RFI
RETE FERROVIARIA ITALIANA
GRUPPO FERROVIE DELLO STATO ITALIANE

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

Rete Ferroviaria Italiana S.p.A.

2017 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 S.p.A.") is the Ferrovie dello Stato Italiane group ("FS Italiane group") company responsible for managing the national railway infrastructure. With decree no. 138 – T of 31 October 2000, the Ministry of Transport and Navigation assigned the company a 60-year concession to operate the Italian railway infrastructure.
RFI S.p.A. owns the infrastructure consisting of the portion that belonged to the former public body, Ferrovie dello Stato (and which now makes up RFI S.p.A.'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 S.p.A. 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[(1)]**:**

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

Statutory auditors[(1)]**:**

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

(1) Appointed by shareholders' resolution of 28 April 2017

(2) Appointed by co-option pursuant to article 2386 of the Italian Civil Code during the board meeting of 21 November 2017 and until the next shareholders' meeting

Manager in charge of financial reporting: Vera Fiorani

Independent auditors: KPMG S.p.A.

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CHAIRMAN’S LETTER

Dear Shareholder,

In 2017, for the eleventh consecutive year, Rete Ferroviaria Italiana (RFI S.p.A.) reports a profit for the year of €262 million, reflecting considerable growth on 2016 (+45%).

This performance exceeds the budget targets and demonstrates the company’s intense commitment to cutting costs (-7%), substantially maintaining revenue volumes and ramping up capital expenditure (+3%) seen the second half of the year.

The gross operating profit improved significantly on the previous year (+34%) as certain operating costs were largely contained, and this was only partly offset by the slight drop in revenue. In this respect, the reduction in costs due to the change in the special rate regime for electrical traction in the year exceeded the corresponding drop in revenue.

In 2017, RFI S.p.A. invested in the development and maintenance of the railway network and various other projects throughout Italy. Investments totalled over €4,200 million.

Confirming the current government’s renewed focus on railway infrastructure, the initial outline of the 2017-2021 Government Programme Contract - Investments was prepared in the year to define the financial structure of investments in railway infrastructure efficiency, also considering the resources allocated under the new Development and Cohesion Fund for 2014-2020 and the Law containing the “Government budget for 2017 and long-term budget for 2017-2019” (i.e., the 2017 Budget Act).

Furthermore, the new 2016-2021 Government Programme Contract – Services, which was defined by Decree law no. 210/2015 and went into effect on 2 October 2017, governs the funding of ordinary and extraordinary railway infrastructure maintenance to ensure safe and reliable network conditions and the funding of other railway operating costs, including those to safeguard safety, security and railway traffic. The directors’ report includes a list of the main projects and activities in which these funds have been invested.

2017 saw the first step in the implementation of the ten-year plan with the dual aims of creating value through RFI S.p.A.’s core business and integrating infrastructure with the European networks managed by infrastructure operators in order to ultimate create a unified, interoperable railway market in the EU that is interconnected with other transport systems.

The integration of the former railway companies within the national railway infrastructure has made significant progress with the signing of programme and operating agreements with two regions (Umbria and Emilia Romagna), paving the way for additional agreements to be signed in 2018.

The group’s 2017-2026 business plan outlines a station network reorganisation and development plan aimed at transforming many stations into intermodal hubs that promote the use of different means of transport. The plan identifies RFI S.p.A. as the sole operator of Italy’s roughly 600 medium and small/medium railway stations, each offering the same consistent standards of travel and related services with the priority of meeting the integrated mobility needs of travellers and commuters.

In 2017, following the appointment of new company officers, the company’s central divisions held induction meetings for the board of directors and the board of statutory auditors on issues of particular strategic or organisational importance.

Similarly, in 2017, the Audit Committee’s name was changed to the Audit and Risk Control Committee and its duties were expanded, with a specific regulation, to include assessing the suitability of the business risk control system to prevent and/or mitigate such risks. It has assessed these risks on multiple occasions following meetings with the concerned company divisions responsible for explaining the operating methodologies for the specific corporate processes involved.

This sharp focus on risk management is also reflected in the ongoing updating of the organisational model pursuant to Legislative decree no. 231/01 in accordance with legal provisions and organisational changes. Furthermore, it can be seen in the implementation of controls and activities to prevent corruption and the establishment of many additional duties for the Ethics Committee in response to anonymous reports.

During the year, RFI S.p.A. also renewed the collaborative oversight protocol with the Antitrust Authority and National Anti-corruption Authority (ANAC) for advance checks that tender documents are compliant with sector regulations.

Preliminary surveys continued to gather information on the reporting indicators for the 2017 sustainability report which, as in 2016, will report on approximately 200 Global Reporting Initiative indicators in various areas, such as energy, the environment, materials, infrastructure, noise mitigation, the supply chain, network safety, personnel and safety in the workplace, sanctions, the re-use of RFI S.p.A.'s idle assets for social purposes, customer satisfaction, complaints, product/service liability, the commercial offer, etc..

These indicators are reported in the directors' report on the consolidated financial statements and contribute to meeting the non-financial information disclosure obligations for public-interest entities as from 2017, in accordance with the same accredited international reporting standards that the group has applied in previous years.

Lastly, RFI S.p.A. constantly strives to improve upon its already excellent safety standards, in line with those of other major European countries. The rate of accidents in which RFI S.p.A. is found to be responsible has continued to decrease in the past five years, going from 203 in 2012, to 111 in 2016 and 67 in 2017.

Despite intense efforts to prevent accidents, a railway accident occurred on 25 January 2018 involving a Trenord train operating between Cremona and the Milano Porta Garibaldi station, causing the death of three passengers and injuring another. RFI S.p.A. expresses its sincere condolences to the victims of the railway accident in Pioltello and reiterates its support for the passengers' families. While we await the outcome of investigations into the dynamics and causes of the accident, we confirm our daily commitment to pursuing the highest standards of safety and reliability.

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 company's performance and believes reflect the results of operations and financial trends of its business segments:

- **Gross operating profit**: this is an indicator of the performance of operations and reflects the core business only. It is calculated as the difference between revenue and operating costs.
- **Operating profit:** this is an indicator of the performance of operations and is calculated as the 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 algebraic sum of inventories, construction contracts, current and non-current trade receivables and current and non-current trade payables.
- **Other assets, net:** these reflect the sum of 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 reflect the sum of property, plant and equipment, investment property, intangible assets and equity investments.
- **Net assets held for sale:** these consist of assets whose carrying amount will be recovered principally through a sale transaction rather than through continuing use.
- **Net invested capital (NIC):** this is the algebraic sum of working capital, net non-current assets, other provisions and net assets held for sale.
- **Net financial debt (NFD):** this is a financial indicator calculated as the algebraic sum of bonds, non-current bank loans and borrowings and the current portion thereof, current bank loans and borrowings, current and non-current loans and borrowings from other financial backers, cash and cash equivalents and current and non-current loan 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 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 company's operations:

- **Computer-based interlocking system:** this is a central management system for control and signalling and station safety.
- **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 S.p.A. 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 systems that are interconnected by various lines, creating a continuation of the main routes into the same hub and other lines, built to manage various traffic flows and alternative routes, or service loops.

- **Doubling:** this is the transformation of a single track to a double track.
- **Terminal:** this is the intermodal transport infrastructure for the transfer of large load units between carriers, with or without warehouses of modest size.
- **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

		2017	2016
ROE	P/E*	**0.79%**	**0.55%**
ROI	OP/ANIC	**0.87%**	**0.65%**
ROS	OP/R	**11.53%**	**8.39%**
GOP/R (GOP MARGIN)	GOP/R	**18.89%**	**13.89%**
NET ASSET TURNOVER (NAT)	R/ANIC	**0.08**	**0.08**
FINANCIAL DEBT RATIO	NFD/E	**0.01**	**0.01**

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:

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

THE GOVERNMENT PROGRAMME CONTRACT – INVESTMENTS

The GPC-I for 2012-2016, which was set to expire on 31 December 2016, was considered valid until 31 December 2017 and, in any case, until the new contract takes effect pursuant to article 3 of the same GPC-I.

