shareholders within the term set out in article 2429 of the Italian Civil Code. These financial statements will be presented for the shareholders' approval within the term set out in article 2364 of the Italian Civil Code, and will be filed within the term established by article 2435 of the Italian Civil Code. The shareholders are entitled to amend these financial statements. For the purposes of IAS 10.17, the directors authorised these financial statements for issue on 23 March 2017, which is the date when the board of directors approved these financial statements.

As permitted by IFRS 10.4, RFI opted not to prepare consolidated financial statements and prepared separate financial statements. The consolidated financial statements available to the public are prepared by Ferrovie dello Stato Italiane S.p.A. which is RFI's parent. The parent's registered office is at Piazza della Croce Rossa 1, Rome. The consolidated financial statements can be obtained at this address in accordance with the terms of the current legislation.

KPMG S.p.A. was assigned the engagement to carry out the legally-required audit for the three-year period from 2014 to 2016 pursuant to Legislative decree no. 39/2010.

## 3. Basis of preparation

As mentioned above, the financial statements have been prepared in accordance with the IFRS. Specifically, the IFRS have been applied consistently to all the periods covered by this document.

The financial statements have been prepared and presented in Euro, which is the company's functional currency, i.e. the

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

The financial statements formats applied and the related classification criteria adopted by the company in accordance with the options provided for in IAS 1 - Presentation of financial statements are set out below:

- the statement of financial position has been prepared by classifying assets and
liabilities as "current/non-current";

- the income statement has been prepared by classifying operating costs and revenue by nature;
- the statement of comprehensive income includes the profit for the year, as well as any other changes in equity captions attributable to transactions that are not carried out at the reporting date;
  furthermore, as a result of amendment to IAS 1 - Presentation of financial statements, the company shows other comprehensive income (expense) separately, depending on whether it can be subsequently reclassified to profit or loss;
- the statement of changes in equity which shows the changes in equity captions;
- the statement of cash flows has been prepared by reporting cash flows arising from operating activities using the indirect method.

The annual report also includes the directors' report.

These financial statements have been prepared on a going-concern basis, as the directors established that there are no financial, operational or any other indications of critical issues about the company's ability to meet its obligations in the foreseeable future and, specifically, in the next twelve months. Reference should be made to note 5 "Financial and operational risk management" for a description of the company's financial risk management procedures.

The financial statements have been prepared on the basis of historical cost, except for financial assets and liabilities where
*fair* value measurement is mandatory.

## 4. 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 requiring 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. Charges are 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 2016 and 2015 are as follows:

| | **Production indicators** | |
|---|---|---|
| | **2016** | **2015** |
| Padana cross-rail and international transits (Line A) | 2.13% | 2.17% |
| North Tyrrhenian line and confluent lines (Line B) | 2.10% | 2.12% |
| Backbone and confluent lines (Line C) | 2.13% | 1.98% |
| South Tyrrhenian line (Line D) | 2.22% | 1.98% |
| Adriatic line and Apennines cross-rails (Line E) | 2.21% | 2.17% |
| Complementary network (Line F) | 2.18% | 2.16% |
| HS/HC network (Line G) | 2.02% | 1.94% |

Where necessary, the depreciation rates and the residual value are revised and updated 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. Investment property is measured at cost.

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

**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 purchase cost.

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 where all the following conditions are met:

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

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

**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.

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

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

Equity investments other than subsidiaries or associates fall under the scope of IAS 39 and are classified as available-for-sale financial instruments. They are measured at fair value and are initially recognised at the consideration paid, increased by transaction costs. Subsequent fair value changes are recognised as a balancing entry to equity.

When the equity investments other than subsidiaries or associates are not listed on an active market and application of an adequate valuation model is not reliable, they 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. Reversals of impairment losses 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.

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**

**Loans and receivables**

Financial assets and loans and receivables are recognised under assets when the company becomes a party to the contractual clauses of the instrument and the contractual rights to the cash flows from financial assets expire or are transferred together with the risks and rewards of the asset.

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. This category includes: "Non-current financial assets", "Current financial assets", "Current trade receivables", "Non-current trade receivables", "Other current assets" and "Other non-current assets".

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, net of the relevant allowance for impairment. Loans and receivables are included under current assets, except for those with a contractual term exceeding twelve months after the reporting date, which are classified under non-current assets.

Impairment losses on loans and receivables are recognised when there is objective evidence that the company will not be able to collect the amount due from the counterparty on the basis of the contractual terms. Objective evidence includes events such as:

- significant financial difficulties of the issuer or debtor;
- legal disputes pending related to loans and receivables;
- the probability of the debtor being declared bankrupt or of other financial reorganisation procedures being started.

Impairment losses are calculated as the difference between the carrying amount of the asset and the present value of its expected future cash flows and recognised in profit or loss under "(Reversals of) impairment losses". Unrecoverable loans and receivables are recognised in the statement of financial position, net of the relevant allowance for impairment. If the reasons for the previously recognised impairment losses no longer apply in the subsequent periods, the carrying amount of the asset is reversed without exceeding the carrying amount that would have been determined had the amortised cost method been applied.

**Cash and cash equivalents**

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

**Loans, trade payables and other financial liabilities**

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

**Derivative financial instruments**

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.

Hedging derivatives are recognised under hedge accounting criteria only when:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship;
- the hedge is expected to be highly effective;

- the effectiveness of the hedge can be reliably measured;
- the hedge is determined to have been highly effective throughout the financial reporting periods for which the hedge was designated.

*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. 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 an equity reserve are immediately recognised in profit or loss.

Derivatives are recognised at the trade date.

**Fair value estimate**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Specifically, when pricing the asset or liability at the measurement date, the characteristics of the market participants should be considered. The fair value of financial instruments quoted in an active market is based on their market prices at the reporting date. Conversely, the fair value of financial instruments that are not quoted in an active market is determined by using valuation techniques based on a series of methods and assumptions linked to market conditions at the reporting date.

The classification of the fair value of financial instruments based on the following hierarchy levels is given below:

Level 1: fair value calculated based on quoted prices (unadjusted) in active markets for identical financial instruments which the company can access at the measurement date;

Level 2: fair value is calculated based on inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3: fair value calculated based on valuation techniques that consider unobservable inputs using the best information available.

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 the market value, using the Black & Scholes model, for collars.

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).

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.

**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 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.

**Construction contracts**

Construction contracts (or "contracts") are recognised at the contractually agreed fees, reasonably accrued, in accordance with the percentage of completion method, considering the progress made and the expected contractual risks. Progress is measured by comparing the contract costs incurred at the reporting date to the total estimated costs for each contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of incurred contract costs expected to be recovered. When the outcome of a construction contract can be estimated reliably and it is probable that the economic benefits associated with the contract will flow to the entity, revenue is recognised over the term of the contract. When it is probable that total contract costs will exceed total contract revenue, the potential loss is immediately recognised in profit or loss.

The company includes under assets (construction contracts) the gross amount due from customers for contract work in progress whose costs incurred, net of profit margins recognised (less recognised losses), exceed the invoicing of work progress. The company recognises under liabilities (Payables for construction contracts) the gross amount due from customers for all contract work in progress whose costs invoiced exceed the costs incurred, including recognised profit margins (less recognised losses).

**Employee benefits**

***I) 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.

***II) Other post-employment benefits (post-employment benefits 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 has no sufficient assets to meet the commitments with employees. With respect to the defined contribution plans, the company pays contributions, either voluntarily or as required by contract, into public and private insurance pension funds. Contributions are recognised as personnel expense on an accruals basis. Advance payments for contributions are recognised as an asset that will be repaid or offset against future payments, if due. 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, introduced significant changes 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, CLC) that gives current and retired employees and their relatives, the right to use –- free of charge or, in some cases, for an admission fee – the trains managed by Ferrovie dello Stato 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 free travel card benefits and the effects arising from actuarial valuations are the same as those of post-employment benefits.

**Provisions for risks and charges**

Provisions for risks and charges are recognised 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.

Unlike probable liabilities, contingent liabilities are not recognised in the financial statements. Nevertheless, they are disclosed in the notes. Contingent liabilities arise from:

- a possible obligation arising from past events, whose occurrence will be confirmed only if one or more uncertain future events, which are not entirely under the control of the entity, occur;
- a present obligation arising from past events, which is not recognised because it is not probable that it will be necessary the use of the outflow of resources embodying economic benefits in order to settle the obligation or because the obligation cannot be estimated with sufficient reliability.

**Translation of foreign currency amounts**

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

**Revenue**

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

Revenue from services is recognised in profit or loss in accordance to the completion stage of the service and only when the outcome of the service can be reliably estimated.

Similarly to that described in relation to services, this caption is recognised in accordance to the completion stage of the construction contracts, using the percentage of completion method.

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

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

**Government grants**

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

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.

**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, including those related to prior year tax losses, are recognised when it is probable that future taxable income will be available against which these losses can be recovered. Deferred tax assets and liabilities are calculated using the tax rates that are expected to be applied in the years in which the differences will be realised or settled.

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

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

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

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

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

**New standards**

**First-time adoption of standards, amendments and interpretations**

**Amendments to IAS 19 – Employee benefits**

On 21 November 2013, the IASB issued some amendments to IAS 19 – Employee benefits, named "Defined benefit plans: employee contributions". The EU endorsed these documents with Regulation no. 2015/29 of 17 December 2014, with the aim of simplifying the accounting treatment of employees' or third-party contributions to defined benefit plans.

These amendments apply to annual periods beginning on or after 1 February 2015.

The application of these amendments had no material effects on these financial statements.

**Annual improvements to IFRS: 2010-2012 cycle**

On 12 December 2013, the IASB issued the "Annual improvements to IFRS: 2010-2012 cycle". The EU endorsed this document with Regulation no. 2015/28 of 17 December 2014. The following standards were amended:

- the amendment to IFRS 2 clarifies the definition of "vesting condition", separately defining the concepts of "performance condition" and "service condition";

- the amendments to IFRS 3 clarify how to classify a contingent consideration agreed in the scope of a business combination. Specifically, if the contingent consideration is a financial instrument, it shall be classified as either a financial liability or an equity instrument. Moreover, the amendments to IFRS 3 clarify that fair value changes of contingent consideration, which is not a measurement period adjustment and is not classified as equity, shall be recognised in profit or loss;
- the amendments to IFRS 8 require the entity to disclose further information comprising a brief description of the criteria used by management to aggregate operating segments, as well as the explanation of the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. Moreover, the amendments clarify that reconciliation of the total of the segments' assets to the total consolidated assets is required only if the amounts are regularly provided to management;
- the amendment to IAS 24 refers to the definition of "related party" to include the management entity, i.e. the entity that provides key management personnel services to the reporting entity. The management entity shall be included among the related parties of the reporting entity. Therefore, the disclosure requirements as per IAS 24 referred to related parties shall be applied, including service fees paid or payable to the management entity and other transactions, with the same entity, such as loans. Moreover, the amendment clarifies that if an entity obtains key management personnel services from another entity, the entity is not required to disclose the compensation paid or payable by the management entity to the management entity's employees or directors;
- the amendments to IAS 16 and 38 clarify that when the revaluation model is applied, the adjustments to accumulated depreciation/amortisation are not always proportionate to the adjustment to the gross carrying amount. Specifically, at the revaluation date, the asset's carrying amount can be adjusted to the revalued amount either as follows: a) the asset's gross carrying amount is adjusted in a manner that is consistent with the revaluation and the accumulated amortisation/depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset, net of accumulated impairment losses; b) accumulated amortisation/depreciation is offset against the asset's gross carrying amount.

These amendments apply to annual periods beginning on or after 1 February 2015.

Because of its nature and/or scope, the application of these amendments had no material effects on these financial statements.

**Amendments to IFRS 11 – Joint arrangements**

On 6 May 2014, the IASB issued Accounting for acquisitions of interests in joint operations (Amendments to IFRS 11). This document was endorsed by the European Union with Regulation no. 2173 of 24 November 2015. The amendments to IFRS 11 require new interpretations on the recognition of acquisition of interests in joint operations which constitute a business combination. In detail, a joint operator that acquires an interest in a joint operation which constitutes a business, when consolidating it, shall apply the requirements in IFRS 3 if they do not conflict with IFRS 11. That means that assets acquired and liabilities assumed shall be measured at fair value. In addition, any goodwill or gain from a bargain purchase shall be recognised. The costs of the acquisition shall be recognised in profit or loss and all disclosure requirements in IFRS 3 shall be provided.

These amendments apply to annual periods beginning on or after 1 January 2016. Because of their nature and/or scope, the application of these amendments had no material effects on these financial statements.

**Amendments to IAS 16 – Property, plant and equipment and IAS 38 – Intangible assets**

On 12 May 2014, the IASB issued Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38). This document was endorsed by the European Union with Regulation no. 2231 of 2 December 2015. The amendments to IAS 16 clarify that the use of revenue-based methods to calculate the depreciation/amortisation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The same was clarified in relation to IAS 38, analysing, however, rare cases in which the assumption for the incorrectness of a revenue-based amortisation may be overcome.

These amendments apply to annual periods beginning on or after 1 February 2015. Because of their nature and/or scope, the application of these amendments had no material effects on these financial statements.

**Amendments to IAS 27 – Separate financial statements**

On 12 August 2014, the IASB issued Equity method in separate financial statements (Amendments to IAS 27). This document was endorsed by the European Union with Regulation no. 2441 of 18 December 2015. The amendments restore the option to use the equity method, described in IAS 28 Investments in associates and joint ventures, to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

These amendments apply to annual periods beginning on or after 1 February 2015. The group, and subsequently the company, did not avail itself of this right, also in the light of some application issues related to the use of the equity method, in particular, in relation to subsidiaries. Therefore, the amendment had no material effects on these financial statements.

**Annual improvements to IFRS: 2012-2014 cycle**

On 25 September 2014, the IASB issued the Annual Improvements to IFRS: 2012-2014 Cycle. This document was endorsed by the European Union with Regulation no. 2343 of 15 December 2015. The amendments introduced are part of the ordinary streamlining and clarification process of IFRS. They refer to the following standards:

- the amendment to IFRS 5 clarifies that the reclassification of an asset (or disposal group) from held for sale to held for distribution to owners shall not be considered a new plan of disposal, therefore its date of classification shall not be changed;
- the amendment to IFRS 7 clarifies that there might be continuing involvement, with related disclosure requirements, where there is a right to earn a fee for servicing the financial asset;
- the amendment to IAS 19 specifies that when the discount rate by reference to the deep market of high quality corporate bonds is used, the deepness of the market shall be assessed on the basis of the currency in which the bond is expressed, rather than that of the country in which the bond is located;
- the amendment to IAS 34 requires that the disclosure of periods which are not interim reports may be referred to via reference to other documents, as long as they are available to users on the same terms as the interim financial statements are (i.e. any public report issued by directors).

These amendments apply to annual periods beginning on or after 1 February 2015. Because of their nature and/or scope, the application of these amendments had no material effects on these financial statements.

**Amendments to IAS 1 – Presentation of financial statements**

On 18 December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1). This document was endorsed by the European Union with Regulation no. 2406 of 18 December 2015. The amendments clarify some aspects related to disclosure on materiality (of the financial statements as a whole); disaggregation and subtotals; the structure of the notes (flexibility is reiterated but understandability and comparability must be taken into account as well); investments measured at fair value (the OCI portion shall be divided as other OCI captions). The initiative is part of the Disclosure Initiative project to improve the presentation of, and disclosures in, IFRS financial statements and resolve some of the critical issues reported by operators.

These amendments apply to annual periods beginning on or after 1 February 2015. Because of their nature and/or scope, the application of these amendments had no material effects on these financial statements.

**Amendments to IFRS 10 – Consolidated financial statements; IFRS 12 – Disclosure of interests in other entities and IAS 28 – Investments in associates and joint ventures**

On 18 December 2014, the IASB issued Investment entities: applying the consolidation exception (Amendments to IFRS 10, IFRS 12 and IAS 28). This document was endorsed by the European Union with Regulation no. 1703 of 22 September 2016. The amendment, which led to modifications in IFRS 10-12 and IAS 28, aims to specify the requirements for the recognition of the investment entities and provide an exemption for some situation in particular. These amendments apply to annual periods beginning on or after 1 February 2015.

Because of its nature and/or scope, the application of these amendments had no material effects on these financial statements.

**Accounting standards, amendments and interpretations recently endorsed by the European Union, but not yet adopted**

At the preparation date, the competent bodies of the European Union have completed the endorsement process necessary to adopt the following accounting standards and amendments, as detailed below. With reference to the applicable standards, the company decided not to use early application, where recommended.

The measurement of any impact that such standards, amendments and interpretations may have on the company is currently being analysed.

**IFRS 15 - Revenue from contracts with customers and amendments**

On 28 May 2014, as part of the IFRS-US GAAP convergence project, the IASB and the FASB published IFRS 15 - Revenue from contracts with customers. This document was endorsed by the European Union with Regulation no. 1905 of 22 September 2016. This standard is a unique and comprehensive framework for revenue recognition and sets out the provisions to be applied to all contracts with customers (except for those covered by other standards on leases, insurance contracts and financial instruments). IFRS 15 replaces the previous standards applicable to revenue: IAS 18 - Revenue and IAS 11 - Construction contracts, as well as the following interpretations: IFRIC 13 - Customer loyalty programmes, IFRIC 15 - Agreements for the construction of real estate, IFRIC 18 - Transfers of assets from customers and SIC 31 - Revenue — Barter transactions involving advertising services.

The new model for revenue recognition in IFRS 15 (five-steps model) requires revenue to be recognised when the control of a good or service is transferred to the customer (no longer when risks and benefits are

substantially transferred) and at the consideration to which the entity deems to be entitled (no longer at fair value).
On 11 September 2015, the IASB issued an amendment to IFRS 15, postponing the coming into force of the standard to 1 January 2018. However, early application is permitted. Moreover, on 12 April 2016, the IASB issued some clarifications on IFRS 15 Revenue from contracts with customers. The new standard will apply to annual periods beginning on or after 1 January 2018.

**IFRS 9 – Financial instruments**
On 24 July 2014, the IASB issued the definitive version of IFRS 9 - Financial instruments. This document was endorsed by the European Union with Regulation no. 2067 of 22 November 2016. This standard reflects the outcome of the IASB project to replace IAS 39 and supersedes all previous versions of IFRS 9 covering classification, measurement, derecognition, impairment and hedge accounting. One of the most important innovations is that, when classifying and measuring, the business model for managing the financial assets and liabilities and cash flow characteristics shall be considered. Moreover, the standard introduces new aspects in the measurement of expected credit losses and a new hedge accounting model. The new standard will apply to annual periods beginning on or after 1 January 2018.

**Accounting standards, amendments and interpretations not yet endorsed by the European Union**

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

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

**Amendments to IFRS 10 – Consolidated financial statements and IAS 28 – Investments in associates and joint ventures**
On 11 September 2014, the IASB issued Sales or Contribution of Assets between an Investor and its Associate or joint ventures (Amendments to IFRS 10 and IAS 28) to resolve an inconsistency between IAS 28 and IFRS 10. Under IAS 28, the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or an associate in exchange for an investment in the latter is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. Conversely, under IFRS 10, when control is lost, the full amount of the gain or loss is recognised, even if the entity maintains a non-controlling interest in the company, including the sale or contribution of an associate to a joint venture or an associate. The amendments establish that when an

asset or subsidiary are transferred/contributed to a joint venture or an associate, the amount of the relevant gain or loss to be recognised in the financial statements of the transferor depends on whether the transferred/contributed assets or subsidiary constitute a *business*, as defined in IFRS 3. When the transferred/contributed assets or subsidiary constitute a business, the entity shall recognise the gain or loss on the entire investment previously held. Conversely, it shall recognise the portion of gain or loss attributable to share of investment it still holds.

In December 2015, the IASB issued the amendment that defers for an unlimited period of time the coming into force of the amendments to IFRS 10 and IAS 28.

**IFRS 16 – Leases**

On 13 January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17. IFRS 16 applies 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 internal control within the definition of leases. Specifically, to determine whether a contract is a leasing agreement, IFRS 16 requires assessing if the lessee has the right to control the use of an identified asset for a period of time.

Early application is permitted for entities that also adopt IFRS 15 Revenue from contracts with customers. The due process for the issue of the endorsement advice is expected to be completed in the first quarter of 2017.

**Amendments to IAS 12 – Income tax**

On 19 January 2016, the IASB issued some amendments to IAS 12 Income Tax. The document Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) clarifies the accounting for deferred tax assets on debt instruments measured at fair value. The amendments are effective from annual periods beginning on or after 1 January 2017. Early application is permitted. The EU endorsement is expected by the second quarter of 2017.

**Amendments to IAS 7 – Statement of cash flows**

On 29 January 2016, the IASB issued some amendments to IAS 7 Statement of cash flows. The Disclosure initiative (Amendments to IAS 7) document is meant to improve the presentation and disclosure of the financial information provided to users of financial statements and to resolve some of the critical issues reported by operators. The amendments introduce new disclosures for the changes liabilities and assets arising from financing activities. The standard applies to annual periods beginning on or after 1 January 2017. The EU endorsement is expected by the second quarter of 2017.

**Amendments to IFRS 2 – Share-based payment**

On 20 June 2016, the IASB issued some amendments to IFRS 2 Share-based payment. This document aims to clarify the accounting for some share-based payment transactions. The amendments apply to annual periods beginning on or after 1 January 2018. However, early application is permitted. The EU endorsement is expected by the second quarter of 2017.

**Amendments to IFRS 4 – Insurance Contracts**

On 12 September 2016, the IASB issued some amendments to IFRS 4 Insurance Contracts. The amendments aim to overcome the inconsistencies arising from the different effective dates of IFRS 9 and IFRS 4.

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

On 8 December 2016, the IASB issued Annual Improvements to IFRS Standards 2014-2016 Cycle. The amendments introduced are part of the ordinary streamlining and clarification process of IFRS. They refer to the following standards: 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 venture.

**IFRIC 22 – Foreign Currency Transactions and Advance Consideration**

On 8 December 2016, the IASB issued IFRIC 22 – Foreign Currency Transactions and Advance Consideration, in order to clarify the correct accounting of transactions which include advance consideration in foreign currency. IFRIC 22 applies to annual periods beginning on or after 1 January 2018; early application is permitted. The EU endorsement is expected by the second half of 2017.

**Amendments to IAS 40 – Investment Property**

On 8 December 2016, the IASB issued some amendments to IAS 40 – Investment Property. The amendments provide clarifications on the treatment of transfers from, and to, investment property. The amendments apply to annual periods beginning on or after 1 January 2018; early application is permitted. The EU endorsement is expected by the second half of 2017.

**Use of estimates and valuations**

In preparing the financial statements in accordance with IFRS, the directors applied accounting standards and methods, which in some circumstances rely on difficult and subjective valuations and estimates based on past experience and on assumptions that are 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, 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.

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

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

**I)** ***Impairment losses***

In accordance with the company's accounting policies, property, plant and equipment and intangible assets with a finite life are tested for impairment. Impairment losses are recognised when there is evidence that it will be difficult to recover the related carrying amount through the use of the asset. Impairment tests require the directors to make subjective valuations based on the information available within the company and in the market, as well as from past experience. Furthermore, when a potential impairment loss exists, the company calculates such loss using suitable valuation techniques. The correct identification of impairment indicators and the estimates for calculating them depend on factors that may vary over time, thus affecting valuations and estimates made by the directors.

**II) 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.

**III) 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.

**IV) Provisions for risks and charges**

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

**V) Fair value of derivatives**

The fair value of derivatives that are not quoted in active markets is measured using valuation techniques. The company applies valuation techniques that use inputs that can be observed in the market, either directly or indirectly, at the reporting date, and that are connected to the assets and liabilities being measured. Even if the estimates of the above fair values are considered reasonable, any possible changes in the estimate factors on which the calculation of the aforesaid amounts is based may generate different valuations.

**VI) Post-employment benefits**

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.

Consequently, the valuation is based on factors affected by timing, macro-economic and demographic variables which may have an impact thereon.

## STATEMENT OF FINANCIAL POSITION

### 5. Financial risk management

The activities carried out by the company 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.

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

thousands of Euros

| | **31.12.2016** | **31.12.2015** |
|---|---|---|
| Non-current financial assets (including derivatives) | 2,166,252 | 2,642,194 |
| **Non-current financial assets (including derivatives)** | **2,166,252** | **2,642,194** |
| Non-current trade receivables | 1,719 | 1,726 |
| **Non-current trade receivables** | **1,719** | **1,726** |
| Other non-current assets | 1,976,562 | 1,856,647 |
| **Other non-current assets** | **1,976,562** | **1,856,647** |
| **Construction contracts** | **30,955** | **24,668** |
| Current trade receivables | 999,998 | 908,324 |
| Allowance for impairment | (132,067) | (127,504) |
| **Current trade receivables** | **867,931** | **780,820** |
| Current financial assets (including derivatives) | 697,103 | 791,717 |
| **Current financial assets (including derivatives)** | **697,103** | **791,717** |
| **Cash and cash equivalents** | **1,168,779** | **897,239** |
| Other current assets | 2,206,437 | 3,364,666 |
| Allowance for impairment | (5,619) | (3,597) |
| **Other current assets** | **2,200,818** | **3,361,070** |
| **Total exposure, net of the allowance for impairment (*)** | **9,110,119** | **10,356,081** |

(*) Tax assets and equity investments are not included

A significant portion of trade receivables and loan assets relates to government and public authorities, such as the Ministry of the Economy and Finance ("MEF") and the Italian Regions.

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

| | thousands of Euros | |
|---|---|---|
| | **31.12.2016** | **31.12.2015** |
| Public administration, Italian government and Regions | 5,628,606 | 6,814,020 |
| Ordinary customers | 262,908 | 223,444 |
| Financial institutions* | 188,903 | 287,015 |
| Other debtors | 1,860,923 | 2,134,363 |
| **Total exposure, net of the allowance for impairment** | **7,941,340** | **9,458,842** |

* it includes the balance of the intragroup current account held with the parent (€128,228 thousand at 31 December 2016).

| | **31.12.2016** | **31.12.2015** |
|---|---|---|
| Public administration, Italian government and Regions | 71% | 72% |
| Ordinary customers | 3% | 2% |
| Financial institutions | 2% | 3% |
| Other debtors | 23% | 23% |
| **Total exposure, net of the allowance for impairment** | **100%** | **100%** |

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

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

The tables below show financial assets at 31 December 2016 and 2015, net of the allowance for impairment, broken down by overdue amounts and related to the Public administration, the Italian government, the Regions and ordinary customers.

thousands of Euros

| | 31.12.2016 | | | | | |
|---|---|---|---|---|---|---|
| | | Overdue by | | | | |
| | Not overdue | 0-180 | 180-360 | 360-720 | beyond 720 | Total |
| Public administration, Italian government and Regions (gross) | 5,626,727 | 1,675 | 1,728 | 11,479 | 5,862 | 5,647,471 |
| Allowance for impairment | (3,674) | | | (9,329) | (5,862) | (18,865) |
| **Public administration, Italian government and Regions (net)** | **5,623,053** | **1,675** | **1,728** | **2,150** | **–** | **5,628,606** |
| Ordinary customers (gross) | 175,753 | 37,186 | 16,128 | 117,869 | 29,174 | 376,110 |
| Allowance for impairment | (22,304) | | | (61,724) | (29,174) | (113,202) |
| **Ordinary customers (net)** | **153,449** | **37,186** | **16,128** | **56,145** | **–** | **262,908** |
| **Total exposure, net of the allowance for impairment** | **5,776,502** | **38,861** | **17,856** | **58,295** | **–** | **5,891,514** |

thousands of Euros

| | 31.12.2015 | | | | | |
|---|---|---|---|---|---|---|
| | | Overdue by | | | | |
| | Not overdue | 0-180 | 180-360 | 360-720 | beyond 720 | Total |
| Public administration, Italian government and Regions (gross) | 6,806,233 | 2,526 | 4,359 | 10,049 | 5,888 | 6,829,055 |
| Allowance for impairment | (5,780) | | | (3,367) | (5,888) | (15,035) |
| **Public administration, Italian government and Regions (net)** | **6,800,453** | **2,526** | **4,359** | **6,682** | **–** | **6,814,020** |
| Ordinary customers (gross) | 147,914 | 35,916 | 17,704 | 105,167 | 29,212 | 335,913 |
| Allowance for impairment | (21,344) | | | (61,913) | (29,212) | (112,469) |
| **Ordinary customers (net)** | **126,570** | **35,916** | **17,704** | **43,254** | **–** | **223,444** |
| **Total exposure, net of the allowance for impairment** | **6,927,023** | **38,442** | **22,063** | **49,936** | **–** | **7,037,464** |

Receivables from ordinary customers, overdue by more than 360 days, mainly arise from sundry disputes. The legal actions commenced for their recovery are still underway.

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

Receivables from the Public administration, overdue by more than 360 days, mainly refer to local bodies facing financial difficulties as part of the unfavourable national economic situation.

### 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 generally 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.

Using the funds of the Backup Facility Agreement entered into by Ferrovie dello Stato Italiane S.p.A. on 22 May 2015 with a syndicate comprised of ten leading international financial institutions, Ferrovie dello Stato Italiane S.p.A. granted RFI a three-year revolving and committed intercompany credit line of €400 million which substantially has the same terms and conditions in relation to restrictions and commitments of the line granted by the financial institutions to the parent. During 2016, €300 million of this line was used.

Furthermore, RFI holds a non-interest bearing current account with the MEF, included under cash and cash equivalents and amounting to €1,161 thousand, to ensure that the amounts disbursed by the government in relation to the finalised portion of RFI's investment financing match the progress of the investments.

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

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

thousands of Euros

| 31.12.2016 | Carrying amount | Contractual cash flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | Beyond 5 years |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Bank loans and borrowings | 1,763,822 | 2,095,821 | 114,818 | 114,819 | 229,972 | 693,805 | 942,407 |
| Loans and borrowings from other financial backers | 186,797 | 200,461 | 31,807 | 15,902 | 31,804 | 95,686 | 25,262 |
| Loans and borrowings from group companies | 2,351,855 | 2,635,263 | 400,113 | 239,080 | 339,080 | 1,656,990 | |
| **Total** | **4,302,474** | **4,931,544** | **546,738** | **369,801** | **600,856** | **2,446,481** | **967,668** |
| **Trade payables** | **2,656,994** | **2,656,994** | **407,984** | **2,232,774** | **16,236** | | |
| **Derivative financial liabilities** | **34,196** | **37,901** | **7,414** | **5,254** | **9,023** | **14,444** | **1,766** |

thousands of Euros

| 31.12.2015 | Carrying amount | Contractual cash flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | Beyond 5 years |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities *** | | | | | | | |
| Bank loans and borrowings | 1,944,397 | 2,344,281 | 115,098 | 114,947 | 230,033 | 699,566 | 1,184,637 |
| Loans and borrowings from other financial backers | 197,527 | 217,667 | 15,902 | | 31,804 | 112,254 | 57,707 |
| Loans and borrowings from group companies | 2,297,668 | 2,674,229 | 100,000 | 239,080 | 339,080 | 1,267,240 | 728,829 |
| **Total** | **4,439,592** | **5,236,177** | **231,000** | **354,027** | **600,917** | **2,079,060** | **1,971,173** |
| **Trade payables** | **2,524,371** | **2,524,371** | **546,585** | **1,956,877** | **20,909** | | |
| **Derivative financial liabilities** | **36,690** | **38,881** | **6,681** | **5,665** | **10,824** | **14,805** | **906** |

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 6 months.

The most significant portion of amounts due is mainly related 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 2016 and 2015 by due date within one year, from 1 to 5 years and after 5 years.

thousands of Euros

| 31.12.2016 | Carrying amount | Within one year | 1-5 years | After 5 years |
|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | |
| Bank loans and borrowings | 1,763,822 | 190,175 | 773,736 | 799,910 |
| Loans and borrowings from other financial backers | 186,797 | 43,322 | 118,475 | 25,000 |
| Loans and borrowings from group companies | 2,351,855 | 563,663 | 1,788,192 | – |
| **Total** | **4,302,474** | **797,160** | **2,680,404** | **824,910** |

thousands of Euros

| 31.12.2015 | Carrying amount | Within one year | 1-5 years | After 5 years |
|---|---|---|---|---|
| **Non-derivative financial liabilities *** | | | | |
| Bank loans and borrowings | 1,944,397 | 179,486 | 756,833 | 999,965 |
| Loans and borrowings from other financial backers | 197,527 | 13,220 | 128,271 | 56,036 |
| Loans and borrowings from group companies | 2,297,668 | 246,484 | 1,343,901 | 700,532 |
| **Total** | **4,439,592** | **439,190** | **2,229,005** | **1,756,533** |

*For a better accounting presentation, 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 and interest rates.

The objective of market risk management is the management and control of the company’s exposure to this risk within acceptable levels, while optimising returns on investments. This risk may be divided into the following components: interest rate risk and currency risk.

The company uses hedges in order to manage the volatility of 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 derivative financial instruments 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 a consistent interest rate risk management policy which (i) is aimed 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/Forward Rate Agreements 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.

At 31 December 2016 the outstanding notional amount is €250 million.

50% of the debt was hedged until maturity (2021), while the residual 50% was hedged until January 2017.

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 2016 the outstanding notional amount is €520 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 the market value, using the Black & Scholes model, for collars.

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 involved in 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 and 2 years | 2 and 5 years | after 5 years |
|---|---|---|---|---|---|---|
| - variable rate | 1,303,333 | 1,321,841 | 439,207 | 133,170 | 403,697 | 345,767 |
| - fixed rate | 2,999,141 | 3,609,703 | 477,331 | 467,686 | 2,042,784 | 621,902 |
| **Balance at 31 December 2016** | **4,302,474** | **4,931,544** | **916,539** | **600,856** | **2,446,481** | **967,668** |
| - variable rate | 1,129,206 | 1,168,443 | 126,996 | 133,240 | 416,359 | 491,848 |
| - fixed rate | 3,310,386 | 4,067,734 | 458,031 | 467,677 | 1,662,700 | 1,479,326 |
| **Balance at 31 December 2015*** | **4,439,592** | **5,236,177** | **585,027** | **600,917** | **2,079,059** | **1,971,174** |

*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.