At its meeting held on 10 August 2016, the CIPE expressed a favourable opinion on the 2016 update to the GPC-I and recommended that the MIT sent the new GPC-I for 2017-2021 by January 2017.

Accordingly, to begin the procedural process to support the government's clear and considerable financial commitments to boost investments in the development of the railway network, RFI S.p.A., as railway infrastructure operator, prepared an initial outline of the 2017-2021 contract, which considers the new financial structure that was defined following the finalisation of the new Development and Cohesion Fund for 2014-2020 and the Law containing the "Government budget for 2017 and long-term budget for 2017-2019" (i.e., the 2017 Budget Act).

Article 1.140-142 of the 2017 Budget Act provided for the establishment of a specific fund in the MEF's budget to be allocated to ensure funding for investments and the development of the country's infrastructure, with funds of €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. The use of this fund is subject to one or more decrees of the Prime Minister, upon the MEF's proposal, in concert with the concerned ministers, according to the plans presented by the government's central administrations. The outline of the 2017-2021 contract, in its current version, was sent to the MIT with RFI note no. 173 on 31 January 2017.

The Prime Minister's decrees for the allocation of this investment fund were issued on 29 May 2017 and 21 July 2017, assigning roughly €19 billion to the MIT, €10.3 billion of which was in turn assigned to RFI S.p.A. for investments in the national railway infrastructure. Consequently, the infrastructure operator sent the concerned ministry cabinets a new outline of the contract. This most recent signed version is dated 1 August 2017 and the CIPE approved it during its meeting on 7 August 2017.

This version of the contract entails the agreement of additional financial resources of roughly €13.3 billion.

The work in progress that will be financed under the new contractual outline is worth approximately €66 billion.

The contract approval process requires that (Law no. 238/1993), after the Court of Auditors has verified the legitimacy of the CIPE's approval and following publication in the Italian Official Journal, the relevant Parliamentary Commissions will examine the contract so they may express their opinion on it before it is signed. The next step in this process is the MIT/MEF interministerial decree approving the contract, which will then be lodged by the Court of Auditors.

This approval process has not yet been completed, as CIPE resolution no. 66 has yet to be published, a necessary step before the Parliamentary Commissions may give their approval and for the issue of the interministerial decree.

After its meeting on 7 August 2017, the CIPE issued additional regulations affecting the content of the contract, which will be implemented in the next contract update. The main additional regulations are described below:

- Decree law no. 148 (the "Tax decree") was issued on 16 October 2017, containing "Emergency financial measures to meet urgent requirements" (converted into Law no. 172 of 4 December 2017), which modified the approval process for annual updates to government programme contracts formalised by Law no. 238 of 14 July 1993. In particular, article 15.2-*bis* establishes that the MIT must send Parliament disclosure of any updates to contracts that do not entail substantial changes and whose purpose is to receive the financial resources allocated in the Budget Act or other legislation. On the other hand, if the changes are substantial, the updates must be made in accordance with the methods and terms of paragraphs 1 and 2. Substantial changes are those entailing costs and requirements that cumulatively or individually for an individual programme or investment plan exceed the forecasts in paragraph 1 of the government programme contracts by 15%.

- On 22 December 2017, the CIPE approved the addendum to the operating plan for the 2014-2020 Development and Cohesion Plan (resolution no. 54/2016), allocating additional resources totalling roughly €2,102 million for railway investments.
- Law no. 205 "Government budget for 2018 and long-term budget for 2018-2020" (the "2017 Budget Act") was issued on 27 December 2017, requiring the MEF to include in its budget the refinancing of a specific fund to be allocated (pursuant to article 1.140 of Law no. 232 of 11 December 2016) to ensure funding for investments and the development of the country's infrastructure, with funds of €800 million for 2018, €1,615 million for 2019, €2,180 million for each year from 2023 to 2023, €2,480 million for 2024 and €2,500 million for each year from 2025 to 2033. The use of this fund is subject to one or more decrees of the Prime Minister, upon the MEF's proposal, in concert with the concerned ministers, according to the plans presented by the government's central administrations.

Cash earmarks for 2018 under the 2018 Budget Act total €4,085.9 million, including €601 million for the MIT's budget and €3,484.9 million for the MEF.

The company has fully met the disclosure obligations provided for by article 4.2.i)/3.b), article 6, article 7.2.c) and article 8 of the 2012-2016 Government Programme Contract - Investments.

THE GOVERNMENT PROGRAMME CONTRACT – SERVICES

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

Continuing the previous programme cycle, the new 2016-2021 Government Programme Contract - Services governs the funding of ordinary and extraordinary railway infrastructure maintenance to ensure safe and reliable network conditions and the funding of other railway operating costs, including those to safeguard safety, security and railway traffic.

The financial resources under the contract are structured as follows:

- grants related to income (section 1541) established by Law no. 209 of 28 December 2015, to be used for operations, totalling €5,853 million for 2016-2021 (approximately €976 million per year);
- grants related to assets (section 7122/MP5) established by Law no. 190 of 23 December 2014, to be used for extraordinary network maintenance, totalling €3,750 million for 2016-2020;
- grants related to assets (section 7122/MP2) established by Law no. 208 of 28 December 2015, totalling €241 million, including €220 million to cover the reduced funds for extraordinary maintenance in 2015 and €21 million to cover the definancing under the CIPE resolution no. 36/2016 applied to the extraordinary maintenance that had originally been scheduled with the CIPE resolution no. 33/2012 in section 7514.

After conclusion of this authorisation process, Law no. 205 of 27 December 2017 (Government budget for 2018 and long-term budget for 2018-2020) definanced the financial resources provided for in section 1541 of the agreement by €100 million beginning in 2019, applicable to the grants related to income in the new contract. Considering the significant impact of this definancing, in coordination with the granting ministry and the MEF, the company is currently considering the steps to take to raise resources that will cover these cuts, considering the current contractual and regulatory framework.

THE "OBIETTIVO" LAW

The main events in 2017 within the scope of the strategic infrastructures provided for by the "Obiettivo" Law (Law no. 443/2001) were as follows:

- during its meeting on 3 March 2017, with resolution no. 8, the CIPE approved the definitive design of "Fortezza-Ponte Gardena" lot 1 for the laying of quadruple tracks on the Fortezza – Verona line;
- during it meeting on 10 July 2017, the CIPE approved the definitive design and parts of the definitive design for the change with respect to the preliminary design of the new HS/HC Brescia – Verona line, "Brescia est - Verona lot (excluding the Verona hub)", which is the functional section with a cost of €2,499 million. The CIPE also authorised the start of construction on construction lot 1 of the "Brescia est - Verona (excluding the hub)" functional lot, with a spending cap of €1,892 million. In addition, it ordered the design of a solution known as the "Quadruple tracks next to the previous line at the Brescia hub" to replace the "Brescia Shunt" in order to make the HS/HC Milan - Verona line continuous and its presentation to the MIT within 12 months of publication of the CIPE resolution.
- during its meeting on 22 December 2017, the CIPE:
    - authorised the start of work on "Third Giovi pass" construction lot 5, with the related allocation of financial resources and a spending cap of €1,508 million; authorised the start of work on construction lot 6 as well, with the related allocation of financial resources totalling €833 million (this allocation is subject to the specific indication of a total of €791 million for lot 6 in the Presidential decree allocating the Investment Fund following the enactment of the Budget Act);
    - approved, with instructions and recommendations, the definitive design solely for the Verona – Bivio Vicenza (excluding the Verona Est hub) functional lot 1, with a spending cap of €2,713 million, and authorised the start of construction on Verona – Bivio Vicenza construction lot 1 and functional lot 1, with a spending cap of €984 million;
    - approved, with instructions and recommendations, the definitive design of functional lot 1 of the Termoli - Lesina (Ripalta-Lesina) railway line.

INTEGRATION OF THE FORMER RAILWAY COMPANIES

A series of projects were launched in 2017 to integrate the former railways, as planned in RFI S.p.A.'s - and, in general, FS Italiane group's - 2017-2026 business plan.

The legislation applicable to the former railway companies was revised by Decree law no. 50 of 24 April 2017 (converted into Law no. 96 of 21 June 2017), containing "Emergency measures on financing, initiatives to support local bodies, aid to areas affected by earthquakes and development measures", in which article 47 "Initiatives for railway transport" relates to the former regional railway concession companies.

In particular, the first five paragraphs of this legislation provide for a series of regulations on upgrading the regional railway lines to safety standards, the possibility of qualifying these lines as lines of interest for the national railway network and, lastly, the regions' right to sign agreements with the regional railway operator and RFI S.p.A. for projects or to take over operations.

During the year, in accordance with the legislative framework, RFI S.p.A. therefore began a series of activities to begin the process of integration with the main former railways throughout Italy. Specifically:

- on 19 June 2017, it signed an agreement with the Umbria region and Umbria TPL e Mobilità S.p.A. to enable RFI S.p.A. to carry out, on behalf of Umbria TPL e Mobilità S.p.A. and in its name, the activities necessary to strengthen and update the central Umbrian network;
- on 22 June 2017, it signed an agreement with Ferrovie Sud Est e Servizi Automobilistici S.r.l. appointing RFI S.p.A. as technical entity for the design, management and performance of bargaining procedures, management with third parties, maintenance work oversight, works planning and oversight and technical/administrative inspection assistance;
- on 11 December 2017, RFI S.p.A. signed a programme agreement with the Emilia Romagna region and FER to implement article 47 of Decree law no. 50 of 24 April 2017, as converted by Law no. 96 of 21 June 2017, for the redevelopment and rationalisation of the Emilia Romagna regional railway network;
- on 15 December 2017, RFI S.p.A. signed a procedural agreement with the Umbria region and Umbria TPL e Mobilità S.p.A. governing RFI S.p.A. succession in the management of the Umbrian regional railway infrastructure pursuant to article 47.4 of Decree law no. 50 of 24 April 2017, as converted into Law no. 96 of 21 June 2017.

The definitive legislative framework has to be defined with the issue of the relevant ministerial decrees for the complete implementation of the operating projects for the lines under concession.

LEGISLATIVE AND REGULATORY FRAMEWORK

In 2017, the regulatory context in which the infrastructure operator and railway companies operate changed with the issue of several different regulations by the relevant authorities and the issue of Decree law no. 50 of 24 April 2017 (converted into Law no. 96/2017) and European law no. 167/2017.

TRANSPORT

On 9 February 2017, with regulation no. 18, the ART approved the "Regulation measures to ensure the cost effectiveness and operating efficiency of the railway shunting services." These measures are applicable to the 13 railway districts selected in the regulation using the explicit criteria of regulation no. 133/2016. In some of these districts, the district operators appointed a single operator on a transparent, fair and non-discriminatory basis, retaining the right to self-operate the service in accordance with the terms of law. Pursuant to measure no. 6 of annex A to regulation no. 18, by 15 March 2017, RFI S.p.A. informed the concerned railway companies and the ART of its decision to sell the shunting locomotives that it had granted on free loan to the single operators. Accordingly, the public tender for the sale of only some of the locomotives was completed on 31 May 2017.

With regulation no. 121 published on 7 October 2017, the ART called a public consultation on the outline of the regulation containing measures to ensure fair and non-discriminatory bus station access conditions that meet passengers' mobility needs by providing intermodal and intramodal connections between services. The regulations apply to the bus stations qualified as "essential facilities" and could potentially apply to a number of FS Italiane group companies that fall within the scope of the regulation with respect to their specific operations. The outline of the regulation introduces specific roles, including the "responsible party" and the "bus station manager", assigning both responsibility for guaranteeing and defining fair and non-discriminatory access conditions to carriers, while assigning the "bus station manager" exclusive responsibility for publishing a specific prospectus for the bus station. As this affects various FS Italiane group companies, FS Italiane S.p.A. decided to present a unified document for all companies affected on 6 November 2017, with comments on the ART's proposed measures.

With regulation no. 138/2017, on 22 November 2017, the ART established the need to begin a procedure to revise the tariff plans subject to regulations nos. 75/2016 and 80/2016 to implement the rulings of the Piedmont regional administrative court which admitted, although only partially, the appeals lodged by the railway companies operating in the cargo transport sector against the two administrative measures indicated above. Pending the conclusion of the proceedings, the ART expressly provisionally confirmed the effects of regulations nos. 75/2016 and 80/2016, as it was necessary to maintain the tariff plans established for the minimum service package services and the services outside the minimum service package. However, at the same time, the ART required RFI S.p.A. to adjust such tariff plans as described below by 30 November 2017:

a) for the minimum service package, it must adjust:

a.1) the tolls for 2016-2021, using the planned inflation rate for 2016 (0.2%) as per the Economy and Finance Document published on 9 April 2016;

a.2) the figurative caption provided for by regulation no. 96/2015;

b) for the services outside the minimum service package, it must adjust the fees for 2017-2021, using the planned inflation rate for 2016 (0.2%) as per the Economy and Finance Document published on 9 April 2016. Exclusively for the services outside the minimum service package, by 31 December 2018, RFI S.p.A. may adjust the differences arising from the restatement of fees for 2017.

RFI S.p.A. has therefore complied with this request and, on 30 November 2017, it sent the ART a request to adjust the toll plans for the minimum service package services and the fee plans for the services outside the minimum service package and remains obliged to disclose them in the network prospectus.

ENERGY

Article 19 of Law no. 167/2017 significantly amended the previous legislative framework on the special rate regime - applied to RFI S.p.A. pursuant to Presidential decree no. 730/1963 - for the procurement of electrical energy used for traction. These amendments are summarised below:

a) a new scope of application for the special rate regime, no longer based on the nature of the transport services but rather on the type of infrastructure on which the services are provided. The new special rate regime's scope of application excludes services provided on railway infrastructure powered at 25kV of alternating current. This definition has therefore extended the range of services eligible for the special rate regime, as it now covers the services provided on the market using infrastructure powered at 3 kV of continuous current, which were previously excluded;

b) until the reform of general system costs takes effect, currently scheduled for 1 January 2018, the higher costs borne by the railway companies pursuant to article 29 of Decree law no. 91/2014 (as presently amended by Law no. 167) are only reduced by the offsetting effect of the special rate regime's new scope of application, while the entire railway system is already receiving the benefits of the "single virtual point" up to consumption of 5,000 GWh (the limit established by the Agreements with FS-ENEL (see note 2));

c) replacement of article 29 of Decree law no. 91/2014 with the new law, with retroactive effect as from 1 January 2015.

CUSTOMER RELATIONS

GENERAL INFORMATION

As national railway infrastructure operator pursuant to Legislative decree no. 112/2015, RFI S.p.A. 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.

INFRASTRUCTURE USE CONTRACTS

Between 1 January and 31 December 2017, the MIT revoked three licences (20/N, 55 and 17) and issued three licences (69, 70 and 71).

With the start of the service schedule from 10 December 2017 to 8 December 2018, 38 infrastructure use contracts were signed, broken down as follows:

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

A contract was signed with the railway company Busitalia in 19 January 2018, bringing the number of contracts to 39.