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| **Before hedging with derivatives** | | |
| variable rate | 30.3% | 25.5% |
| fixed rate | 69.7% | 74.5% |
| **After hedging with derivatives** | | |
| variable rate | 12.2% | 5.4% |
| hedged variable rate | 5.8% | 6.8% |
| fixed rate | 81.9% | 87.8% |

The impact is in line with the above interest rate risk management policy. The following sensitivity analysis shows the effects that would have been recorded in terms of changes in interest expense had an increase or a decrease of 50 basis points in the Euribor interest rates affected loans in 2016.

| | + 50 bps shift | - 50 bps shift |
|---|---|---|
| Interest expense on variable-rate debt | 2,867 | (607) |
| Net cash flow from hedges | (3,390) | 2,638 |
| **Total** | **(523)** | **2,031** |

If, at the reporting date, the interest rates had been 50 basis points higher, with any other variable being equal, profit for the year net of the tax effect would have been €523 thousand lower.

At the same date, had interest rates been 50 basis points lower, with any other variable being equal, profit for the year would have been €2,031 thousand higher.

Finally, the following table "Sensitivity of the fair value of hedging derivatives" shows the effects of a parallel shift of 50 basis points, either as an increase or a decrease, in the swap rate curve recorded at 31 December 2016 on the fair value of hedging derivatives.

These effects are shown in the specific equity reserve.

| | + 50 bps shift | - 50 bps shift |
|---|---|---|
| Fair value of hedging derivatives | 11,205 | (11,601) |
| **Total** | **11,205** | **(11,601)** |

**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 returns for shareholders and benefits for the other stakeholders. The company also intends to maintain an optimal capital structure in order to reduce the cost of debt.

**Financial assets and financial liabilities by category**

To complete financial risk information, the table below gives a reconciliation between financial assets and financial liabilities as reported in the above tables and the categories of financial assets and financial liabilities identified pursuant to IFRS 7.

thousands of Euros

| 31.12.2016 | Loans and receivables | Loans and borrowings | of which: hedging derivatives |
|---|---|---|---|
| Non-current financial assets (including derivatives) | 2,166,252 | | |
| Non-current trade receivables | 1,719 | | |
| Other non-current assets | 1,976,562 | | |
| Construction contracts | 30,955 | | |
| Current trade receivables | 867,931 | | |
| Current financial assets (including derivatives) | 697,103 | | |
| Cash and cash equivalents | 1,168,779 | | |
| Tax assets | 17,054 | | |
| Other current assets | 2,200,818 | | |
| Non-current loans and borrowings | | 3,519,125 | |
| Non-current financial liabilities (including derivatives) | | 34,196 | 34,196 |
| Non-current trade payables | | 16,236 | |
| Other non-current liabilities | | 124,292 | |
| Current loans and borrowings and current portion of non-current loans and borrowings | | 783,349 | |
| Current trade payables | | 2,653,455 | |
| Tax liabilities | | – | |
| Current financial liabilities (including derivatives) | | 3,174 | |
| Other current liabilities | | 3,418,973 | |

thousands of Euros

| 31.12.2015 | Loans and receivables | Loans and borrowings | of which: hedging derivatives |
|---|---|---|---|
| Non-current financial assets (including derivatives) | 2,642,194 | | |
| Non-current trade receivables | 1,726 | | |
| Other non-current assets | 1,856,647 | | |
| Construction contracts | 24,668 | | |
| Current trade receivables | 780,820 | | |
| Current financial assets (including derivatives) | 791,717 | | |
| Cash and cash equivalents | 897,239 | | |
| Tax assets | 17,941 | | |
| Other current assets | 3,361,070 | | |
| Non-current loans and borrowings | | 3,985,538 | |
| Non-current financial liabilities (including derivatives) | | 36,690 | 36,690 |
| Non-current trade payables | | 20,909 | |
| Other non-current liabilities | | 170,168 | |
| Current loans and borrowings and current portion of non-current loans and borrowings | | 454,054 | |
| Current trade payables | | 2,514,693 | |
| Tax liabilities | | – | |
| Current financial liabilities (including derivatives) | | 2,357 | |
| Other current liabilities | | 4,941,829 | |

### 6. 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 | 84,057,812 | 201,463 | 442,394 | 630,042 | 355,896 | 20,053,963 | 3,472,434 | 109,214,003 |
| Depreciation and impairment losses | (23,423,500) | (98,769) | (237,532) | (354,872) | (206,089) | (1,553,231) | – | (25,873,993) |
| Grants | (31,382,269) | (26,755) | (104,049) | (145,718) | (65,770) | (14,299,741) | (3,472,434) | (49,496,736) |
| **Balance at 31.12.2015** | **29,252,044** | **75,939** | **100,813** | **129,452** | **84,036** | **4,200,991** | **–** | **33,843,274** |
| Investments | 50,844 | – | – | 1,558 | 71 | 2,931,562 | 1,084,372 | 4,068,407 |
| Roll-out | 982,137 | 978 | 1,204 | 24,004 | 6,456 | (474,341) | (537,160) | 3,278 |
| Depreciation | (83,269) | (15) | (2,273) | (2,809) | (1,586) | – | – | (89,951) |
| Impairment losses | – | – | – | – | – | (5,500) | – | (5,500) |
| Non-recurring transactions (1) | – | – | – | – | – | – | – | – |
| *Changes in historical cost due to non-recurring transactions* | – | – | – | *127* | *6,643* | – | – | *6,770* |
| *Decreases in accumulated depreciation due to demergers* | – | – | – | *(127)* | *(6,643)* | – | – | *(6,770)* |
| *Decreases due to reversals of impairment losses/impairment losses due to demerger* | – | – | – | – | – | – | – | – |
| *Decreases in grants due to demerger* | – | – | – | – | – | – | – | – |
| Change in grants | (894,925) | (978) | (1,008) | (23,258) | (15,295) | (2,741,265) | (547,212) | (4,223,941) |
| Disposals and divestments | (46,006) | – | – | (654) | (1,835) | | – | (48,495) |
| *Decreases in historical cost due to disposals and divestments* | *(55,253)* | – | – | *(3,594)* | *(13,046)* | – | – | *(71,892)* |
| *Decreases in accumulated depreciation due to divestments* | *2,782* | – | – | *1,925* | *8,697* | – | – | *13,404* |
| *Decreases in grants due to other divestments* | *1,264* | – | – | *907* | *2,045* | – | – | *4,216* |
| *Decreases in impairment losses/reversals of impairment losses due to divestments* | *5,200* | – | – | *107* | *469* | – | – | *5,777* |
| Other reclassifications | 3,085 | (3,213) | 2 | (39) | 24 | – | – | (140) |
| *Changes in historical cost due to other reclassifications* | *61,276* | *(3,209)* | *61* | *451* | *(484)* | – | – | *58,095* |
| *Changes in accumulated depreciation due to reclassifications* | *(41,849)* | *(4)* | *(8,947)* | *(495)* | *487* | – | – | *(50,809)* |
| *Changes in grants due to reclassifications* | *(352)* | – | *(6)* | *(25)* | *(21)* | – | – | *(405)* |
| *Changes in impairment losses/reversals of impairment losses due to reclassifications* | *(15,989)* | – | *8,895* | *30* | *42* | – | – | *(7,022)* |
| **Total changes** | **11,866** | **(3,228)** | **(2,075)** | **(1,197)** | **(12,165)** | **(289,543)** | **–** | **(296,342)** |
| Historical cost | 85,096,817 | 199,231 | 443,659 | 652,589 | 355,536 | 22,505,684 | 4,019,646 | 113,273,162 |
| Depreciation and impairment losses | (23,556,625) | (98,788) | (239,858) | (356,241) | (204,623) | (1,553,231) | – | (26,009,365) |
| Grants | (32,276,282) | (27,733) | (105,064) | (168,093) | (79,041) | (17,041,005) | (4,019,646) | (53,716,865) |
| **Balance at 31.12.2016** | **29,263,910** | **72,711** | **98,738** | **128,255** | **71,871** | **3,911,447** | **–** | **33,546,932** |

**Grants related to assets**

In 2016, grants related to assets related to assets under construction amount to €4,212,272 thousand, of which €3,784,385 thousand was given by the government. They can be analysed as follows:

- €42,756 thousand related to advances for grants from the MEF for infrastructure investments related to the HS/HC system;
- €3,319,941 thousand related to advances for grants from the MEF for infrastructure investments in the traditional network;
- €421,688 thousand related to advances for grants from the MIT for infrastructure investments in the traditional network.

The other grants amount to €427,887 thousand and were mainly disbursed by the European Union for €209,141 thousand and local bodies for €211,865 thousand.

## 7. Investment property

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

thousands of Euros

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Land** | **Buildings** | **TOTAL** | **Land** | **Buildings** | **TOTAL** |
| **Balance at 1 January** | | | | | | |
| Cost | 850,123 | 287,072 | 1,137,196 | 880,825 | 288,521 | 1,169,346 |
| *of which:* | | | | | | |
| *Historical cost* | *1,924,086* | *862,137* | *2,786,224* | *1,959,142* | *857,502* | *2,816,644* |
| *Accumulated depreciation* | *–* | *(354,617)* | *(354,617)* | *–* | *(356,163)* | *(356,163)* |
| *Grants* | *(3,022)* | *(58,559)* | *(61,582)* | *(2,384)* | *(49,785)* | *(52,169)* |
| *Reversal of impairment losses - Impairment losses* | *(1,070,941)* | *(161,889)* | *(1,232,830)* | *(1,075,933)* | *(163,033)* | *(1,238,966)* |
| **Carrying amount** | **850,123** | **287,072** | **1,137,196** | **880,825** | **288,521** | **1,169,346** |
| **Changes of the year** | | | | | | |
| Acquisitions (roll-out) | 27 | 3,558 | 3,586 | 641 | 8,414 | 9,055 |
| Reclassifications | (5,762) | 5,902 | 140 | (29,284) | (991) | (30,275) |
| *Changes in historical cost due to reclassifications* | *(7,348)* | *(50,481)* | *(57,829)* | *(36,812)* | *(2,609)* | *(39,421)* |
| *Changes in accumulated depreciation due to reclassifications* | *(333)* | *33,846* | *33,513* | *2,534* | *928* | *3,462* |
| *Changes in grants due to reclassifications* | *(28)* | *167* | *139* | *2* | *(362)* | *(360)* |
| *Changes in impairment losses/reversals of impairment losses due to reclassifications* | *1,948* | *22,370* | *24,318* | *4,993* | *1,052* | *6,045* |
| Disposals and divestments | (125) | (74) | (199) | (1,418) | (403) | (450) |
| *Decreases in historical cost due to disposals and divestments* | *(176)* | *(448)* | *(624)* | *(1,421)* | *(1,170)* | *(1,219)* |
| *Decreases in accumulated depreciation due to divestments* | *17* | *284* | *302* | *4* | *674* | *678* |
| *Decreases in grants due to other divestments* | *–* | *31* | *31* | *–* | *–* | *–* |
| *Decreases in impairment losses/reversals of impairment losses due to divestments* | *34* | *59* | *93* | *(1)* | *92* | *92* |
| Non-recurring transactions | – | – | – | – | – | (1,372) |
| *Changes in historical cost due to non-recurring transactions* | *–* | *–* | *–* | *–* | *–* | *(1,372)* |
| *Changes in accumulated depreciation due to non-recurring transactions* | *–* | *–* | *–* | *–* | *–* | *–* |
| *Changes in reversals of impairment losses/impairment 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 | (27) | (3,097) | (3,124) | (641) | (8,412) | (9,053) |
| *Amortisation and depreciation (of the period)* | *–* | *(64)* | *(64)* | *–* | *(56)* | *(56)* |
| **Total changes** | **(5,886)** | **6,225** | **339** | **(30,702)** | **(1,449)** | **(32,150)** |
| **Balance at** | **31 December** | | | **31 December** | | |
| Cost | 844,237 | 293,297 | 1,137,535 | 850,123 | 287,072 | 1,137,196 |
| *of which:* | | | | | | |
| *Historical cost* | *1,916,275* | *814,766* | *2,731,041* | *1,924,086* | *862,137* | *2,786,224* |
| *Accumulated depreciation* | *–* | *(320,550)* | *(320,550)* | *–* | *(354,617)* | *(354,617)* |
| *Grants* | *(3,078)* | *(61,458)* | *(64,537)* | *(3,022)* | *(58,559)* | *(61,581)* |
| *Reversal of impairment losses - Impairment losses* | *(1,068,959)* | *(139,460)* | *(1,208,419)* | *(1,070,941)* | *(161,889)* | *(1,232,830)* |
| **Carrying amount** | **844,237** | **293,297** | **1,137,535** | **850,123** | **287,072** | **1,137,196** |

## 8. 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 | 104,625 | 471,401 | 227,532 | 803,557 |
| Amortisation and impairment losses | (78,975) | (125,676) | – | (204,650) |
| Grants | (4,603) | (194,313) | (18,714) | (217,630) |
| **Balance at 31.12.2015** | **21,047** | **151,412** | **208,818** | **381,277** |
| Investments | – | – | 73,623 | 73,623 |
| Roll-out | 2,150 | 201 | (8,896) | (6,545) |
| Amortisation | (464) | (3,387) | – | (3,851) |
| Impairment losses | – | – | (4,746) | (4,746) |
| Changes and grants | (1,611) | (201) | – | (1,812) |
| Disposals and divestments | – | (1) | – | (1) |
| *Decreases in historical cost due to disposals and divestments* | – | *(4)* | – | *(4)* |
| *Decreases in accumulated amortisation due to divestments* | – | *3* | – | *3* |
| *Decrease in impairment losses/reversals of impairment losses due to divestments* | – | – | – | – |
| Other reclassifications | – | – | – | – |
| *Changes in historical cost due to other reclassifications* | – | *(121)* | *(144)* | *(265)* |
| *Changes in accumulated amortisation due to reclassifications* | – | – | – | – |
| *Changes in grants due to reclassifications* | – | *121* | *144* | *265* |
| **Total changes** | **75** | **(3,388)** | **59,981** | **56,668** |
| Historical cost | 106,775 | 471,477 | 292,115 | 870,367 |
| Amortisation and impairment losses | (79,439) | (129,060) | (4,746) | (213,245) |
| Grants | (6,214) | (194,393) | (18,570) | (219,177) |
| **Balance at 31.12.2016** | **21,122** | **148,024** | **268,799** | **437,945** |

## 9. Equity investments

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

thousands of Euros

| | Carrying amount at 31.12.2016 | Carrying amount at 31.12.2015 |
|---|---|---|
| Equity investments in: | | |
| Subsidiaries | 76,613 | 76,766 |
| Associates | 7,077 | 7,392 |
| Other companies | 49,012 | 49,012 |
| **Total** | **132,702** | **133,170** |

thousands of Euros

| | Carrying amount | Changes of the year | | | Carrying amount |
|---|---|---|---|---|---|
| | 31.12.2014 | Impairment losses/ Reversals of impairment losses | Reclassifications | Other changes | 31.12.2015 |
| **Equity investments in subsidiaries** | | | | | |
| Nord Est Terminal S.p.A. in liquidation | 977 | – | – | (434) | 543 |
| 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 |
| **Equity investments in associates** | | | | | |
| Quadrante Europa Terminal Gate S.p.A. | 7,515 | (122) | – | – | 7,393 |
| **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** | **133,726** | **(122)** | **–** | **(434)** | **133,170** |

thousands of Euros

| | Carrying amount | Changes of the year | | | Carrying amount |
|---|---|---|---|---|---|
| | 31.12.2015 | Impairment losses/ Reversals of impairment losses | Reclassifications | Divestments/ repayments | 31.12.2016 |
| **Equity investments in subsidiaries** | | | | | |
| Nord Est Terminal S.p.A. in liquidation | 543 | – | – | (153) | 390 |
| 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 |
| **Equity investments in associates** | | | | | |
| Quadrante Europa Terminal Gate S.p.A. | 7,393 | (315) | – | – | 7,078 |
| **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** | **133,170** | **(315)** | **–** | **(153)** | **132,702** |

Equity investments amount to €132,702 thousand. They decreased by €468 thousand. They also recorded an increase which is not shown as it was offset by grants related to assets.

Specifically:

- the equity investment in Nord Est Terminal S.p.A. in liquidation decreased by €153 thousand following the amount the official receivers decided to paid to RFI as second interim payment for the liquidation;
- the equity investment in Quadrante Europa Terminal Gate S.p.A. decreased by €315 thousand following the loss recognised at 31 December 2016. With the coming into force of the new OICs, the company introduced a negative equity reserve which implied a further decrease;
- the equity investment in Tunnel Ferroviario del Brennero S.p.A. rose by €87,781 thousand, fully offset by the increase in grants related to assets received from the MEF and transferred to Tunnel Ferroviario del Brennero in relation to section 7122 of the MEF budget in 2016.