INFRASTRUCTURE ACCESS AND NETWORK PROSPECTUS

The 2019 Network Prospectus was published and the 2018 Network Prospectus was updated on 7 December 2018.

The most significant developments of 2017 include:

- the introduction of a new regulated toll system for services other than those included in the minimum access package approved by the ART for the 2017-2021 toll period;

- the roll-out of a new procedure to audit the services effectively provided but not included in the minimum access package, with the possibility of reporting on these services based on the railway companies' rescheduling or surveys, without applying the change in train-km;
- the roll-out of a new system to calculate performance regime delays.

For the new toll system's pilot stage, the toll calculated using the principles established by ART regulation no. 96/2015 will be applied beginning 1 January 2018. As described in the section above on the legislative and regulatory framework applicable to "Transport", the Piedmont regional administrative court rulings nos. 1097 and 1098 of 5 October 2017 partially repealed ART regulations nos. 75/2016 and 80/2016, which approved the toll systems that RFI S.p.A. had proposed. Consequently, with regulation no. 138/2017, the ART began a procedure to comply with the rulings.

<u>Minimum access package services</u>

The new tolls are published in the 2019 Network Prospectus and the extraordinary update of December 2017 to the 2018 Network Prospectus.

Revenue from the sale of time slots in 2017 totalled €1,103 million, up 4.3%, mainly due to the cost-of-living adjustment (+1%) calculated according to ISTAT (national statistics institute) data and the increase in volumes (+1.8%; with HS/HC network volumes +15.5%).

Up to the effective start date of the 2017-2018 schedule, the transport of railway stock to Sicily increased in accordance with the operating plan which provides the sole current customer, Trenitalia S.p.A., with four-track ships only. Since 10 December 2017, traffic measurement and, accordingly, reporting, is no longer based on the schedule of potential ship passages offered by RFI S.p.A., and instead considers each transported train (and, therefore, only considers passages of loaded ships), in order to consider the sea route across the strait as a continuation of the railway infrastructure. The number of passages in 2017 decreased slightly on 2016, going from 10,681 in 2016 to 10,297 in 2017, while the related revenue volumes remained substantially the same, at €18 million.

Assistance to people with reduced mobility is now fully operational with the new ReteBlu IT system, which allows all railway companies operating on the national railway network to consult the information generated by the SaleBlu staff and the progress of assistance (planned, completed and cancelled) in real time. The railway companies also use this system to plan assistance services following direct contact with disabled and reduced mobility passengers, as they can access it directly via the Internet.

Revenue from these assistance services grew 7.2% from over €2 million in 2016 to roughly €3 million in 2017 due to increased demand from the railway companies.

<u>Railway services</u>

The description of services not included in the minimum access package was reformulated, with the extraordinary update of the 2018 Network Prospectus and the preparation of the 2019 Network Prospectus.

The services that the infrastructure operator offers are broken down as provided for by article 13.2 and subsequent articles of Legislative decree no. 112/2015 below:

1. Plant with direct, guaranteed access and related services

- use of passenger stations, specifically the functional structures for travel information systems and adequate ticketing spaces and the structures that are functional and necessary for railway operation: these services consist of providing the railway companies with station spaces for self-service ticketing, mobile information counters and ticket punchers, in addition to machine rooms and station spaces for non-automated ticketing and customer welcome and assistance services;
- cargo hubs: providing the railway companies with tracks for train terminal operations (including loading and unloading);
- shunting and train assembly areas, including space for shunting: providing the railway companies with tracks for shunting, assembling and de-assembling rolling stock;
- areas, plant and buildings for the holding, recovery and storage of rolling stock and cargo: use of secondary tracks (and, in certain cases, operating tracks) to hold rolling stock for more than one hour;
- maintenance centres, except for the heavy maintenance centres reserved for high-speed trains and other types of rolling stock that require specialised maintenance centres: provision of rolling maintenance plant and areas to set up workshops for ordinary maintenance operations;
- washing platforms: provision, on a non-exclusive basis, of secondary tracks equipped with track platforms, water disposal and treatment systems for the washing of rolling stock; certain platforms are equipped with optional features such as washing tunnels, overhead sprinkler systems, fixed rollers and wastewater treatment systems;
- refuelling areas: use of areas to hold trains that are also equipped with self-refuelling systems that the railway companies may set up using their own petrol tankers or fixed plant.

Total revenue from nearly all these services, which in 2016 were reported solely with respect to the maintenance centres and washing platforms, amounts to approximately €21 million in 2017 (excluding the use of passenger stations).

2. Complementary services

- supply of electrical energy for traction: used to power electric rolling stock;
- pre-heating, air conditioning and use of electrical carriage heating power for the maintenance and cleaning of passenger trains: power for on-board systems, using the electrical carriage heating panel used to heat the rolling stock, the performance of maintenance operations that can be carried out on holding tracks and cleaning rolling stock interiors;
- water provisioning: provision of fixed plant for the supply of water used for systems on board rolling stock;
- traffic control for trains carrying dangerous cargo: RFI S.p.A. monitors the operations of trains that transport dangerous cargo;
- special train assistance: (i) preparation of a schedule for trains transporting exceptional loads and authorisation to transport them; (ii) monitoring of the circulation of special transport trains and, where required, the provision of RFI S.p.A. technical personnel to escort the train; (iii) adjustments to the infrastructure, where necessary, to allow the circulation of special trains;

- shunting services: RFI S.p.A. offers shunting services at the passes (Tarvisio, Brenner, Villa Opicina and Domo II) and plant for the ferrying of passenger and cargo trains (Villa S. Giovanni and Messina);

- Assistance to people with reduced mobility: assistance at stations and when passengers are boarding/deboarding trains, including the provision of wheelchairs, to people with reduced mobility in accordance with Regulation (EC) no. 1371/2007, to complete the service in the minimum access package;
- parking: power provided to on-board systems using pantograph outlets for 90 minutes or more, when the holding mode is set to "parking";

- fast track: this service consists of providing, for their exclusive use, an access gate to trains with dedicated personnel and utilities that are functional for the provision of the service. It is only provided in stations equipped with platform access control gates, in order to ensure the full functionality of access routes for passengers in general.

Excluding the supply of electrical energy for traction, total revenue from nearly all complementary services rose from approximately €7 million in 2016 to roughly €8 million in 2017, up 18%. However, the comparison with 2016 is not meaningful as certain services were not reported in that year.

3. Auxiliary services

- supply of complementary information: this service includes the production of loudspeaker announcements and posters, as well as the provision of user accounts for the use of additional information systems beyond those assigned in the minimum access package;

- access to the GSM-R telecommunications network for ground/train service connections: this service consists of providing access to the radio network for voice communications and data transmission to support train circulation, maintenance, operations, activities at hubs, cargo terminals and stations, train speed command and control and rolling stock control and diagnostics.

Revenue from auxiliary services, which was also reported in 2016, decreased 20% from approximately €10 million in 2016 to roughly €8 million in 2017, mainly due to the different way in which the supply of complementary information service is reported.

MAIN EVENTS OF THE YEAR

March

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

On 13 March 2017, in the wake of the agreement signed on 28 July 2016, RFI S.p.A. signed an agreement with the trade unions to begin local procedures for the granting of extraordinary benefits under this fund.

Accordingly, it issued two separate expressions of interest, one for train operating personnel definitively considered ineligible at 28 February 2017 (200 resources) and one for support staff (150 resources). The fund will enable the workers identified in accordance with trade union agreements reached locally, to receive extraordinary benefits until they are eligible for their pension (when they reach, within a maximum of 60 months from the date when they begin receiving fund benefits, the first requirement for age or early retirement).

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

On 15 March 2017, the direct subsidiary TFB S.p.A. completed its eighth capital increase, totalling €67 million, as resolved by the company's shareholders during their extraordinary meeting on 20 January 2017. The amount was paid in through subscriptions by shareholders, which brought RFI S.p.A.'s interest in TFB S.p.A. from an initial 87.16% to the current 87.92%.

Definitive design of the Palermo – Catania – Messina route: laying of double tracks on the Bicocca - Catenanuova section

On 20 March 2017, the extraordinary commissioner issued ordinance no. 28, approving the definitive design of the Palermo – Catania – Messina route: laying of double tracks on the Bicocca - Catenanuova section.

Definitive design of the change to the Naples – Cancello line

On 24 March 2017, the extraordinary commissioner issued ordinance no. 29, concerning the urgent provision of executive design services pending the agreement of the contract for the executive design and performance work on the change to the Naples – Cancello line.

Opening of the Pietrarsa national railway museum

On 31 March 2017, the Prime Minister celebrated the completion of the architectural renovations on the entire Museo Nazionale Ferroviario in Pietrarsa, with the attendance of the President of the Campania region, the Mayor of Naples and top management of FS Italiane group. One of the largest exhibition spaces in the world and one of Europe's pre-eminent hubs of railway culture, the Museo Nazionale Ferroviario in Pietrarsa spans 36,000 square metres, including 14,000 indoors.

April

Definitive design of the northern interconnections on the existing Rome – Naples, via Cassino line in the municipality of Maddaloni

On 12 April 2017, the extraordinary commissioner issued ordinance no. 30, concerning the approval of the definitive design of the northern interconnection son the existing Rome – Naples, via Cassino line in the municipality of Maddaloni.

Re-appointment of the board of directors and appointment of the board of statutory auditors

On 28 April 2017, the shareholders of RFI S.p.A. appointed the company's board of directors, re-electing Claudia Cattani (Chairwoman), Maurizio Gentile (CEO), Luciano Grazzini, Maurizio Mauri and Francesca Serra. On 21 July 2017, Fabiana Lungarotti replaced the director Francesca Serra. The board of directors, which will remain in office until the shareholders' meeting called to approve the 2019 financial statements, re-appointed Maurizio Gentile as the company's CEO and General Manager. The members of the board of statutory auditors are the Chairman Mauro D'Amico, standing statutory auditors Giancarla Branda and Francesco Marolda and alternate statutory auditors Gianpaolo Davide Rossetti and Federica Silvestri, who replaced the previous board composed of the Chairman Paolo Marcarelli, standing statutory auditors Serenella Lucà and Leonardo Quagliata and alternate statutory auditors Maria Cristina Moretti and Giuseppe La Regina.

May

Appointment of the manager in charge of financial reporting

On 29 May 2017, RFI S.p.A.'s board of directors re-appointed CFO Vera Fiorani as the manager in charge of financial reporting for the same term of office as the board of directors (i.e., until the shareholders' approval of the 2019 financial statements).

June

Inauguration of the Napoli Afragola station

On 6 June 2017, the Prime Minister of Italy and top management of FS Italiane group presided over the opening of the new Napoli Afragola station, architecturally designed by Zaha Hadid, one of the most prestigious architects in the world, who created a sinuous structure for the new station inspired by the abstract image of a modern train in motion.

Alongside Napoli Centrale, the new Napoli Afragola station is another hub serving the vast areas in the region, improving service efficiency and regularity while laying the foundation for development in the surrounding areas. The station is poised to become a modal interchange hub for long-haul, regional and metropolitan traffic thanks to the new Naples – Cancello – Frasso Telesino line and the extension of the Circumvesuviana line from the existing Volla station, thereby serving as the heart of intermodal transport, with car and bike sharing, electric car recharging panels and commerce for residents. Commercial services opened on 11 June 2017 at the station.

Law no. 96/2017 - "Emergency measures on financing, initiatives for local bodies, additional projects for areas affected by earthquakes and development initiatives"

Decree law no. 50 of 24 April 2017 was converted into law on 21 June 2017.

For further details, see the Transactions with the government section of the directors' report.

Definitive design of the completion of the railway overpass at pk 5+624 in the municipality of Foggia"

On 27 June 2017, the extraordinary commissioner issued ordinance no. 31, approving the definitive design of the completion of the railway overpass at pk 5+624 in the municipality of Foggia.

Naples - Bari: the debut journey on the Cervaro - Bovino section

The first journey between Cervaro and Bovino took place on 28 June 2017. This is the first section of the Naples – Bari line to open to railway traffic after the appointment of the government commissioner and the "Get Italy Moving" law. The new railway route is in the Puglia region, and is partly a change and partly parallel to the existing line, which was completely updated with works oversight by Italferr. The roll-out of this new section of the Cervaro – Bovino line is part of the projects to open the line that will connect Naples with Puglia as part of the Trans-European network-T from Scandinavia to the Mediterranean. The total investment amounts to approximately €270 million.

July

VAT credit reimbursement

The company collected the 2014 VAT credit of €234 million on 24 July 2017 (the value date).

August

The national broadband optical fibre infrastructure project

On 11 August 2017, RFI S.p.A., the Ministry of Economic Development ("MED") and Infratel signed a general agreement to build the broadband optical fibre infrastructure network by 2022, with the use of, *inter alia*, EU funds.

September

Collaborative oversight protocol between ANAC and RFI S.p.A.

On 21 September 2017, ANAC and RFI S.p.A. renewed the collaborative oversight protocol, another tool to prevent and monitor potential bribery in railway contracts while work is being carried out. ANAC's Chairman and RFI S.p.A.'s CEO and General Manager signed the renewal, extending their constructive collaboration for an increasingly transparent management of contracts for another year.

This understanding has several objectives:

- check in advance that tenders are in compliance with the Contracting Code and sector regulations;
- prevent bribery and criminal infiltration in contracting companies by providing for ad hoc clauses and conditions;
- ensure legality by monitoring the proper performance of tenders.

December

Roll-out of the new Arcisate - Stabio line

The new railway line between Arcisate and Stabio (Switzerland) and the three new stops in Induno Olona, Arcisate and Cantello Gaggiolo began operating on 1 December 2017. The National Agency for Railway Safety ("ANSF") and the certification firm Italcertifer certified the new railway route to begin operating. Considering the special nature of this transborder line, technical trials were conducted for the entire month of December to test the operating conditions and installed technologies, including the innovative dynamic transition system that enables trains to safety switch, while in motion, from the Italian railway network to the Swiss railway network and vice versa. The new Arcisate - Stabio line is the first transborder pass between the countries without a border station. The railway infrastructure, which RFI S.p.A. built with works oversight by Italferr, FS Italiane group's engineering company, will connect Varese with the Ticino canton and Como, through Mendrisio.

VAT credit reimbursement

The company collected the 2015 VAT credit of €300 million on 21 December 2017 (the value date).

Partial demerger of FS to RFI S.p.A.

On 20 December 2017, the deed for the partial demerger of FS to RFI S.p.A. was signed. The transaction involves the assignment of a variety of assets deemed useful for railway operations to RFI S.p.A..

As a result of this transaction, effective as from 31 December 2017, RFI S.p.A. acquired assets and liabilities respectively amounting to €79,536,413.76 and €29,536,413.76, thereby increasing its equity by €50,000,000.

Extension of the appointment of the commissioner for the construction works on the Naples-Bari

and Messina-Catania-Palermo railway sections

Law no. 205 "Government budget for 2018 and long-term budget for 2018-2020" ("2018 Budget Act") was issued on 27 December 2017. In article 1.1138, it extends the term of the appointment pursuant to article 1.1.1 of Decree law no. 133 of 2014 of the company's CEO as Commissioner for the construction works on the Naples – Bari and the Messina – Catania – Palermo railway sections to 31 December 2020.