In the following table, the carrying amounts of equity 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 31.12.2016 | % of investment | Attributable equity (a) | Carrying amount at 31.12.2016 (b) | Difference (b) - (a) |
|---|---|---|---|---|---|---|---|---|
| **Equity investments in subsidiaries** | | | | | | | | |
| Tunnel Ferroviario del Brennero - Società di partecipazioni S.p.A. | Rome, Piazza della Croce Rossa 1 | 498,791 | 126 | 500,671 | 87.2% | 436,385 | 48,455 | (387,930) |
| Terminali Italia S.r.l. | Rome, Piazza della Croce Rossa 1 | 7,346 | 2,204 | 14,116 | 89.0% | 12,564 | 6,538 | (6,026) |
| Blueferries S.r.l. | Messina, Via Calabria 1 | 20,100 | 1,915 | 25,930 | 100.0% | 25,930 | 21,229 | (4,701) |
| Nord Est Terminal S.p.A. in liquidation | Padua, Galleria Spagna 35 | 200 | 85 | 840 | 51.0% | 428 | 390 | (38) |
| **Equity investments in associates** | | | | | | | | |
| Quadrante Europa Terminal Gate S.p.A. | Verona, Via Sommacampagna 61 | 16,876 | (198) | 14,154 | 50.0% | 7,078 | 7,078 | – |

In relation to Nord Est Terminal S.p.A. in liquidation, considering the context in which the company operates, the amounts at 31 December 2015 are shown since the amounts at reporting date are not yet available.

thousands of Euros

| | % of investment | Current assets | Non-current assets | Total assets | Current liabilities | Non-current liabilities | Total liabilities | Revenue | Costs | Profit/ (loss) |
|---|---|---|---|---|---|---|---|---|---|---|
| **31.12.2016** | | | | | | | | | | |
| **Equity investments in associates** | | | | | | | | | | |
| Quadrante Europa Terminal Gate S.p.A.* | 50.00% | 1,024 | 18,236 | **19,260** | 988 | 4,118 | **5,106** | 1,168 | 1,366 | **(198)** |
| **31.12.2015** | | | | | | | | | | |
| **Equity investments in associates** | | | | | | | | | | |
| Quadrante Europa Terminal Gate S.p.A.* | 50.00% | 1,052 | 18,671 | **19,723** | 843 | 4,095 | **4,938** | 1,168 | 1,412 | **(244)** |

*The company does not apply IFRS.

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

Financial assets are broken down below.

thousands of Euros

| | Carrying amount | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 31.12.2016 | | | 31.12.2015 | | | Change | | |
| | Non-current | Current | Total | Non-current | Current | Total | Non-current | Current | Total |
| **Financial assets** | | | | | | | | | |
| Receivables from the MEF for the fifteen-year grants to be collected | 2,105,576 | 568,876 | 2,674,452 | 2,584,620 | 562,276 | 3,146,896 | (479,044) | 6,600 | (472,444) |
| Loan assets | 60,676 | – | 60,676 | 57,574 | – | 57,574 | 3,102 | – | 3,102 |
| Other loan assets | – | 128,227 | 128,227 | – | 229,441 | 229,441 | – | (101,214) | (101,214) |
| **Total** | **2,166,252** | **697,103** | **2,863,355** | **2,642,194** | **791,717** | **3,433,911** | **(475,942)** | **(94,614)** | **(570,556)** |

Receivables from the MEF for the fifteen-year grants to be collected of €2,674,452 million can be analysed as follows:

- €814,893 thousand related to the fifteen-year grants pursuant to article 1 of the 2006 Finance Act for the implementation of railway investments, obtained by means of discounting;
- €1,859,559 thousand related to the fifteen-year grants pursuant to article 1 of the 2007 Finance Act for the continuation of the projects involving the HS/HC capacity system of the Turin-Milan-Naples line.

The €472,444 thousand decrease in the receivables from the Ministry of the Economy and Finance can be analysed as follows:

- €162,275 thousand related to the decrease in the grants described in the above-mentioned article 1.84 of the 2006 Finance Act, due to the reduction in the corresponding financial liability to Ferrovie dello Stato Italiane S.p.A. for Cassa Depositi e Prestiti (Traditional network and HS/HC network) which refers to the repayment of principal falling due in 2016;
- the net decrease (€310,169 thousand) in the grants described in the above-mentioned article 1.964 of the 2007 Finance Act, due to the combined effect of the additional accrual of €89,831 million for the interest accrued in 2016 and the decrease following collection of the annual grant pertaining to 2016 (€400,000 thousand).

Non-current loan assets of €60,676 thousand mainly refer to the restricted current account with Unicredit (€57,157 thousand). The €3,102 thousand increase in this caption is due to the net increase in seized amounts, considering the previous increases in receivables due to seized amounts at 31 December 2015. The amounts are usually restricted following seizures by suppliers as a result of orders/injunctions to pay which were not honoured.

The €101,214 thousand decrease in "Other loan assets" is mainly due to the current portion of this caption and refers to the reduction in the receivable from the parent for the intercompany current account on 31 December 2015.

## 11. Other current and non-current assets

They can be analysed as follows:

thousands of Euros

| | 31.12.2016 | | | 31.12.2015 | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non-current | Current | Total | Non-current | Current | Total | Non-current | Current | Total |
| Other assets from group companies | 1,010,929 | 58,409 | 1,069,338 | 829,702 | 569,451 | 1,399,153 | 181,227 | (511,042) | (329,815) |
| VAT assets | 9 | – | 9 | 9 | 706 | 715 | – | (706) | (706) |
| MEF and MIT | 962,746 | 1,947,394 | 2,910,140 | 1,024,113 | 2,590,757 | 3,614,870 | (61,367) | (643,363) | (704,730) |
| Grants related to assets from the EU, other Ministries and other | – | 23,295 | 23,295 | – | 26,975 | 26,975 | – | (3,680) | (3,680) |
| Other government authorities | – | 3,954 | 3,954 | – | 3,351 | 3,351 | – | 603 | 603 |
| Sundry receivables | 2,878 | 158,178 | 161,056 | 2,823 | 156,109 | 158,932 | 55 | 2,069 | 2,124 |
| Prepayments and accrued income | – | 15,207 | 15,207 | – | 17,318 | 17,318 | – | (2,111) | (2,111) |
| **Total** | **1,976,562** | **2,206,437** | **4,182,999** | **1,856,647** | **3,364,666** | **5,221,313** | **119,915** | **(1,158,229)** | **(1,038,314)** |
| Allowance for impairment | – | (5,619) | (5,619) | – | (3,597) | (3,597) | – | (2,022) | (2,022) |
| **Total net of the allowance for impairment** | **1,976,562** | **2,200,818** | **4,177,380** | **1,856,647** | **3,361,070** | **5,217,717** | **119,915** | **(1,160,252)** | **(1,040,337)** |

The net decrease in Other assets from group companies (€329,815 thousand) is mainly due to the combined effect of the following factors:

- greater VAT assets from the parent due after one year (€483,688 thousand);
- collection of the 2012 VAT asset due from the parent within one year (€242,313 thousand);
- collection of the 2013 VAT asset due from the parent after one year (€194,502 thousand);
- collection of the 2015 VAT asset due from the parent after one year (€106,214 thousand);
- the collection of the current asset from the parent (€272,125 thousand) including the interest portion related to RFI's partial demerger of the high voltage grid to SELF which, in accordance with the 2015 Stability Act, enabled RFI to receive cash and cash equivalents to be used to develop and maintain the railway infrastructure.

The receivables from the MEF and the MIT at 31 December 2016 are analysed below:

thousands of Euros

| | 31.12.2015 | Increase | Decreases | Other changes | 31.12.2016 |
|---|---|---|---|---|---|
| **Grants related to income:** | | | | | |
| - MEF: sec. 1541 | – | 975,557 | (975,557) | – | – |
| **Grants related to goods:** | | | | | |
| - MIT: sec. 1274 | – | 51,113 | – | – | 51,113 |
| **Grants related to assets and investments:** | | | | | |
| - MEF: sec. 7122 | 2,441,504 | 1,538,198 | (2,773,936) | 336,101 | 1,541,867 |
| - MIT: sec. 7060-7514-7515-7518-7540-7532-7549-7550-7563 | 1,173,366 | 417,711 | (317,780) | 43,863 | 1,317,160 |
| **Total** | **3,614,870** | **2,982,579** | **(4,067,273)** | **379,964** | **2,910,140** |

During the year, the caption declined by a net €704,730 thousand due to the combined effect of the following factors:

- the recognition of new receivables for grants related to income, assets and investments ○○○€2,982,579 thousand, broken down as follows:

- ✓ €1,026,670 thousand (grants related to income) of which:
  - €975,557 thousand (MEF budget section 1541 – grants related to income) pursuant to the 2016 Stability Act;
  - €51,113 thousand (MIT budget section 1274 - grants related to income) reflecting the amounts allocated by article 1.294 of Law no. 190/2014, allocated to the MIT with article 112-ter of Law decree no. 185 of 25 November 2015 (section 1274) and related annual amounts for 2015;
- ✓ €1,538,198 thousand (grants related to assets - MEF budget sections), of which:
  - €100,000 thousand (section 7122 – the 1st Management Programme "PG") pursuant to Law no. 228/2012 (2013 Stability Act) refinanced under Law no. 190/2014 (2015 Stability Act);
  - €22,201 thousand (section 7122 – PG1) for 2016 for extraordinary maintenance under CIPE Resolution 33/2012-MD no. 96820/2015 on MIF budget section 7514 and transferred with decree of variation to MEF budget section 7122;
  - €34,589 thousand (section 7122 – PG2) pursuant to article 1.86 of Law no. 266/2005 and covered by the 2016 Stability Act;
  - €320,000 thousand (section 7122 – PG2) pursuant to Law decree no. 193/2016 (Tax decree);
  - €19,824 thousand (section 7122 – PG2) in relation to costs incurred for the application of Ministerial decree 44T/2000 - Discount on the railway infrastructure toll (K2 discount);
  - €70,000 thousand (section 7122 – PG4) for 2016 pursuant to article 7-ter.2 of Law decree no. 43/2013, converted with amendments by Law no. 71 of 24 June 2013 and modified by Law no. 208/2015 (2016 Stability Act);
  - €750,000 thousand (section 7122 – PG5) for 2016 pursuant to article 1.73 of Law no. 147/2013 (2014 Stability Act) and again pursuant to Table E of Law no. 190/2014 (2015 Stability Act) for extraordinary maintenance in relation to the amounts due as part of the Government Programme Contract - Services;
  - €50,000 thousand (section 7122 – PG6) for 2016 pursuant to article 1.74 of Law no. 147/2013 (2014 Stability Act) for the Cancello Frasso Telesino – Naples Bari HS section;
  - €70,000 thousand (section 7122 – PG7) for 2016 pursuant to article 1.76 of Law no. 147/2013 (2014 Stability Act) and definanced pursuant to Law no. 208/2015 (2016 Stability Act) for the Brescia Verona Padua – Apice Orsara section;
  - €100,000 thousand (section 7122 – PG8) for 2016 pursuant to article 1.80 of Law no. 147/2013 (2014 Stability Act) and modified by Law no. 208/2015 (2016 Stability Act) for the update of the track and acceleration the Adriatic Bologna Lecce railway line;
  - €1,584 thousand (section 7123) for 2016 pursuant to Law no. 208/2015 (2016 Stability Act);
- ✓ €417,711 thousand related to the MIT sections, of which:

- €2,533 thousand (section 7518) for 2016 reflecting the amounts allocated by CIPE Resolution no. 86/2011 for the resources covered by article 32.1 of Law decree no. 98/2011 (Railway and road infrastructure fund) allocated to RFI for the HS/HC Milan-Genoa line: Third Giovi pass - II construction lot;
- €135,756 thousand (section 7518) for 2016 reflecting the amounts allocated by CIPE Resolution no. 86/2011 for the resources covered by article 32.1 of Law decree no. 98/2011 (Railway and road infrastructure fund) allocated to RFI for the HS/HC Milan-Genoa line: Third Giovi pass - II construction lot;
- €185,110 thousand (section 7515) for 2016 reflecting the amounts allocated by CIPE Resolution no. 85/2011 for the resources covered by article 32.1 of Law decree no. 98/2011 (Railway and road infrastructure fund) allocated to RFI for the HS/HC Milan-Verona line: Treviglio Brescia line - II construction lot;
- €60,312 thousand (section 7540) for 2016 reflecting the amounts allocated by Law decree no. 69/2013 for work to improve the railway network;
- €15,000 thousand (section 7549) pursuant to Law no. 164/2014 for 2016 for the elimination and automation of railroad crossings, making the terminal section of the Adriatic Bologna-Lecce corridor in Puglia a priority;
- €4,000 thousand (section 7550) pursuant to Law no. 164/2014 for 2016 to upgrade the Cuneo-Ventimiglia railway line to safety standards.
- €15,000 thousand (section 7563) for 2016 pursuant to Law no. 190/2014 (2015 Stability Act) as a 15-year grant in order to begin work on the Andora-Finale Ligure section;

➢ decreases for collections of €4,067,273 thousand, broken down as follows:
- €975,557 thousand (section 1541 MEF – grants related to income) relating to 2016 receivables;
- €2,773,936 thousand (section 7122/7123 MEF) in relation to various management plans (PG1-PG2-PG4-PG5-PG8);
- €189,271 thousand reflecting the amounts allocated by CIPE Resolution no. 85/2011 for the resources covered by article 32.1 of Law decree no. 98/2011 (MIT budget section 7515) allocated to RFI for the HS/HC Milan-Verona line: Treviglio Brescia section - II construction lot;
- €28,192 thousand reflecting the amounts allocated by CIPE Resolution no. 86/2011 for the resources covered by article 32.1 of Law decree no. 98/2011 (MIT budget section 7518) allocated to RFI for the HS/HC Milan-Genoa line: Third Giovi pass - II construction lot;
- €35,450 thousand reflecting the amounts allocated pursuant to Law no. 443/2001-Objective Law (MIT budget section 7060) for the HS/HC Milan-Genoa line: Third Giovi pass;
- €64,867 thousand (MIT budget section 7540) for amounts allocated to RFI by Decree law no. 69/2013 for works to improve the railway network;

➢ other changes for €379,964 thousand, broken down as follows:
- €380,031 thousand increase following the recognition of receivables for grants related to assets from MEF and MIT to cover works carried out mainly during previous years and broken down as follows:

- €336,168 thousand (section 7122/PG4 MEF) reflecting the amounts allocated by article 7-ter.2 of Law decree no. 43/2013, converted with amendments by Law no. 71 of 24 June 2013, reduced by article 15.3.d) of Law decree no. 102/2013;
- €15,686 thousand (section 7060 MIT) reflecting the amounts allocated by Law no. 443/2001 for the "Railway link between the Orte-Falconara and the Adriatica Falconara hub lines";
- €10,643 thousand (section 7550 MIT) reflecting the amounts allocated by Law decree no. 133/2014 converted by Law no. 164/2014 for the "Upgrade to safety standards of the Cuneo-Ventimiglia railway line";
- €17,534 thousand (section 7536 MIT) reflecting the amounts allocated by Law decree no. 133/2014 converted by Law no. 164/2014 for the "Laying of quadruple tracks on the Lucca-Pistoia line".

- €67 thousand decrease for definancing of the amounts allocated by Law decree no. 98/2011 and the CIPE Resolution no. 4/2012 on section 7514 MIT transferred on section 7122 MEF.

During the year, €4,149,493 thousand was collected from the MEF (of which €400,000 thousand related to the receivables recognised under Financial assets to which reference should be made) and €317,780 thousand from the MIT.

"Grants related to assets - EU, other ministries and ordinary customers" 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** | **31.12.2016** | **31.12.2015** | **Change** |
|---|---|---|---|
| Payments on account to suppliers - current services | 46,339 | 18,570 | 27,769 |
| Personnel | 8,227 | 8,290 | (63) |
| Social security institutions | 4,550 | 4,583 | (33) |
| Receivables under collection | 544 | 544 | – |
| Insurance compensation from insurance companies | 352 | 506 | (154) |
| Other non-trade receivables | 101,043 | 126,439 | (25,396) |
| | **161,055** | **158,932** | **2,123** |
| Prepayments and accrued income | 15,207 | 17,318 | (2,111) |
| **Total** | **176,262** | **176,250** | **12** |

The increase in "Sundry receivables and prepayments and accrued income" (€12 thousand) is mainly due to the combined effect of the following factors:

- greater payments on account to suppliers of €27,769 thousand;
- lower other non-trade receivables of €25,396 thousand mainly arising from the reduction in the grants from the CCSE (Electricity Industry Equalisation Fund);
- lower prepayments and accrued income of €2,111 thousand mainly arising from the release of prepayments to TIM for roaming (€1,354 thousand).

Specifically, other non-trade receivables mainly reflect receivables for grants from CCSE (€62,059 thousand), receivables for foreign VAT recovery (€9,134 thousand), toll receivables from other railway companies (€1,496 thousand) and Performance regime receivables (1,611 thousand).