Technological network plan

The technological network plan was issued on 29 December 2017. It constitutes the frame of reference for the design and construction of currently available technological systems and products or that are being built on single and double track lines, HS/HC lines and metropolitan hubs to meet design requirements with respect to safety, capacity, regularity, faster speeds, obsolescence, technological integration and interoperability.

HUMAN RESOURCES

The company's organisational structure changed in 2017 for fine-tuning and other developments in the management of certain business processes. Specifically:

- the new organisational model to control the planning, design, fare calculation and provision processes of related services, as defined in Legislative decree no. 112 of 15 July 2015;
- rolling stock and work vehicle maintenance activities were insourced at the Carini site;
- in accordance with the group's organisational model and business plan, control over security processes was consolidated by strengthening the security unit throughout Italy.

Human resource management saw incoming/outgoing trends among employees to improve the generational mix and bring back essential professional skills.

The trend in RFI S.p.A.'s workforce from 1 January to 31 December 2017 is illustrated below:

- number of RFI S.p.A. employees at 31 December 2016: 25,540 (including 227 managers and 25,313 white collars and junior managers);
- number of RFI S.p.A. employees at 31 December 2017: 26,025 (including 228 managers and 25,797 white collars and junior managers).

This is the net balance of 1,668 incoming employees (1,421 men and 247 women) and 1,183 outgoing employees.

Smart work

Law no. 81/2017 introduced smart work, extending the definition of smart work within subordinated employment to include all types of flexible arrangements in terms of hours and location.

To implement smart work arrangements, on 2 May 2017, the FS Italiane group companies and the trade unions signed an agreement to begin a pilot period for the introduction of smart work at group companies. The 75 RFI S.p.A. employees who decided to participate signed individual agreements to begin the pilot period.

TRAINING

Many new employees were hired in 2017, which significantly influenced training volumes for basic induction and interdisciplinary courses, as well as specific professional training.

Approximately 25% of the training provided in 2017 was for the induction of new employees, while the remainder was to maintain and develop skills and expertise in the company.

The training events fell into one of two main categories: managerial/institutional training and technical/qualification/certification training.

Health and safety in the workplace initiatives carried out to meet legal obligations consisted of both mandatory training for the workers' safety representatives and e-learning for managers and general training for workers.

Specific training on safety and emergencies in tunnels was provided to the tunnel manager/safety manager and new trainers who then managed local training for operating personnel. Over 5,500 employees who work in tunnels longer than 1,000 metres received the training.

SUSTAINABILITY REPORT

In June 2017, the company completed its part of the work for the group's 2016 sustainability report, which entailed activities to support its certification in accordance with international Global Reporting Initiative sustainability standards.

RFI S.p.A. reported qualitative environmental data for the 2016 sustainability report showing:

- its energy consumption was substantially in line with 2015, coming to approximately 414,113 MWh (-0.64%), and natural gas consumption was steady as well at 8,992,544 Smc (+0.9% on 2015) due to the combined effect of rationalising the individual accounts and improving the management of supplies, by increasingly installing, especially at stations, natural gas heating systems to replace less efficient diesel heating systems, while diesel consumption decreased by around 9.58% (14,652 t compared to 16,204 t in 2015) due to the replacement of the systems mentioned above, as well as, to a lesser extent, reduced heating requirements given the more favourable weather conditions and the decrease in commercial traffic on the Messina Strait;
- a slight increase in water consumption indicators in addition to the normal use for maintenance activities (17,920,347 cubic metres in 2016, +5.62% on 2015) due to the acquisition of new plant (e.g., washing platforms);
- the total amount of waste produced decreased slightly (-4%), as the combined effect of the contained increase in the production of non-dangerous waste (approximately +11% on 2015) and a significant decrease in dangerous waste (roughly -41.5%), particularly the waste sent for disposal. The change is correlated with the cyclical trend in maintenance and has enabled the company to maintain the total quantity of waste sent for recycling substantially unchanged (around +1%).

ENVIRONMENTAL POLICY

On 11 May 2017, with organisational communication no. 449/AD updating the "Integrated policy for Rete Ferroviaria Italiana safety" - on which RFI S.p.A.'s integrated safety management system is based - the company's environmental policy was specifically clarified as part of the broader integrated policy, as a fundamental document outlining and establishing strategies as much for the environmental management system - adopted by RFI S.p.A. to protect the environment, alongside the workplace health and safety management system and the train circulation and railway operation safety management system – as for the strengthening of the infrastructure operator’s role in the country’s sustainable development considering corporate social responsibility.

The company has made this commitment more knowledgeably and decisively in the 2017-2026 business plan, planning specific initiatives to maximise and develop the environmental and social sustainability of its operations, management and services.

By recognising that the infrastructure managed by RFI S.p.A. is a crucial asset for the country’s mobility system and its social, economic and environmental development, RFI S.p.A.’s new environmental policy enshrines the company’s desire to balance the social, environmental and economic needs of its stakeholders. It pursues this aim on one hand by continuously focusing on preventing environmental damage and the opportunities provided by protection activities and on the other hand, by promoting the shift in mobility towards more environmentally friendly and sustainable modes of transport.

MACROECONOMIC CONTEXT AND MARKET PERFORMANCE

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

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

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

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

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

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

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

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

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

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

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

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

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

PERFORMANCE

Income statement

millions of Euros

	2017	2016	Change	Changes %
REVENUE	**2,538**	**2,575**	**(37)**	**(1)%**
Revenue from sales and services	2,193	2,274	(81)	(4)%
Other income	345	301	44	15%
Operating costs	**(2,058)**	**(2,218)**	**160**	**(7)%**
Personnel expense	(1,445)	(1,417)	(28)	2%
Other costs, net	(613)	(801)	188	(23)%
GROSS OPERATING PROFIT	**480**	**357**	**123**	**34%**
Amortisation and depreciation	(108)	(94)	(14)	15%
Net reversals of impairment losses	(39)	(23)	(16)	70%
Provisions	(40)	(25)	(15)	60%
OPERATING PROFIT	**293**	**215**	**78**	**36%**
Net financial expense	(31)	(34)	3	(9)%
PRE-TAX PROFIT	**262**	**181**	**81**	**45%**
Income taxes	–	–	–	
PROFIT FROM CONTINUING OPERATIONS	**262**	**181**	**81**	**45%**
Profit from assets held for sale, net of taxes	–	–	–	–
PROFIT FOR THE YEAR	**262**	**181**	**81**	**45%**

The main changes in these captions between 2017 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.

Revenue from sales and services decreased €81 million, mainly due to the following factors:

- the reduction in revenue from the sale of electrical traction (€141 million), due to the effects of Law no. 167 of 20 November 2017, as described in the paragraph on "Legislative and regulatory framework" in the directors' report;
- the increase in toll revenue (€45 million), as the net effect of the increase in volumes and the ISTAT adjustment;
- the rise in revenue from services provided to the railway companies and traffic-related services (€15 million), mainly due to higher holding and washing platform revenue (€17 million), partly offset by the decrease in connection track fee revenue (€2 million).

Other income increased by €44 million, mainly due to the following:

- the €26 million decrease in revenue from sundry services, primarily as a result of the drop in fees for maintenance and conduction of the high voltage lines of RETE S.r.l. (€18 million);
- the €24 million increase in revenue from the sale of material no longer in use and removed from production;

- the €16 million increase in revenue from work for third parties, mainly due to the work on the Palermo metro-rail (€7 million) and work on noise barriers on the Brenner line (€6 million);
- the €11 million increase in income from performance regime penalties;
- the €10 million increase in facilities revenue, mainly due to recharging expenses and maintenances to GS Retail;
- the €4 million increase in revenue from property management, mainly deriving from greater leases (€6 million) and lower recharges of building expenses (€2 million);
- the €3 million increase in gains on the sale of assets to RETE S.r.l.;
- the €2 million increase in revenue from the sale of scraps;

Personnel expense rose €28 million on 2016, mainly due to higher costs for employees (€33 million), offset by lower accruals/releases in 2017 (€4 million) and the reduction in other costs (€1 million).