## 12. Inventories and construction contracts

Inventories and construction contracts can be analysed as follows:

thousands of Euros

| | | 31.12.2016 | 31.12.2015 | Change |
|---|---|---|---|---|
| Raw materials, consumables and supplies | | 511,135 | 425,734 | 85,401 |
| Allowance for impairment | | (10,383) | (5,765) | (4,618) |
| | **Carrying amount** | **500,752** | **419,969** | **80,783** |
| Payments on account | | – | 169 | (169) |
| Construction contracts | | 30,955 | 24,668 | 6,287 |
| | **Carrying amount** | **30,955** | **24,668** | **6,287** |
| **Total inventories and construction contracts** | | **531,707** | **444,806** | **86,901** |

The net increase in raw materials, consumables and supplies amounts to €80,783 thousand and is mainly due to:

- the purchases of materials (€573,266 thousand);
- the use of materials (€584,314 thousand);
- production by the Officine Nazionali of Bari, Pontassieve and Bologna (€94,883 thousand) of cores, diverters, glued insulating joints and electrical devices;
- the €1,566 thousand increase following the acquisition of the Bari Fonderie Meridionali business unit.

The allowance for inventory write-down is deemed adequate to cover write-downs of slow-moving inventories to their market value.

The €30,955 thousand balance of Construction contracts reflects the amount due to customers for contract work in progress, the progress of which, including profit margins, exceeds the amount already invoiced to the customer. The €6,287 thousand increase on the previous year is mainly due to the progress of work in relation to the invoicing of the related internal orders.

In order to show the progress of work considering the amounts already invoiced for Construction contracts, this caption is linked to the corresponding portion included under payables for construction contracts which increases when the progress of work is below the amounts invoiced as payments on account. The €1,466 thousand increase on the previous year is mainly due to the higher amounts of the invoices issued in relation to the progress of the construction contracts of the related internal orders.

thousands of Euros

| | 31.12.2016 | | | 31.12.2015 | | |
|---|---|---|---|---|---|---|
| **Receivables and payables for construction contracts** | **Receivables** | **Payables** | **Total** | **Receivables** | **Payables** | **Total** |
| Construction contracts | 59,390 | 26,469 | 32,921 | 54,734 | 26,474 | 28,260 |
| Payments on account from customers | (28,435) | (39,166) | 10,731 | (30,066) | (37,705) | 7,639 |
| **Total** | **30,955** | **(12,697)** | **43,652** | **24,668** | **(11,231)** | **35,899** |

## 13. Non-current and current trade receivables

They can be analysed as follows:

thousands of Euros

| | 31.12.2016 | | | 31.12.2015 | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non-current | Current | Total | Non-current | Current | Total | Non-current | Current | Total |
| Ordinary customers | 125 | 378,218 | 378,343 | 128 | 338,147 | 338,275 | (3) | 40,071 | 40,068 |
| Government authorities and other public administrations | 1,594 | 34,035 | 35,629 | 1,598 | 35,365 | 36,963 | (4) | (1,330) | (1,334) |
| Foreign railways | – | 1,627 | 1,627 | – | 1,016 | 1,016 | – | 611 | 611 |
| Railways under concession | – | 1 | 1 | – | 1 | 1 | – | – | – |
| Other receivables from group companies | – | 586,117 | 586,117 | – | 533,795 | 533,795 | – | 52,322 | 52,322 |
| **Total** | **1,719** | **999,998** | **1,001,717** | **1,726** | **908,324** | **910,050** | **(7)** | **91,674** | **91,667** |
| Allowance for impairment | – | (132,067) | (132,067) | – | (127,504) | (127,504) | – | (4,563) | (4,563) |
| **Total net of the allowance for impairment** | **1,719** | **867,931** | **869,650** | **1,726** | **780,820** | **782,546** | **(7)** | **87,111** | **87,104** |

The €40,071 thousand increase in receivables from ordinary customers (current portion) on the previous year, gross of the related allowance for impairment, is mainly due to the following factors:

- the increase in receivables for invoices issued (€33,072 thousand) mainly due to greater receivables due from Rete S.r.l. (€10,377 thousand) in relation to ordinary and extraordinary maintenance, operation and remote control of high voltage lines, greater receivables due from Grandi Stazioni Retail S.p.A., previously recognised as due from the related party Grandi Stazioni Rail S.p.A. (€11,544 thousand) mainly in relation to leases and rentals and to greater property receivables (€8,309 thousand) i.e., leases, start-up costs and crossings and parallel routes);
- increase in receivables for invoices to be issued (€6,999 thousand), of which €6,218 thousand in relation to greater receivables due from Rete S.r.l. for the specified activities.

The current portion of Government authorities and other public administrations decreased by €1,330 thousand on 31 December 2015, gross of the related allowance for impairment, mainly as a consequence of the combined effect of:

- decrease in receivables for invoices issued of €3,042 thousand, mainly due to lower receivables due from Città di Torino (€1,825 thousand), a collection related to the 6174 Agreement of 4 December 2009 "Ceres railway link to the Turin hub", and lower receivables from the Florence municipal authorities (€1,205 thousand), due to both the sale of land (€959 thousand) and a collection related to the third party agreement in relation to the hydraulic works at the Mugnone river (€246 thousand);
- greater receivables for invoices to be issued (€1,712 thousand).

The receivables from group companies are up by a net €52,322 thousand, mainly as a result of the greater receivables from related companies of €43,407 thousand due to:

- greater receivables for invoices issued (€29,365 thousand);
- greater receivables for invoices to be issued (€14,042 thousand) related, in particular, to toll services (€3,122 thousand) and HV electrical energy (€8,509 thousand).

thousands of Euros

| | 31.12.2016 | 31.12.2015 | Change |
|---|---|---|---|
| Italy | 996,884 | 905,249 | 91,635 |
| Eurozone countries | 2,708 | 3,026 | (318) |
| United Kingdom | 7 | 7 | – |
| Other European countries | | | – |
| Other European countries (EU, non-Euro) | 144 | 50 | 94 |
| Other non-EU European countries | 1,974 | 1,725 | 249 |
| United States | | | – |
| Other countries | | (7) | 7 |
| | **1,001,717** | **910,050** | **91,667** |

## 14. Cash and cash equivalents

They can be analysed as follows:

The overall increase in the caption on 31 December 2015 is substantially due to the growth 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 intercompany 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.

thousands of Euros

| | 31.12.2016 | 31.12.2015 | Change |
|---|---|---|---|
| Bank and postal accounts | 7,109 | 5,269 | 1,840 |
| Cash and cash on hand | 201 | 186 | 15 |
| Treasury current accounts | 1,161,358 | 891,673 | 269,685 |
| Other | 111 | 110 | 1 |
| **Total** | **1,168,779** | **897,239** | **271,540** |

Seizures were notified to banks without generating availability restrictions (labour disputes) for an amount of €6,387 thousand, in addition to seizures which qualify as "restricted amounts on bank and postal accounts" of €2,283 thousand.

## 15. Tax assets

At 31 December 2016, tax assets, net of tax liabilities, amount to €17,054 thousand.
This caption includes:

- the IRES tax credit for withholding taxes (in prior tax years, before participating in the group's tax consolidation scheme) requested as rebate to the tax authorities of €805 thousand;
- the tax credit for IRAP self-taxation (€16,249 thousand) for 2014. It refers to payments on account for 2014 not offset with future IRAP liabilities, as an effect of the total deductibility (since 2015) of the costs incurred for employees with open-ended contracts (Law no. 190/2014) which, *de facto*, reduced the IRAP tax base to zero. The same credit was requested as a rebate to the tax authorities given that, according to the ruling

regulations, the tax base will always be negative, hence it would be impossible to use that credit to offset IRAP liabilities.

## 16. Equity

Changes in the main equity captions in 2016 are shown in the statement of changes in equity to which reference should be made.

**Share capital**

At 31 December 2016, the company's fully subscribed and paid-up share capital was made up of 31,525,279,633 ordinary shares, with a nominal amount of €1 each, for a total of €31,525,279,633.

**Legal reserve**

At 31 December 2016, it amounted to €47,807 thousand, following the allocation of a portion of the profit for 2015, equal to €6,436 thousand.

**Reserves for unrealised gains and losses**

**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 2016, this reserve was negative by €110,552 thousand, down by €23,584 thousand on 31 December 2015. The decrease is due to the following factors:

- the fair value measurement of hedging instruments at the reporting date (increase of €2,298 thousand);
- the release of the portion of the year following the above-mentioned early termination of contracts (increase of €21,286 thousand);

**Actuarial reserve**

The actuarial reserve includes the effects of actuarial gains and losses on post-employment benefits and the Free Travel Card. The reserve showed a net actuarial loss of €125,256 thousand was recognised in 2016, up on the previous year-end balance following the changes of the year. The total actuarial loss amounts to €10,440 thousand.

**Retained earnings**

At 31 December 2016, retained earnings amount to €1,596,330 thousand, up €92,287 thousand on the previous year. The increase is due to the allocation of the profit for 2015 resolved by shareholders in their meeting of 17 May 2016.

**Profit for the year**

The company ended 2016 with a profit of €180,769 thousand.

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

thousands of Euros

| Origin | Balance at 31.12.2016 (a+b) | Unavailable portion (a) | Possibility of use *** | Available portion (b) | Distributable portion (b) | Summary of use in the past three years** Capital increase | Coverage of losses | Dividends | Other (Demergers) |
|---|---|---|---|---|---|---|---|---|---|
| **Share capital:** | | | | | | | | | |
| Share capital | 31,525,280 | 31,525,280 | | | | | | | (482,353) |
| **Income-related reserve:** | | | | | | | | | |
| Legal reserve | 47,807 | 47,807 | B | | | | | | |
| Retained earnings * | 1,596,330 | – | A, B, C | 1,596,330 | 565,973 | | | | |
| **Other reserves:** | | | | | | | | | |
| Hedging reserve | (110,552) | (110,552) | | | | | | | |
| Income-related reserve and actuarial losses | (125,256) | (125,256) | | | | | | | |
| **TOTAL** | **32,933,609** | **31,337,279** | | **1,596,330** | **565,973** | **–** | **–** | **–** | **(482,353)** |

* total equity is shown net of the profit for 2016 (€180,769 thousand)
** 2013-2014-2015
*** A = Capital increase; B = Coverage of losses; C = Dividends

## 17. Non-current loans and borrowings

thousands of Euros

| Non-current loans and borrowings | 31.12.2016 | Carrying amount<br>31.12.2015 | Change |
|---|---|---|---|
| Bank loans and borrowings | 1,573,647 | 1,756,797 | (183,150) |
| Loans and borrowings from other financial backers | 157,286 | 184,307 | (27,021) |
| Loans and borrowings from group companies | 1,788,192 | 2,044,434 | (256,242) |
| **Total** | **3,519,125** | **3,985,538** | **(466,413)** |

thousands of Euros

| Current loans and borrowings and current portion of non-current loans and borrowings* | 31.12.2016 | Carrying amount<br>31.12.2015 | Change |
|---|---|---|---|
| Bank loans and borrowings (current portion) | 190,175 | 187,600 | 2,575 |
| Loans and borrowings from other financial backers (current portion) | 29,511 | 13,220 | 16,291 |
| Loans and borrowings from group companies (current portion) | 563,663 | 253,234 | 310,429 |
| **Total** | **783,349** | **454,054** | **329,295** |

*: It refers to the current portion of non-current loans and borrowings

thousands of Euros

| Loans and borrowings | 31.12.2016 | Carrying amount<br>31.12.2015 | Change |
|---|---|---|---|
| Bank loans and borrowings | 1,763,822 | 1,944,397 | (180,575) |
| Loans and borrowings from other financial backers | 186,797 | 197,527 | (10,730) |
| Loans and borrowings from group companies | 2,351,855 | 2,297,668 | 54,187 |
| **Total loans and borrowings** | **4,302,474** | **4,439,592** | **(137,118)** |

Bank loans and borrowings (non-current and current) of €1,763,822 thousand, are shown gross of accruals not yet paid of €7,024 thousand. This caption is entirely comprised of payables to the European Investment Bank (EIB). The €180,575 thousand decrease on the previous year-end balance refers to the €179,485 decrease due to the principal repaid in 2016 and the €1,090 thousand decrease in accrued expenses included under the current portion.

Loans and borrowings from other financial backers (non-current and current) of €186,787 thousand are shown gross of accruals not yet paid of €2,490 thousand and refer to payables to Cassa Depositi e Prestiti ("CDP"). The €10,730 thousand decrease on 31 December 2015 is due to the decrease in principal repaid in 2016 (€13,220 thousand) offset by the increase in accrued interest (€2,490 thousand).

Loans and borrowings from group companies (non-current and current portion) of €2,351,855 thousand are shown gross of accrued expenses yet to be paid (€6,635 thousand). Specifically, they refer to liabilities with the parent related to two intercompany 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 two tranches of the bond issue that Ferrovie dello Stato Italiane S.p.A placed on the market in July and December 2013 as part of the "FS EMTN Programme".

The €54,187 thousand increase in these liabilities compared to 31 December 2015 is due to the combined effect of the following factors:

- the decrease due to the repayment of the principal (€162,275 thousand) 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 2016, which corresponds to the change in the related receivables from the MEF. For additional information, reference should be made the note to financial assets;
- the decrease due to the repayment of the principal (€84,207 thousand) of the loans and borrowings from Ferrovie dello Stato Italiane S.p.A. for the EIB (HS/HC network) in 2016;
- the €161 thousand decrease in accrued expenses, included under the current portion;
- the €300,000 thousand increase on the availability of the Backup Facility entered into with the parent to meet the company's cash needs;
- the €830 thousand increase in accruals of the amortised cost and in accruals of the non-use fees of the above-mentioned Backup Facility.

The table below shows the terms and conditions of loans and borrowings:

thousands of Euros

| Type of work | Creditor | Currency | Notes | Nom. interest rate | Year of expiry | 31.12.2016 Nom. amount | 31.12.2016 Carr. amount | 31.12.2015 Nom. amount | 31.12.2015 Carr. amount |
|---|---|---|---|---|---|---|---|---|---|
| HS/HC | EIB 1 | € | | Fixed | 2023 | 174,226 | 174,226 | 193,404 | 196,034 |
| HS/HC | EIB 2 | € | | Fixed | 2023 | 130,468 | 130,468 | 142,184 | 145,529 |
| HS/HC | EIB 3 | € | (1) | Variable | 2024 | 416,667 | 416,667 | 472,222 | 472,222 |
| HS/HC | EIB 4 | € | (3) | Fixed/Var. | 2030 | 379,956 | 379,956 | 397,041 | 397,728 |
| HS/HC | EIB 5 | € | (1) | Variable | 2025 | 16,000 | 16,000 | 17,778 | 17,778 |
| HS/HC | EIB 6 | € | (2) | Fixed | 2032 | 161,172 | 161,172 | 167,432 | 167,844 |
| HS/HC | EIB 7 | € | (3) | Fixed/Var. | 2032 | 235,006 | 235,006 | 246,222 | 246,544 |
| HS/HC | CASSA DEPOSITI E PRESTITI 1 | € | (4) | Fixed | 2021 | 93,047 | 93,047 | 97,527 | 97,527 |
| HS/HC | CASSA DEPOSITI E PRESTITI 2 | € | (1) (4) | Variable | 2023 | 93,750 | 93,750 | 100,000 | 100,000 |
| HS/HC | INTERCOMPANY CDDPP/FS HS | € | | Fixed | 2021 | 367,077 | 367,077 | 448,824 | 450,007 |
| Traditional netw. | INTERCOMPANY CDDPP/FS RT | € | | Fixed | 2021 | 448,824 | 448,824 | 528,345 | 528,345 |
| HS/HC | INTERCOMPANY EIB/FS | € | | Fixed | 2021 | 484,042 | 484,042 | 568,250 | 568,250 |
| | | | | | | **3,000,236** | **3,000,236** | **3,379,229** | **3,387,808** |
| HS/HC | EIB 300 | € | (5) (6) | Variable | 2021 | 250,327 | 250,327 | 300,000 | 300,718 |
| HS/HC | INTERCOMPANY EMTN 1 TR/FS | € | (6) | Fixed | 2020 | 250,000 | 252,891 | 250,000 | 252,461 |
| HS/HC | INTERCOMPANY EMTN 2 TR/FS | € | (6) | Fixed | 2021 | 500,000 | 498,908 | 500,000 | 498,537 |
| | | | | | | **1,000,327** | **1,002,126** | **1,050,000** | **1,051,716** |
| **TOTAL** | | | | | | **4,000,563** | **4,002,361** | **4,429,229** | **4,439,524** |

(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 CDP 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 tolls

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 parametres 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.