Other costs, net decreased by €188 million, as the combined effect of the following factors:

- the total decrease of €160 million in "Raw materials, consumables, supplies and goods", mainly due to the following changes:
  - the €241 million decrease in costs for electrical energy and fuel for train traction, due to the effects of Law no. 167 of 20 November 2017;
  - the €71 million increase in the consumption of materials for both investments (€51 million) and operations (€20 million);
  - the €8 million increase in "Lighting and driving force" costs;
  - the €2 million increase in provisions for raw materials, supplies and goods;

- the €48 million increase in service costs, mainly due to the combined effect of:
  - the €18 million increase in costs for maintenance and repairs on real estate and chattels relating to extraordinary maintenance on the line (€2 million) and ordinary maintenance (€13 million), building maintenance (€12 million), offset by lower rolling stock maintenance and repair costs (€9 million);
  - the €11 million increase in revenue from work on for third parties, linked to the corresponding fall in revenue;
  - the €10 million increase in IT service costs, mainly due to hardware and software maintenance (€9 million);
  - the €9 million increase in ticketing;
  - the €3 million decrease in costs for professional services;
  - the €2 million increase in provisions for risks and charges, net of releases;

- the €4 million increase in the use of third-party assets, mainly due to higher intragroup costs for leases and ancillary charges related to premises (€5 million), partly offset by lower costs for rentals and indemnities (€1 million);

- the €5 million decrease in operating costs, substantially due to greater net accruals (€10 million), which were more than offset by smaller losses on sales of assets (€1 million) and lower prior year expense (€14 million);

- the €75 million increase in internal work capitalised is due to the greater use of materials to upgrade the technology and update safety.

Depreciation increased by €14 million in 2017 on 2016, due to the rise in the depreciation rate of the main line in the "G – HS network".

Net reversals of impairment losses increased by €16 million on the previous year, chiefly due to:

- the €29 million increase in impairment losses on property, plant and machinery following the derecognition of assets;
- the €8 million decrease in the allowance for impairment;
- the €5 million decrease in impairment losses on intangible assets.

In 2017, €40 million was allocated to the fund for the pursuit of pro-active policies to support income and employment, up €15 million on the prior year allocation.

The net balance of financial income and expense improved by €3 million due to higher financial income (€6 million), mainly resulting from interest income on the VAT credit, partly offset by greater financial expense (€3 million).

Reclassified statement of financial position

millions of Euros

	31 December 2017	31 December 2016	Changes
ASSETS			
Net working capital	(1,750)	(1,222)	(528)
Other assets, net	1,308	602	706
Working capital	**(442)**	**(620)**	**178**
Non-current assets	35,266	35,122	144
Equity investments	132	133	(1)
Net non-current assets	**35,398**	**35,255**	**143**
Post-employment benefits	(674)	(694)	20
Other provisions	(515)	(522)	7
Post-employment benefits and other provisions	**(1,189)**	**(1,216)**	**27**
Net assets held for sale	**–**	**–**	**–**
NET INVESTED CAPITAL	**33,767**	**33,419**	**348**
Net current financial debt	(1,219)	(1,082)	(137)
Net non-current financial debt	1,622	1,353	269
Net financial debt	**403**	**271**	**132**
Equity	**33,364**	**33,148**	**216**
COVERAGE	**33,767**	**33,419**	**348**

The main changes in these captions at year end 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 €348 million increase in net invested capital is the result of the €178 million improvement in working capital, the €143 million increase in net non-current assets, the €20 million reduction in post-employment benefits and the €7 million decrease in other provisions.

Working capital improved by €178 million due to the €528 million decrease in net working capital and the €706 million increase in other assets, net.
In particular, net working capital fell mainly due to greater current and non-current trade payables (€350 million and €18 million, respectively) and lower current trade receivables (€343 million), offset by the growth in inventories (€144 million) and construction contracts (€23 million), greater payments on account to suppliers (€14 million) and greater non-current trade receivables (€2 million).

Other assets, net increased by €706 million, mainly due to lower other liabilities, current and non-current (€95 million), lower current and non-current social security charges payable (€29 million), greater deferred income (€1 million) and the overall positive effect of higher receivables from the MEF, the EU and other ministries (€1,041 million), net of the rise in the related payments on account (€373 million), partially offset by lower other assets, current and non-current (€75 million), greater other tax liabilities (€6 million) and the negative impact of lower prepayments (€6 million).

The €143 million increase in net non-current assets is due to the rise in non-current assets (in particular, intangible assets up €103 million and property, plant and machinery up €56 million), partially offset by the decrease in investment property (€15 million).

At 31 December 2017, post-employment benefits underwent a €20 million decrease, while other provisions are down by €7 million due to the combined effect of additional accruals (€102 million) and sundry utilisations, releases and transfers (€109 million).

Coverage increased by €348 million as the net effect of the improvement in current net financial debt (€137 million), the worsening in non-current net financial debt (€269 million) and the €216 million increase in equity.
In detail, net financial debt worsened overall (by €132 million), mainly due to the following:

- the improvement in net current financial debt (€137 million), primarily as the result of the decrease in current loans and borrowings (€100 million), the increase in the intragroup interest-bearing current account (€91 million) and the increase in current other loan assets (€6 million), partially offset by the decrease in the cash pooling account (€28 million) and bank and postal accounts (€3 million), and the decrease in current loans and borrowings and the current portion of non-current loans and borrowings (€30 million);
- the worsening in net non-current financial debt (€269 million), mainly due to the combined effect of the decrease in receivables from the MEF for fifteen-year grants (€176 million), the decrease in other receivables from the MEF (€319 million) and the increase in the non-current portions of loans and borrowings from the parent (€32 million), as well as the decrease in bank loans and borrowings (€187 million), loans and borrowings from other financial backers (€42 million) and the increase in other non-current loan assets (€29 million).

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

millions of Euros

	31 December 2017	31 December 2016	Change
Reclassified equity	**33,264**	**33,148**	**216**
Hedging derivative included in equity	**(23)**	**(34)**	**11**
TOTAL EQUITY	**33,341**	**33,114**	**227**

INVESTMENTS

NETWORK DEVELOPMENT

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

Progress of investments

In 2017, infrastructural investments totalled €4,209 million, up by €124 million (roughly 3%) on the previous year.
The financial progress used as a reference only considers production for the RFI S.p.A. investment plans, unlike in 2016, when it also included the injections for TFB's capital increase.

Investments of approximately €1,142 million were allocated to large-scale infrastructural projects (including €30 million for technological development projects) and roughly €3,067 million to maintain the efficiency of infrastructure and for work throughout Italy (including €368 million for technology-related projects).