As described in the directors' report to which reference should be made, the company's net financial debt worsened by €161,898 thousand on the previous year-end balance in terms of both current net financial debt (€152,369 thousand) and the worsening of the non-current net financial debt (€9,529 thousand).
The following table gives a breakdown of net financial debt at 31 December 2016 and 2015.

| | | | thousands of Euros |
|---|---|---|---|
| **Net financial position** | **31.12.2016** | **31.12.2015** | **Changes** |
| **Net current financial position** | **(1,082,202)** | **(1,234,571)** | **152,369** |
| Treasury current accounts | (1,161,359) | (891,673) | (269,685) |
| Other financial (assets)/liabilities | (128,227) | (229,441) | 101,213 |
| Financial assets from the MEF for the fifteen-year grants to be collected | (568,875) | (562,276) | (6,599) |
| Bank loans and borrowings | 192,665 | 187,600 | 5,065 |
| Loans and borrowings from other financial backers | 27,021 | 13,220 | 13,800 |
| Loans and borrowings from group companies | 563,663 | 253,234 | 310,429 |
| Other | (7,090) | (5,235) | (1,854) |
| **Net non-current financial position** | **1,352,873** | **1,343,344** | **9,529** |
| Financial assets from the MEF for the fifteen-year grants to be collected | (2,105,577) | (2,584,621) | 479,044 |
| Loan assets | (60,676) | (57,574) | (3,102) |
| Bank loans and borrowings | 1,573,647 | 1,756,797 | (183,150) |
| Loans and borrowings from other financial backers | 157,287 | 184,307 | (27,020) |
| Loans and borrowings from group companies | 1,788,192 | 2,044,434 | (256,242) |
| **Total** | **270,672** | **108,774** | **161,898** |

## 18. Post-employment benefits and other employee benefits (free travel card)

| | | thousands of Euros |
|---|---|---|
| | **31.12.2016** | **31.12.2015** |
| Present value of post-employment benefit obligations | 666,071 | 683,539 |
| Present value of free travel card obligations | 27,722 | 29,421 |
| Other provisions (health care trust, former National Social Security and Welfare Institute for Ferrovie dello Stato employees) | (141) | (121) |
| Other changes (advance on Italian revaluation tax) | – | – |
| **Total present value of obligations** | **693,652** | **712,839** |

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 | **31.12.2016** | **31.12.2015** |
| Defined benefit obligations at 1 January | 712,960 | 781,307 |
| *Service cost* | 171 | 160 |
| *Interest cost* (*) | 7,488 | 8,882 |
| Benefits paid | (36,891) | (49,554) |
| Transfers in (out) | 1,952 | 778 |
| Other changes (estimated benefit payments) | (2,327) | (2,377) |
| Actuarial (gains) losses recognised in equity | 10,440 | (26,236) |
| **Defined benefit obligations** | **693,793** | **712,960** |
| Other provisions (health care trust, former National Social Security and Welfare Institute for Ferrovie dello Stato employees) | (141) | (121) |
| Other changes (advance on Italian revaluation tax) | – | – |
| **Post-employment benefits and other employee benefits (free travel card)** | **693,652** | **712,839** |

(*) through profit or loss

In accordance with the International Financial Reporting Standards and the guidelines provided by the IASB, 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 accounting standards.

In 2016, a total of €37,266 thousand in post-employment benefits was used (benefits paid, transfers in/out, estimated benefit payments). This refers to the benefits paid to employees who left the company in 2016 and employees' advances and transfers from/to other group companies.

In 2016, post-employment benefits and the free travel cards generated an actuarial loss of €10,440 thousand (2015: actuarial gain of €26,236 thousand). The actuarial loss is substantially due to the decrease in the actuarial rate which dropped from 1.39% in 2015 to 0.86% in 2016 and from 2.03% in 2015 to 1.05% in 2016 for post-employment benefits and Free Travel Cards, respectively. Specifically, the actuarial reports on post-employment benefits and Free Travel Cards point to a total loss related to financial assumptions (including the discount rate) of approximately €14,384 thousand and a gain on residual actuarial assumptions of €3,944 thousand, whose sum generates a total actuarial loss of €10,440 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:

| | **31.12.2016** | **31.12.2015** |
|---|---|---|
| Discount rate (post-employment benefits) | 0.86% | 1.39% |
| Discount rate (Free Travel Card) | 1.05% | 2.03% |
| 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% |
| Death probability | 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

| 31.12.2016 | Post-employment benefits | Free travel cards |
|---|---|---|
| Turnover rate +1.00% | 663,351 | |
| Turnover rate -1.00% | 669,058 | |
| Inflation rate +0.25% | 672,470 | 29,387 |
| Inflation rate -0.25% | 659,763 | 26,127 |
| Discount rate +0.25% | 655,981 | 27,079 |
| Discount rate -0.25% | 676,455 | 28,391 |
| Service cost | – | 160 |
| Term of the plan (years) | 7 | 10 |
| Total employees at year end | 25,540 | 25,540 |

**Estimated future payments and Free Travel Cards** thousands of Euros

| 31.12.2016 | POST-EMPLOYMENT BENEFITS | Free travel cards |
|---|---|---|
| Payment - first year | 84,066 | 2,239 |
| Payment - second year | 65,852 | 2,166 |
| Payment - third year | 37,768 | 2,093 |
| Payment - fourth year | 78,314 | 2,022 |
| Payment - fifth year | 63,141 | 1,948 |

## 19. Provisions for risks and charges

The opening and the closing balance of and changes in the provisions for risks and charges for 2016 are given below. They are deemed adequate to cover the company's probable charges.

thousands of Euros

| | 31.12.2015 | Reclassif. | Accrual | Utilisations | Release of excess provisions | 31.12.2016 |
|---|---|---|---|---|---|---|
| Provision for taxation | 3,542 | | 6,286 | | (510) | 9,318 |
| Other | 495,994 | (8,170) | 72,826 | (46,650) | (1,109) | 512,891 |
| **TOTAL** | **499,536** | **(8,170)** | **79,112** | **(46,650)** | **(1,619)** | **522,209** |

### Provision for taxation

It includes probable future tax charges.

At 31 December 2016, the provision was increased by €5,776 thousand on the previous year end mainly due to the joint effect of:

- a €5,236 thousand accrual in relation to six notices of municipal property tax assessment from the Rome municipal authorities for buildings and land, for which there are proceedings to settle the dispute (self-protective measures and negotiated settlement) in order to obtain a reduction in terms of the taxable amounts being assessed;
- a €1,047 thousand accrual in relation to  a notice to pay registration for tax 2016;
- releases of €510 thousand.

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

| | 31.12.2015 | Reclassif. | Accrual | Utilisations | Release of excess provisions | 31.12.2016 |
|---|---|---|---|---|---|---|
| Expense related to | | | | | | |
| - personnel | 55,335 | | 26,244 | (24,479) | | 57,100 |
| - third parties | 280,538 | | 18,058 | (12,810) | (265) | 285,521 |
| Reclamation | 52,471 | | | (1,091) | | 51,380 |
| Equity investments | 48,882 | | | | | 48,882 |
| Other provisions for risks and charges | 58,768 | (8,170) | 28,524 | (8,270) | (844) | 70,008 |
| **TOTAL** | **495,994** | **(8,170)** | **72,826** | **(46,650)** | **(1,109)** | **512,891** |

**Provisions for expense related to personnel and third parties**

This provision comprises the probable charges in respect of economic and career claims and compensation for occupational illness. It refers to pending disputes brought before the competent labour courts.

In 2016, €24,479 thousand of the provision was used to cover the contribution charges and costs related to disputes with personnel (in court or out of court). It was increased by €26,244 thousand to meet the needs calculated at 31 December 2016.

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 2016, €12,810 thousand was used following the settlement of disputes with an unfavourable outcome for the company. It was increased by €18,058 thousand to meet the total requirements for pending disputes (€17,992 thousand) and to cover disputed liabilities (€66 thousand).
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. For additional information, reference should be made to the directors' report section on "Litigation and disputes".

**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.

**Provisions for other risks and charges**

These provisions mainly refer to:

- leaving incentives (€25,125 thousand);
- fund for the pursuit of pro-active policies to support income and employment (€39,590 thousand);
- performance regime, related to receivables for penalties due from railway companies as an incentive mechanism pursuant to the network prospectus (€946 thousand);
- other risks (€4,347 thousand).

The accruals for 2016 total €28,524 thousand and mainly refer to leaving incentives (€2,177 thousand) and the expenses for the fund for the pursuit of pro-active policies to support income and employment (€25,000 thousand). Reference should be made to the relevant section of the directors' report.

## 20. Current and non-current financial liabilities (including derivatives)

thousands of Euros

| | Carrying amount | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 31.12.2016 | | | 31.12.2015 | | | Change | | |
| | Non-current | Current | Total | Non-current | Current | Total | Non-current | Current | Total |
| **Financial liabilities** | | | | | | | | | |
| Hedging derivatives | 34,196 | 2,843 | 37,039 | 36,690 | 2,026 | 38,716 | (2,494) | 817 | (1,677) |
| Other financial liabilities | – | 331 | 331 | – | 331 | 331 | – | – | – |
| **Total** | **34,196** | **3,174** | **37,370** | **36,690** | **2,357** | **39,047** | **(2,494)** | **817** | **(1,677)** |

The €2,494 thousand decrease in the non-current portion of hedging derivatives is due to the fair value measurement of derivatives at 31 December 2016 (2016 - 2015 FV difference). Specifically, the effect is due to:

- the increase in the hedging reserve (€2,298 thousand), due to the fair value measurement of swaps, forward rate agreements and the intrinsic value of collars (with relevant increase in the financial liability);
- the positive impact of the time value of collars on profit or loss (€196 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 5 "Financial risk management" to which reference should be made for a definition of the hierarchy levels within the fair value estimate.

## 21. Other current and non-current liabilities

thousands of Euros

| | 31.12.2016 | | | 31.12.2015 | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non-current | Current | Total | Non-current | Current | Total | Non-current | Current | Total |
| Advances for grants | – | 2,780,616 | 2,780,616 | – | 4,456,344 | 4,456,344 | – | (1,675,728) | (1,675,728) |
| Social security charges payable | 48,203 | 121,139 | 169,342 | 60,253 | 107,378 | 167,631 | (12,050) | 13,761 | 1,711 |
| Other liabilities to group companies | 424 | 46,709 | 47,133 | 424 | 4,980 | 5,404 | – | 41,729 | 41,729 |
| Other liabilities | 73,634 | 444,747 | 518,381 | 107,284 | 342,264 | 449,548 | (33,650) | 102,483 | 68,833 |
| Accrued expenses and deferred income | 2,031 | 25,762 | 27,793 | 2,207 | 30,863 | 33,070 | (176) | (5,101) | (5,277) |
| **Total** | **124,292** | **3,418,973** | **3,543,265** | **170,168** | **4,941,829** | **5,111,997** | **(45,876)** | **(1,522,856)** | **(1,568,732)** |

At 31 December 2016, advances for grants related to assets amount to €2,780,616 thousand and can be analysed as follows:

thousands of Euros

| | 31.12.2015 | Increase | Decreases | Other changes | 31.12.2016 |
|---|---|---|---|---|---|
| **Advances for grants:** | | | | | |
| Ministry of the Economy and Finance | 2,827,544 | 1,982,097 | (3,511,538) | (87,848) | 1,210,255 |
| Ministry of Infrastructure and Transport | 1,076,610 | 461,574 | (421,688) | – | 1,116,496 |
| European Regional Development Fund | 118,605 | 167,863 | (189,025) | (8,194) | 89,249 |
| Trans-European network | 161,104 | 14,635 | (20,116) | (782) | 154,841 |
| Other PA | 235,808 | 156,041 | (211,866) | – | 179,983 |
| Other third parties | 36,673 | | (6,880) | | 29,793 |
| **Total** | **4,456,344** | **2,782,210** | **(4,361,113)** | **(96,824)** | **2,780,617** |

The €1,675,728 thousand net decrease in advances is due to the joint effect of new recognition of receivables from the MIT, the MEF and other bodies included under Other current and non-current assets and Current and non-current financial assets, the decreases due to utilisation through the allocation to assets under construction and to cover borrowing costs and additional decreases shown under other changes. In particular, other changes refer to:

- the share capital increases of Società Tunnel Ferroviario del Brennero S.p.A. as described in the section on "Equity investments";
- the definancing of the portion of the European Regional Development Fund grants already collected, following the cuts due to the final audit of the 00-06 National Operating Programme;
- the refund, requested by the European Commission on the Trans-European network funds, of the pre-financing previously collected as the schedule could not be complied with within the admissible period of time established by the respective Trans-European network funding decision.

Other current liabilities with group companies amount to €46,709 thousand. The €41,729 thousand increase on 31 December 2015 is mainly due to:

- greater payables to Società Trenitalia S.p.A. of €39,819 thousand in relation to the 2015 Cargo discount, to balance grants from the MEF pursuant to Law no. 190/2014;

- greater payables to the parent of €2,716 thousand due to the closing of the fund for the pursuit of pro-active policies to support income and employment for the workforce of the FS group companies, with the fund transferred to INPS.

Other current liabilities mainly refer to amounts due to personnel (€160,211 thousand), guarantee deposits (€37,137 thousand), holidays accrued but not taken (€23,628 thousand), fund for the pursuit of pro-active policies to support income and employment (€22,864 thousand), other tax liabilities for RFI's withholdings at source on employees and free lancers (€38,627 thousand) and accounts for grants disbursed by the MIT pursuant to Law no. 190/2014 for the 2016 Cargo discount (€100,000 thousand).

The €5,277 thousand decrease in deferred income is mainly due to lower trade deferred income with third parties.

## 22. Current and non-current trade payables

They can be analysed as follows:

thousands of Euros

| | 31.12.2016 | | | 31.12.2015 | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non-current | Current | Total | Non-current | Current | Total | Non-current | Current | Total |
| Trade payables | 14,890 | 2,150,113 | 2,165,003 | 18,419 | 1,957,961 | 1,976,380 | (3,529) | 192,152 | 188,623 |
| Payments on account | 1,346 | 54,879 | 56,225 | 1,541 | 53,022 | 54,563 | (195) | 1,857 | 1,662 |
| Trade payables to group companies | – | 435,766 | 435,766 | 949 | 492,479 | 493,428 | (949) | (56,713) | (57,662) |
| Payables for construction contracts | – | 12,697 | 12,697 | – | 11,231 | 11,231 | – | 1,466 | 1,466 |
| **Total** | **16,236** | **2,653,455** | **2,669,691** | **20,909** | **2,514,693** | **2,535,602** | **(4,673)** | **138,762** | **134,089** |

At 31 December 2016, the increase in current trade payables on the previous year-end balance totals €192,152 thousand and is mainly due to lower payments during the year.

Payments on account refer to ordinary customers and group customers (€54,879 thousand), up by €1,857 thousand on 31 December 2015.

Current trade payables to group companies decreased by a net €56,713 thousand, mainly due to lower payables to related companies for invoices received (€43,226 thousand) and for invoices to be received (€10,579 thousand).

Payables for construction contracts of €12,697 thousand reflect the gross amount due to customers for construction contracts the costs of which, net of recognised profit margins, exceed progress billing.

## NOTES TO THE INCOME STATEMENT

### 23. Revenue from sales and services

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

thousands of Euros

| | 2016 | 2015 | Change |
|---|---|---|---|
| **Revenue from infrastructure services** | **2,252,312** | **2,158,898** | **93,414** |
| ✓ *Government grants* | 975,557 | 975,557 | – |
| ✓ *Toll* | 1,058,383 | 1,006,075 | 52,308 |
| ✓ *Sale of electrical energy for traction* | 200,176 | 158,912 | 41,264 |
| ✓ *Ferry services* | 18,196 | 18,354 | (158) |
| **Revenue from traffic-related services** | **21,883** | **19,258** | **2,625** |
| **Revenue from infrastructure services** | **–** | **–** | **–** |
| **Total** | **2,274,195** | **2,178,156** | **96,039** |

"Revenue from infrastructure services" increased by a net €93,414 thousand. It can be analysed as follows:

- €52,308 thousand increase in toll revenue mainly due to the increase in the production volumes;
- €41,264 thousand increase in revenue from the sale of electrical traction in accordance with Law no. 116/2014, which recalculated Ferrovie dello Stato Italiane's electricity tariff system. Under this law, part of the costs incurred by RFI for the supply of electrical energy for traction was recharged to railway companies; specifically, it is forbidden to recharge the higher expenses on prices and tolls within universal service transport and railway cargo transport (article 29.3 of Law no. 116/2014);
- €158 thousand decrease in revenue from ferry services.

The €2,625 increase in revenue from traffic-related services is mainly due to greater revenue from assistance services for people with reduced mobility (€635 thousand) and from the management of cargo terminals (€1,219 thousand).

### 24. Other income

This caption can be analysed as follows:

thousands of Euros

| | 2016 | 2015 | Change |
|---|---|---|---|
| **Revenue from property management** | **94,552** | **106,668** | **(12,116)** |
| ✓ *Leases* | 85,937 | 102,254 | (16,317) |
| ✓ *Recharging of building expense and IRES tax* | 5,115 | 1,316 | 3,799 |
| ✓ *Sale of advertising spaces* | 3,500 | 3,098 | 402 |
| **Other sundry income** | **206,521** | **200,976** | **5,545** |
| **Total** | **301,073** | **307,644** | **(6,571)** |

Revenue from property management increased by a net €12,116 thousand as a result of the combined effect of the following factors:

- €16,317 thousand decrease in leases, mainly arising from the decrease in other revenue from property (€10,330 thousand) related to lower revenue with SELF and Basictel following the demerger to SELF of the electrical grid, lower repurchase instalments from Centostazioni (€2,378 thousand) and lower revenue from power lines (€2,508 thousand);

- €3,799 thousand increase in revenue from recharging of building expenses mainly following the partial demerger of Grandi Stazioni S.p.A., which led to the recharging of the expenses of the related party GS Rail S.p.A. to GS Retail S.p.A. (€4,055 thousand), partially offset by other sundry expense (€256 thousand).

Other sundry income can be analysed as follows:

thousands of Euros

| | 2016 | 2015 | Change |
|---|---|---|---|
| **Other sundry income** | | | |
| √ *Health services* | 37,552 | 36,162 | 1,390 |
| √ *Sale of materials* | 869 | 1,188 | (319) |
| √ *Processing for third parties* | 29,859 | 35,514 | (5,655) |
| √ *Gains* | 32,657 | 36,834 | (4,177) |
| √ *Revenue from GSMR* | 5,276 | 6,554 | (1,278) |
| √ *Other sundry income* | 100,308 | 84,724 | 15,584 |
| **Total** | **206,521** | **200,976** | **5,545** |

The increase in other sundry income (€5,545 thousand) is mainly due to the combined effect of the following factors:

- €5,655 thousand decrease in revenue from processing for third parties, of which: €1,366 thousand in relation to the work for the connection between "Galileo Galilei" airport and Pisa Centrale station, €1,635 thousand for maintenance of shelters at Naples Centrale, €1,199 thousand for work at Bologna station, €1,007 thousand for maintenance at the Palermo site, €807 thousand for works related to the Porrettana line deviation. In relation to the improvement work at the Aurelia bridge banks (Florence), a €1,464 increase in revenue is recognised;
- lower revenue from gains of €4,177 thousand substantially due to lower revenue from the sale of material no longer in use and removed from production;
- €15,584 thousand increase in other sundry income mainly arising from greater revenue from maintenance fees and remote control of the high voltage lines of Rete S.r.l. (€34,166 thousand), partially offset by lower revenue from penalities and sanctions of €3,825 thousand, the decrease in revenue following the recognition of inexistent assets of 8,663 thousand and lower prior year income of €7,970 thousand;
- lower revenue from GSM-R of €1,278 thousand determined by a decrease in the services requested by railway companies.

## 25. Personnel expense

This caption can be analysed as follows:

thousands of Euros

| | 2016 | 2015 | Change |
|---|---|---|---|
| **Employees** | **1,387,173** | **1,387,310** | **(137)** |
| √ *Wages and salaries* | 1,017,164 | 1,015,406 | 1,758 |
| √ *Social security contributions* | 284,023 | 291,611 | (7,588) |
| √ *Other expense for employees* | (3,343) | (2,578) | (765) |
| √ *Post-employment benefits* | 67,793 | 68,402 | (609) |
| √ *Accruals/releases* | 21,536 | 14,469 | 7,067 |
| **Consultants and freelancers** | **86** | **130** | **(44)** |
| √ *Wages and salaries* | 51 | 89 | (38) |
| √ *Social security contributions* | 35 | 41 | (6) |
| **Other costs** | **29,705** | **30,144** | **(439)** |
| √ *Temporary workers/Seconded personnel and trainees* | 1,692 | 3,338 | (1,646) |
| √ *Other costs* | 28,013 | 26,806 | 1,207 |
| **Total** | **1,416,964** | **1,417,584** | **(620)** |

In 2016, personnel expense slightly decreased by €620 thousand following the decrease in expense for employees (€7,204 thousand) and other costs (€439 thousand), as a consequence of the company's efficiency process which determined a reduction in the average workforce and a generational change, offset by greater accruals and releases of €7,067 thousand.

For additional information, reference should be made to the directors' report section on "Human resources".

| **Average** | **2016** | **2015** | **Change** |
|---|---|---|---|
| Managers | 223 | 222 | 1 |
| Junior managers | 5,685 | 5,724 | (39) |
| Other | 19,474 | 19,599 | (125) |
| **TOTAL** | **25,382** | **25,545** | **(163)** |

## 26. Raw materials, consumables, supplies and goods

They can be analysed as follows:

thousands of Euros

| | 2016 | 2015 | Change |
|---|---|---|---|
| Raw materials and consumables | 511,393 | 392,896 | 118,497 |
| Electrical energy and fuel for traction | 222,953 | 203,270 | 19,683 |
| Lighting and driving force | 36,088 | 43,549 | (7,461) |
| Accruals/Releases | 7,105 | – | 7,105 |
| **Total** | **777,539** | **639,715** | **137,824** |

The total increase (€137,824 thousand) is mainly due to the following factors:

- the rise in consumption of materials (€173,409 thousand) due to the combined effect of greater consumption for investments (€143,847 thousand) and for operations (€29,562 thousand);

- greater revenue from internal work (€40,758) 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 decrease in the price to purchase materials in stock (€6,156 thousand);
- lower purchase costs for consumables (€7,999 thousand);
- greater electrical energy and fuel costs for traction of trains (€19,683 thousand), following the increase in HV energy costs (€32,760 thousand), partly offset by the net effect of prior year income and expense of €11,757 and reduction in the costs for traction fuel and lubricants of €1,320 thousand;
- greater accruals to the allowance for impairment of raw materials of €7,105 thousand, following the analysis carried out of obsolete and slow-moving items to be written down or off;
- lower costs of lighting and driving force of €7,461 thousand, of which €5,851 thousand in relation to the net effect of prior year income and expense.

## 27. Services

This caption can be analysed as follows:

thousands of Euros

| | 2016 | 2015 | Change |
|---|---|---|---|
| **Transport services** | **12,322** | **8,654** | **3,668** |
| Other transport-related services | (19) | (126) | 107 |
| Shunting services | 536 | 602 | (66) |
| Ferry services | 3,135 | 3,135 | – |
| Cargo transport services | 8,670 | 5,043 | 3,627 |
| **Maintenance, cleaning and other contracted services** | **312,267** | **281,261** | **31,006** |
| Contracted services and work for third parties | 22,767 | 24,406 | (1,639) |
| Contract cleaning and other services | 87,931 | 83,856 | 4,075 |
| Maintenance and repair of intangible assets and property, plant and equipment | 201,569 | 172,999 | 28,570 |
| Maintenance accruals and releases | – | – | – |
| **Property services and utilities** | **107,896** | **107,420** | **476** |
| **Administrative and IT services** | **65,029** | **69,035** | **(4,006)** |
| **External communication and advertising expense** | **1,204** | **3,899** | **(2,695)** |
| **Other** | **136,154** | **137,032** | **(878)** |
| √ Consultancies | 517 | 228 | 289 |
| √ Insurance | 14,562 | 17,566 | (3,004) |
| √ Professional services | 11,089 | 10,950 | 139 |
| √ Agencies' fees | 997 | 1,726 | (729) |
| √ Group-wide costs | 1,230 | 448 | 782 |
| √ Other | 91,592 | 97,388 | (5,796) |
| √ Accruals/releases | 16,167 | 8,726 | 7,441 |
| **Total** | **634,872** | **607,301** | **27,571** |

Costs for services increased by €27,571 thousand, mainly as a consequence of the combined effect of the following factors:

- the increase in cargo transport services (€3,627 thousand);
- the decrease in work for third parties (€1,639 thousand) connected to the correspondent decrease in revenue;
- the increase in maintenance and repair of intangible assets and property, plant and equipment (€28,570 thousand) and contract cleaning (€4,075 thousand);
- the decrease in administrative and IT services (€4,006 thousand), mainly due to the reformulation of fees applied to the main intercompany agreements;

- the decrease in external communication and advertising expense (€2,695 thousand);
- the decrease in sundry costs (€878 thousand).

Specifically, services include recharging of costs from GS Rail S.p.A. to GS Retail S.p.A., corresponding to the €4,055 thousand increase in revenue. More in detail, €2,333 thousand is included in property services and utilities while €1,722 thousand is recognised in maintenance, cleaning and other contracted services.

### 28. Use of third-party assets

This caption can be analysed in the table below.

thousands of Euros

| | 2016 | 2015 | Change |
|---|---|---|---|
| Lease payments, building expenses and IRE (registration tax) | 34,818 | 30,035 | 4,783 |
| Leases and indemnities for rolling stock and other | 4,056 | 3,853 | 203 |
| IT and other services | 10,016 | 9,796 | 220 |
| **Total** | **48,890** | **43,684** | **5,206** |

Use of third-party assets increased by €5,206 thousand, mainly due to higher costs incurred for car rental (€3,700 thousand) and other leases, freight charges and expenses (€966 thousand).

### 29. Other operating costs

This caption can be analysed as follows:

thousands of Euros

| | 2016 | 2015 | Change |
|---|---|---|---|
| Other costs | 130,357 | 115,689 | 14,668 |
| Losses | 2,274 | 1,892 | 382 |
| Accruals/Releases | 6,876 | 600 | 6,276 |
| **Total** | **139,507** | **118,181** | **21,326** |

Other operating costs increased by €21,326 thousand mainly due to:

- greater other costs of €14,668 thousand mainly due to costs incurred as compensation (€7,002 thousand) and prior year expense (€6,174 thousand);
- greater accruals for other operating costs of €6,276 thousand, of which €5,236 thousand for property tax in relation to buildings and landswithin the municipality of Rome and €1,046 thousand for registration tax. These accruals were offset by lower releases of €396 thousand.

### 30. Internal work capitalised

This caption amounts to €799,213 thousand and refers to internal costs for the use of personnel and overheads of €306,243 thousand and costs for materials used in investments of €492,970 thousand.

The €179,573 thousand increase on 2015 is mainly due to the rise in investments, as well as to a higher withdrawal of materials in relation to the technology and safety upgrading.

## 31. Amortisation and depreciation

This caption can be analysed as follows:

There are no significant changes on the previous year.

thousands of Euros

| | 2016 | 2015 | Change |
|---|---|---|---|
| Amortisation of intangible assets | 3,851 | 3,868 | (17) |
| Depreciation of property, plant and equipment | 89,952 | 89,938 | 14 |
| Depreciation of investment property | 64 | 56 | 8 |
| **Total** | **93,867** | **93,862** | **5** |

The main differences are due to changes of rates in the greater line "C - Backbone and confluent lines" and "G – HS network", and, less significantly, to the changes in the amortisable/depreciable cost.

## 32. Impairment losses (reversals of impairment losses)

This caption can be analysed as follows:

thousands of Euros

| | 2016 | 2015 | Change |
|---|---|---|---|
| Impairment losses on intangible assets | 4,746 | 1,377 | 3,369 |
| Impairment losses on property, plant and equipment | 7,786 | 4,155 | 3,631 |
| Impairment losses and reversals of impairment losses on receivables | 10,075 | 5,466 | 4,609 |
| **Total** | **22,607** | **10,998** | **11,609** |

Impairment losses (reversals of impairment losses) increased by €11,609 thousand on 2015, mainly due to:

- greater impairment losses and reversals of impairment losses on receivables (€4,609 thousand); in particular, in 2016 the allowance for impairment totals €10,075 thousand, of which €5,867 thousand in relation to the non-collection of the receivable due from the Calabria Region for invoices of "2007-2014 ordinary maintenance costs pursuant to the framework agreement of 29 August 2006 for the Gioia Tauro infrastructure", which resulted not due;
- greater impairment losses on property, plant and equipment of €3,631 thousand;
- greater impairment losses on intangible assets of €3,369 thousand.

## 33. Provisions

Provisions made in 2016, of €25,000 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.

## 34. Financial income

This caption can be analysed as follows:

thousands of Euros

| | 2016 | 2015 | Change |
|---|---|---|---|
| Other financial income | 8,290 | 8,328 | (38) |
| Exchange rate gains | 163 | 640 | (477) |
| Dividends | – | 1,187 | (1,187) |
| **Total** | **8,453** | **10,155** | **(1,702)** |

In 2016, the caption shows a decrease of €1,702 thousand on 2015, mainly due to:

- the decrease in interest income on the VAT credit (€1,923 thousand);
- the increase in default interest (€730 thousand);
- the decrease in exchange rate gains (€477 thousand).

## 35. Financial expense

This caption can be analysed as follows:

thousands of Euros

| | 2016 | 2015 | Change |
|---|---|---|---|
| Interest on financial liabilities | 42,553 | 45,534 | (2,981) |
| Impairment losses on financial assets | 315 | 122 | 193 |
| Exchange rate losses | 50 | 502 | (452) |
| Accruals/releases | – | – | – |
| **Total** | **42,918** | **46,158** | **(3,240)** |

Financial expense decreased by €3,240 thousand, mainly as a consequence of lower interest on post-employment benefits (€1,586 thousand) and lower interest and other financial expense with the parent (€1,496 thousand).

## 36. Capitalised financial expense

It was calculated based on the portion of financing allocated to assets under construction. In 2016, it amounted to €22,997 thousand.

## 37. Current and deferred taxes

The €5,201 thousand decrease in the caption is due to the recognition of a positive component of income tax relating to 2014with the 2015 tax return.

The following table shows the calculation of tax-deductible depreciation.

thousands of Euros

| | **2016** |
|---|---|
| Depreciable cost under Italian Civil Code criteria | 4,536,682 |
| Government grants related to assets up to 2016 | 30,985,035 |
| Government grants related to assets for 2016 extraordinary maintenance | 4,019,646 |
| Government grants related to assets up to 2060 | 42,672,096 |
| Impairment loss as per IFRS, reducing the historical cost | 3,586,119 |
| Total amortisable cost under tax criteria | 85,799,579 |
| **Total amortisation for tax purposes** | **1,815,635** |

## 38. 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 reserves recognised as ongoing contracts by FCA, the case is pending before the Court of Cassation, on FCA's appeal and for which RFI filed an incidental appeal for an amount of over €170 million.
The FCA’s appeal to the Rome Court of Appeal to overturn the ruling is also pending (the hearing of conclusions is scheduled for 7 June 2017).

**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 HS/HC Turin-Milan 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.

**ART Resolutions nos. 70-76/2014 and 96/2015: pending appeals before Piedmont regional administrative court**

With reference to that exhaustively reported in the Litigation and disputes paragraph of the directors' report, following the hearing before the Piedmont regional administrative court held on 15 March 2017, if the sole ART Resolution no. 70/2014 was cancelled for the period established in such resolution (i.e., 6/11/2014 - 31/12/2015), the previous regulatory framework would be effective once more. That would imply the application of the toll fee as per MIT Decree no. 330 of 10 September 2013. Considering that this toll fee would be higher than that pursuant to ART Resolution no. 70/2014, RFI would realise contingent assets amounting to €120 million approximately.

Regarding other pending appeals and their subsequent acts, they have all been adjourned to the upcoming hearing of 28 June 2017. Any further assessments are postponed to after such hearing.

## 39. AUDIT FEES

Pursuant to article 37.16 of Legislative decree no. 39/2010 and article 2427.16bis of the Italian Civil Code, the total amount of the fees to the independent auditors and their network is €518 thousand, including fees paid to them for services other than the legally-required audit (€135 thousand).

## 40. 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

| RECIPIENT | 2016 | 2015 | Changes |
|---|---|---|---|
| Directors * | 325 | 396 | (71) |
| Statutory auditors | 84 | 84 | – |
| **Total** | **409** | **480** | **(71)** |

* Moreover, €45 thousand was paid to the Supervisory body.

## 41. MANAGEMENT AND COORDINATION

The key figures of the direct parent at 31 December 2015 are available on the company's website www.fsitaliane.it and at the head office of Ferrovie dello Stato Italiane.

thousands of Euros

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| ***Assets*** | | |
| Total non-current assets | 41,564,011 | 42,266,930 |
| Total current assets | 4,728,355 | 2,620,140 |
| Assets held for sale and disposal groups | | |
| **Total assets** | **46,292,366** | **44,887,070** |
| | | |
| **Equity** | | |
| Share capital | 36,340,433 | 38,790,425 |
| Reserves | (99,643) | 305,732 |
| Losses carried forward | – | (2,844,937) |
| Profit for the year | 137,380 | 89,212 |
| **Total equity** | **36,378,170** | **36,340,432** |
| | | |
| ***Liabilities*** | | |
| Total non-current liabilities | 6,569,168 | 6,842,047 |
| Total current liabilities | 3,345,029 | 1,704,591 |
| **Total liabilities** | **9,914,197** | **8,546,638** |
| **Total equity and liabilities** | **46,292,367** | **44,887,070** |

| | 2015 | 2014 |
|---|---|---|
| Revenue | 146,961 | 148,015 |
| Operating costs | 145,146 | 142,305 |
| Amortisation and depreciation | 23,672 | 21,639 |
| Impairment losses | 13,300 | 6,228 |
| Provisions | 2,969 | |
| Net financial income | 176,921 | 115,038 |
| Income taxes | 1,415 | 3,669 |
| **Profit (loss) from assets held for sale, net of taxes** | | |
| **Profit for the year** | **137,380** | **89,212** |

## 42. 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 to the same entities at market conditions.

thousands of Euros

| | 2016 | 2015 |
|---|---|---|
| Short-term benefits | 3,718 | 3,607 |
| Post-employment benefits | 232 | 219 |
| Termination benefits | 0 | 0 |
| **Total** | **3,950** | **3,826** |

In addition to short-term benefits, a variable portion is to be paid in 2017, for an amount not exceeding €670 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.

| Company | Receivables | Payables |
|---|---|---|
| **Subsidiaries** | | |
| Bluferries S.r.l. | Trade and other: health services, spare materials, provision of services, leases, repayment of personnel expense, company bodies. Financial: Dividends. | Trade and other: purchases of materials, non-recurring maintenance and sundry payments. |
| Nord Est Terminal S.p.A. in liquidation | Trade and other: repayment for company bodies | Trade and other: services |
| Terminali Italia S.r.l. | Trade and other: lease of areas and premises to manage terminals, repayments for seconded personnel and company bodies. | Trade and other: costs related to owned immovable assets. |
| **Associates** | | |
| Quadrante Europa S.p.A. | Trade and other: company bodies.<br>Financial: shareholder loan. | |
| **Parents** | | |
| Ferrovie dello Stato Italiane S.p.A. (a) | Trade and other: sundry services, personnel services, training.<br>Financial: interest income on VAT credit, intercompany current account. | Trade and other: licences to use the trademark, leases and ancillary charges related to premises, information services, labour lawyer, sundry consultancies.<br>Financial: intercompany current account. |
| **Other related companies** | | |
| Sita S.p.A. in liquidation | Trade and other: leases | - |

| | | |
|---|---|---|
| Ferservizi S.p.A. (b) | Trade and other: lease and sale of non-owner occupied properties, health services. | Trade and other: global service provider, IT services, administrative services, personnel management, training services, communication services, purchasing services, facilities, ferrotel, catering administrative management. |
| Italcertifer ScpA (b) | Trade and other: health services, repayments. | Trade: tests and trials for the certification of railway components and systems and rolling stock maintenance. |
| FS Logistica (now Mercitalia Logistics S.p.A.) (b) | Trade and other: GSM users, health services. | Trade and other: cargo transport, seconded personnel, lease payments and other sundry services. |
| FS JIT (now Mercitalia Transport & Services S.r.l.) | Trade and other: health services, other repayments | Trade and other: cargo transport, consumables |
| SGT (now Mercitalia Terminal S.p.A.) | Trade and other: company officers reimbursement, professional training, health services | Trade and other: personnel reimbursement |
| Mercitalia Rail S.r.l. (b) | - | Trade and other: services |
| Serfer S.p.A. | Trade and other: toll. | Trade and other: shunting services |
| Grandi Stazioni Rail S.p.A. (b) | Trade and other: management and functional redevelopment of the real estate complexes of the main stations. | Trade and other: indemnities for occupation of owned property for institutional purposes, assets and condominium expense. |
| Cento Stazioni S.p.A. (b) | Trade and other: management and functional redevelopment of the real estate complexes of 103 medium-size stations. | Trade and other: condominium expense. |
| Fercredit S.p.A. (b) | Trade and other: health services. | Trade and other: as transferor of trade payables. Financial: default interest. |
| Italferr S.p.A. (b) | Trade and other: health services and sundry repayments. | Trade: management, design and supervision of investment works in the network, training courses. |
| Metropark S.p.A. | Trade and other: area leases, seconded personnel reimbursement, health services. | Trade and other: seconded personnel services, services. |
| Cemat S.p.A. | Trade: leases of freight centres and health services. | - |
| Grandi Stazioni Immobiliare S.p.A. (b) | - | Trade and other: lease and condominium expense |
| Trenitalia S.p.A. (b) | Trade and other: tolls, traction, ferry service, health services, repayment of Polfer (railway police) costs, leases, GSM users, traffic-related services and performance regime penalties. | Trade and other: employee transport services for service and leisure purposes, contracted services, lease of carriages, rolling stock purchases, rolling stock maintenance; cargo transport and shunting services. |
| Ferport S.r.l. in liquidation | Trade and other: personnel services. | - |
| TX Logistik AG | Trade and other: tolls, traction services, shunting services, leases of freight centres. | Trade and other: performance regime penalties. |
| TX Austria Gmbh | - | - |
| Thello Sas | Trade and other: health services. | |

| | | |
|---|---|---|
| FS Sistemi Urbani S.r.l. (b) | Trade and other: provision of work and supplies, health services and sundry repayments. | Trade and other: assets. |
| Trenord S.r.l. | Trade and other: tolls, traction services, health services, shunting services, traffic-related services, leases, performance regime penalties. | Trade and other: prior year expense, performance regime penalties. |
| BUSITALIA- Sita Nord (b) | Trade and other: health services. | Trade and other: seconded personnel services. |
| BUSITALIA Rail Service | - | - |
| ATAF Gestioni S.r.l. | Trade and other: health services. | Trade and other: seconded personnel services. |
| Busitalia Veneto S.p.A. | Trade and other: health services. | - |
| Terminal Alptransit | - | - |
| **Associates of subsidiaries** | | |
| BBT S.p.A. | Trade and other: seconded personnel reimbursement, leases, sundry services. | Trade and other: seconded personnel services. |
| Terminal Tremestieri S.r.l. | Trade and other: company bodies. | Trade and other: port services. |
| **Group associates** | | |
| Eurogateway S.r.l. | Trade and other: repayment for company bodies. | - |
| LI-NEA S.p.A. | Trade and other: health services. | - |
| Ferrovie Nord Milano | Trade and other. | - |
| TELT Sas (b) | Trade and other: repayments for personnel services. | Trade and other: seconded personnel services. |
| F.N.M. Autoservizi S.p.A. | - | - |
| **Other related parties** | | |
| CDDPP Group | Trade and other: new HV energy regime approved by Terna, railroad crossings and special accesses. Financial: provisions and current accounts with CDDPP. | Trade and other: new HV energy regime approved by Terna, services.<br>Financial: loan repayment. |
| ENEL group | Trade and other: leases and railroad crossings and special accesses. | Trade and other: utilities (water, energy, gas). |
| ENI group | Trade and other: railroad crossings and special accesses. | Trade and other: gas utilities and fuel and gas, use of vehicles. |
| Finmeccanica Group | Trade and other: leases and railroad crossings and special accesses, services, purchase of materials, penalties and default interest. | Trade and other: line maintenance. |
| GSE Group | Trade and other: services. | Trade and other: energy for train traction, lighting and driving force and energy utilities. |
| Invitalia Group | Trade and other: railroad crossings and special accesses. | - |
| IstPolZeccaStato Group | - | Trade and other: purchases of spaces for legal notices and press advertising. |
| ENAV Group | Trade and other: health services. | - |
| Poste Group | Trade and other: leases of owner-occupied properties.<br>Financial: current accounts. | Trade and other: postal charges and sundry services. |

| | | |
|---|---|---|
| RAI Group | Trade and other: railroad crossings and special accesses. | Trade and other: subscriptions to newspapers, magazines and other publications. |
| ANAS Group | Trade and other: railroad crossings and special accesses and processing for third parties, other services. | Trade and other: leases and ancillary charges related to premises, tolls. |
| SOGIN Group | Trade and other: railroad crossings and special accesses. | Trade: sundry services. |
| CONSAP Group | | |
| EXPO Group | Trade and other: railroad crossings and special accesses. | - |
| EUROFER/PREVINDAI pension funds | Trade and other: seconded personnel reimbursement. | Trade and other: withholdings and social security contributions. |
| Other pension funds | Trade and other: services. | Trade and other: portion of post-employment benefits for pension funds |
| Other | Trade and other: repayments for personnel services | Trade and other: leases, donations |

(a) Company carrying out management and coordination activities (direct parent)
(b) Company managed and coordinated by (a)

**Related party transactions**

The table below summarises statement of financial position and income statement amounts as at and for the year ended 31 December 2016 for 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

| Company | 31.12.2016 | | | 2016 | |
|---|---|---|---|---|---|
| | Receivables | Payables | Guarantees | Costs | Revenue |
| **Subsidiaries** | **10,326** | **4,801** | **–** | **4,107** | **2,299** |
| Bluferries S.r.l. | 202 | 1,626 | – | 2,823 | 222 |
| Nord Est Terminal S.p.A. in liquidation | 165 | (2) | – | – | 22 |
| Terminali Italia S.r.l. (89. | 9,959 | 3,178 | – | 1,284 | 2,055 |
| **Associates** | **30** | **–** | **–** | **–** | **30** |
| Quadrante Europa S.p.A. | 30 | – | – | – | 30 |
| **Parents** | **1,068,627** | **24,300** | **1,584,767** | **41,611** | **10,998** |
| Ferrovie dello Stato S.p.A. | 1,068,627 | 24,300 | 1,584,767 | 41,611 | 10,998 |
| **Other related companies** | **576,501** | **462,878** | **–** | **262,991** | **1,182,893** |
| Sita S.p.A. in liquidation | 129 | 4 | – | – | – |
| Ferservizi S.p.A. | 2,530 | 20,914 | – | 63,828 | 1,180 |
| Italcertifer ScpA | 943 | 1,657 | – | 326 | 392 |
| FS Logistica (now Mercitalia Logistics S.p.A.) | 2,358 | 1,914 | – | 326 | 19 |
| FS JIT (now Mercitalia Transport & Services S.r.l.) | 404 | 10,556 | – | 6,382 | 3 |
| SGT (now Mercitalia Terminal S.p.A.) | 350 | – | – | 8 | 489 |
| Mercitalia Rail S.r.l. | – | – | – | – | – |
| Serfer S.r.l. | 730 | 593 | – | 345 | 1,418 |
| Grandi Stazioni Rail S.p.A. | 5,589 | 22,665 | – | 62,645 | 13,516 |
| Cento Stazioni S.p.A. | 3,920 | 12,741 | – | 31,027 | 12,743 |
| Fercredit S.p.A. | 6 | 199,856 | – | 93 | 2 |
| Italferr S.p.A. | 2,961 | 62,362 | – | 842 | 297 |
| Metropark S.p.A. | 441 | 235 | – | 390 | 328 |
| Cemat S.p.A. | 1,136 | 631 | – | – | 21 |
| Grandi Stazioni Immobiliare | – | 251 | – | 688 | – |
| Trenitalia S.p.A. | 471,682 | 126,130 | – | 94,139 | 1,031,307 |
| Ferport S.r.l. in liquidation | 27 | – | – | – | – |
| TX Logistik AG | 723 | 10 | – | 5 | 2,169 |
| TX Austria Gmbh | 25 | – | – | – | 42 |
| Thello | 8 | – | – | – | 14 |
| FS Sistemi Urbani S.r.l. | 3,817 | 1,590 | – | 1,867 | 1,430 |
| Trenord S.r.l. | 78,378 | 714 | – | 21 | 116,449 |
| BUSITALIA Sita Nord S.r.l. | 193 | 56 | – | 50 | 368 |
| BUSITALIA Rail Service | 21 | (1) | – | 9 | 45 |
| ATAF Gestioni S.r.l. | 59 | – | – | – | 390 |
| Busitalia Veneto S.p.A. | 71 | – | – | – | 272 |
| Terminal Alptransit | – | – | – | – | – |
| **Associates of subsidiaries** | **1,345** | **777** | **–** | **(747)** | **3,273** |
| BBT S.p.A. | 293 | 10 | – | (747) | 3,272 |
| Terminal Tremestieri S.r.l. | 1,052 | 767 | – | – | 1 |
| **Group associates** | **128** | **1** | **–** | **–** | **158** |
| Eurogateway S.r.l. | 123 | – | – | – | 122 |
| LI-NEA S.p.A. | 2 | – | – | – | 28 |
| Ferrovie Nord Milano | 1 | 1 | – | – | 4 |
| TELT Sas | 1 | – | – | – | 3 |
| F.N.M. Autoservizi S.p.A. | 1 | – | – | – | – |
| **Other related parties** | **52,887** | **304,362** | **549,234** | **429,536** | **36,105** |
| CDDPP Group | 14,941 | 144,130 | 375,565 | 85,362 | 28,381 |
| ENEL group | 1,107 | 16,826 | 23,654 | 64,876 | 1,092 |
| ENI group | 442 | 703 | 15 | 3,124 | 424 |
| Finmeccanica Group | 409 | 65,472 | – | 1,026 | 4,514 |
| GSE Group | 35,836 | 71,649 | 150,000 | 252,873 | 1 |
| Invitalia Group | 111 | 85 | – | – | 99 |
| IstPolZeccaStato Group | – | 120 | – | 172 | – |
| ENAV Group | – | – | – | – | – |
| POSTE Group | (31) | – | – | 1 | 171 |
| RAI Group | 1 | – | – | 2 | 9 |
| ANAS Group | 32 | 185 | – | 7 | 1,391 |
| SOGIN Group | 1 | – | – | – | 1 |
| CONSAP Group | – | – | – | – | – |
| EXPO Group | 12 | – | – | – | 9 |
| EUROFER/PREVINDAI pension funds | – | 4,345 | | 4,089 | 12 |
| Other pension funds | 1 | 847 | – | 13,736 | 1 |
| Other | 25 | – | – | 4,268 | – |
| **TOTAL** | **1,709,844** | **797,119** | **2,134,001** | **737,498** | **1,235,755** |

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)

**Financial transactions**

thousands of Euros

| Company | 31 December 2016 | | | 2016 | |
|---|---|---|---|---|---|
| | Receivables | Payables | Guarantees | Expense | Income |
| **Associates** | **–** | **–** | **–** | **315** | **–** |
| Quadrante Europa S.p.A. | – | – | – | 315 | – |
| **Parents** | **128,227** | **2,351,855** | **311,450** | **24,515** | **7,162** |
| Ferrovie dello Stato Italiane S.p.A. | 128,227 | 2,351,855 | 311,450 | 24,515 | 7,162 |
| **Other related companies** | **–** | **–** | **–** | **48** | **–** |
| Fercredit S.p.A. | – | – | – | 33 | – |
| Italferr S.p.A. | – | – | – | – | – |
| Cemat S.p.A. | – | – | – | 15 | – |
| **Other related parties** | **5,076** | **184,307** | **–** | **–** | **–** |
| CDDPP Group | – | 184,307 | – | – | – |
| POSTE Group | 5,076 | – | – | – | – |
| **TOTAL** | **133,304** | **2,536,163** | **311,450** | **24,878** | **7,162** |

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)

## 43. GUARANTEES

thousands of Euros

| Guarantees | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **1. RISKS** | | |
| 1.1 Sureties | 325,747 | 328,890 |
| **Total 1** | **325,747** | **328,890** |
| **2. OTHER** | | |
| 2.1 Sureties issued by third parties in favour of the company | 4,952,444 | 4,961,438 |
| **Total 2** | **4,952,444** | **4,961,438** |

Risks mainly refers to sureties issued by RFI to the public administrations (Ministry of the Environment, Regions and Provinces) involved in the crossing 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.

## 44. THIRD-PARTY FINANCIAL COMMITMENTS

Developments at 31 December 2016 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 2016:*

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 2015 | 101,586,861 | 65,568,876 | 6,761,768 | 62,210,548 | *29,256,217* | *3,358,328* |
| At 31 December 2016 | 102,084,451 | 69,339,649 | 5,649,714 | 66,552,613 | *27,095,088* | *2,787,036* |
| Delta | 497,590 | 3,770,773 | (1,112,054) | 4,342,065 | *(2,161,129)* | *(571,292)* |

Specifically, total available resources considered at 31 December 2016 amount to approximately €102.1 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 €497,590 thousand on 31 December 2015. This amount reflects the net balance of the new loans granted to the company in 2016. At 31 December 2016, the disbursements received in respect of the above granted amounts come to €69,339,649 thousand and include total disbursements from public sources introduced by the different Stability Acts and long-term financing laws, as well as EU resources.

At 31 December 2016, disbursements of €66,552,613 thousand were recognised, up €4,342,065 thousand on the previous year, due to the amounts recognised during the year in respect of the above disbursements.

Receivables recognised in respect of the above disbursements were included under available resources and amount to €5,649,714 thousand. They include receivables 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 MIF for disbursements arising from Finance Acts and long-term financing laws, not yet disbursed.

## 45. EVENTS AFTER THE REPORTING DATE

**February**

**Resolution no. 18 of 9 February 2017 as conclusion of the procedure that began with Resolution no. 30/2016 - "Regulatory measures aimed at ensuring the cost efficiency and management effectiveness of rail shunting services"**

On 9 February 2017, ART issued its Resolution no. 18.

For further details, see the Transactions with the government section of the directors' report.

**Fund for the pursuit of pro-active policies to support income and employment**

Reference should be made to the Human resources section of the directors' report.

**Memoranda of understanding for urban redevelopment, upgrade to safety standards against marine weather effects and acceleration of the Adriatica railway line and road connection between State road 16 and Ancona port**

On 9 February 2017, a ten-year memoranda of understanding with MIT, the Marche region, the Ancona municipal authorities, ANAS S.p.A. and Port authority of the Central Adriatic sea was agreed. Its aim is to identify a joint path to define an integrated project of interventions in the area called "Lungomare Nord – SS16 al Porto di Ancona" comprising urban redevelopment and upgrade to safety standards against marine weather effects; environmental and infrastructure redevelopment with mitigation of the hydrogeological risk; speeding-up of the Adriatica railway network; completion of the road connections between the Port and the national road system.

**ALLOCATION OF PROFIT FOR THE YEAR**

The financial statements as at and for the year ended 31 December 2016 show a profit for the year of €180,769,288.78.

The board of directors proposes to allocate 5% of the profit (€9,038,464.44) to the legal reserve, €100,000,000 to be distributed as dividends to shareholders as their portion of the return on investment in the form of equity for the management of the national railway infrastructure, and the remaining part (€71,730,824.34) to retained earnings.

*Rome, 23 March 2017*

The board of directors

The Chairman

The CEO