Main investments in railway operations

In 2017, work continued to complete and roll out planned railway operation investments.
In particular, the new Arcisate – Stabio line was rolled out. It is the first to cross the transborder pass between Italy and Switzerland without a station at the border.
The new Freto – Quattro Ville Sud operating control line was opened. It is part of the project to expand the Modena hub and the new cargo terminal in Marzaglia on the Bologna – Milan line and will enable cargo trains directed to/from the Marzaglia cargo terminal to directly access the Bologna – Verona line and, from there, the Brenner pass.
Work continued on the new Bari – Naples line, with the roll out of the Bovino – Cervaro operating control line, for a total of roughly 20 km.
One of the main objectives of RFI S.p.A.'s business plan is to cover the entire network with remote control systems by 2026. To this end, in 2017, approximately 115 km of lines were equipped with remote controls, bringing the total to around 12,786 km out of 16,787 km.
Furthermore, work continued to strengthen the network in Sicily. The double tracks laid from Catania Centrale to Catania Ognina were opened to train operation with the concurrent start of passenger service at the Catania Ognina stop. Double tracks were laid on the section of the line between Ogliastrillo and Campofelice and the Lercara Diramazione – Castronuovo route change was also rolled out.
At national level, the L'Aquila – Sassa NSI, L'Aquila – San Gregorio, Manfredonia Ovest, Picanello, Cansano, Europa, Bazzano, Bergamo Ospedale and L'Aquila Campo di Pile stops began operating.
42 railroad crossings were closed in 2017.

INTEGRATED TECHNOLOGIES

Interoperability corridors and ERTMS migration projects continued in 2017 with construction on works to overlap the Level 1 ETCS with Radio INFILL on the TSCS along the Domodossola – Novara section of the Reno-Alpino interoperable corridor and carry out the work to install Level 1 Limited Supervision on the cross border sections with Switzerland between Domodossola – Iselle and Luino – Pino Tronzano.

In February 2017, the preliminary paperwork was presented with respect to the EU Connecting Europe Facilities 2016 tender (CEF 2016) for the cofinancing of the Novara – Venezia Mestre and Milan – Tortona sections in the interoperable ERTMS corridors according to the Breakthrough Programme to 2020. The proposal was selected for the financing of 50% of full life cycle costs (financing of approximately €27.3 million).

The executive design was approved and the work for the ACC-M and Level 2 ETCS was delivered on the express Rome – Florence line.

The specific technical and functional documentation for the migration to the ETCS system overlapping the TSCS in the tenders for interoperable corridors and urban hubs in Rome, Florence and Milan (high density, HD) was prepared.

Telecommunications

The project to extend the LTE (light time evolution) coverage of public radio communication operators (TIM, VODAFONE and WIND/H3G) on RFI S.p.A.'s HS/HC lines, with the objective of developing RFI S.p.A.'s infrastructure and the consequent improvement in its ability to host third party devices in its railway areas was launched. The railway companies also stand to benefit from the extension of the LTE service on RFI S.p.A.'s HS/HC line, by offering better on-board WiFi internet quality.

EU FUNDING OF INVESTMENTS

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 31 March 2017, the management authority issued the final execution report defining the implementation progress of all projects cofinanced under the programme. The eligible costs recognised by the program amount to €1,288.8 million.

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.

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

In response these requests, the national operating programme management authority approved 20 projects for cofinancing with the issue of acknowledgement deed no. 8223 dated 9 August 2017, allocating around €1,027 million to RFI S.p.A..

Various reimbursement claims were filed in 2017, leading to total collections of €49.7 million.

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

2007-2013 plan

The company was assigned total funds of €246 million at 31 December 2016 and, following the conclusions of European Commission decisions, approximately €228 million was allocated at 31 December 2017, a decrease of roughly €18 million.

This decrease was due to the postponement of work and/or designs subject to various decisions after the grant eligibility period, which definitively ended on 31 December 2015.

In 2017, the company collected grants of approximately €39 million.

Connecting Europe Facility (CEF)-2014-2020 plan

The financed amount currently comes to €132 million. In 2017, the company collected grants of €7.9 million.

On 13 October 2016, another tender was published for the assignment of CEF financing. RFI S.p.A. participated with three bids for financing.

On 22 June 2017, the INEA (Innovation and Networks Executive Agency which manages infrastructural and research projects in the transport, energy and telecommunications industries) approved the "ERTMS on strategic sections of 3 CNCs" proposal with cofinancing of €27.3 million.

Subsequently, on 13 November 2017, the definitive grant agreement was signed, definitively assigning the grant.

INFRASTRUCTURE

The following table shows the main data for the RFI S.p.A. network at 31 December 2017.

OPERATING RAILWAY LINES (1)	**16,787**	**KM**
Classification		
Main lines	6,497	KM
Complementary lines	9,337	KM
Hub lines	953	KM
Type		
Double-track lines	7,696	KM
Single-track lines	9,091	KM
Power		
Electrical lines	12,022	KM
- double track	7,619	KM
- single track	4,403	KM
Diesel fuel lines	4,765	KM
TOTAL TRACK LENGTH	24,483	KM
Traditional line	23,016	KM
HS line (2)	1,467	KM
RAILWAY PLANT		
Stations that can serve passengers (3)	2,201	NO.
INNOVATIVE TRAIN SPEED PROTECTION TECHNOLOGIES (4)		
Remote control systems for traffic (CCS/CTC+DPC)	12,786	KM
TSCS - train speed control system	12,210	KM
SSC - steering support controls	3,892	KM
ERTMS - for interoperability on the HS/HC network	709	KM
GSM-R for mobile communications	11,445	KM

Notes

(1) 70 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) plant with intermodal centres, hubs, connections, etc.

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

STATIONS

FS Italiane group's strategy for the reorganisation and enhancement of the network of stations, as outlined in the 2017-2026 business plan, entails:

- on one hand, withdrawing from distinctly retail operations, which are no longer strategic for the group and are highly marketable given their attractive profit margins;
- on the other hand, directing the operating lines and services that are more closely connected to railway transport and are, in any case, functional for passenger mobility needs within the group, in keeping with the aim of consolidating and developing the group's role as a large integrated mobility operator on the domestic market.

To this end, the group believes it is necessary to ensure unified management over the entire network of managed stations and has appointed RFI S.p.A. as the single operator. In particular, the Station Project, which will entail the transformation of many stations into intermodal hubs, names RFI S.p.A. as the sole operator of Italy's roughly 600 medium and small/medium railway stations, each offering the same consistent standards of travel and related services with the priority of meeting the integrated mobility needs of travellers and commuters.
Indeed, 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.p.A.'s new Smart Station 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 S.p.A. stations) and develop throughout the entire business plan period.

Over the course of the Easy Station Project, work will be carried out on the 620 stations identified as the busiest, i.e., those with approximately 80% of the passengers in the entire network, and with the most development potential in terms of infrastructure and services.

The following progress was made on the first 50 easy stations in 2017, measured on the basis of costs incurred:
- 82% on the "LPT - platform upgrading" project;
- 40% on the "LPT - public information systems" project;
- 58% on the "LPT - improved accessibility and O.L.";
- 70% on the "500 Stations" project;
- 46% on the "Improved functionality and appearance of stations".

The Smart Station project includes the introduction of advanced technologies at stations, such as Wi-life, the remote management of non-railway systems in stations and turnstiles to improve safety. During the year, technical studies were conducted to begin these projects and establish the methods for the work. In addition, a €40 million investment project began ("Smart Station - Turnstiles 2.0") to close off the stations and install turnstiles.

The Service Charter

Again in 2017, RFI S.p.A. published the Service Charter, containing the 2016 results and 2017 targets for the quality of services provided to the public. The Service Charter is based on 19 quality indicators corresponding with the various action areas on which the company is focused that are most material to the public. All targets were reached in terms of both perceived quality as reported in customer satisfaction surveys and offered quality as monitored internally or by third parties.

Regarding offered quality, RFI S.p.A. achieved its energy saving and efficiency target with the installation of new LED lighting systems replacing the existing lighting systems in at least 40 stations, as well as its objective of launching systematic RFI S.p.A. supply chain performance assessments in terms of CSR. In accordance with the methods outlined in the new Contracting Code (Legislative decree no. 50/2016), since July 2017, RFI S.p.A. offers the companies bidding in its tenders to potentially earn bonus points by submitting to sustainability assessments of their environmental, labour management/organisation and human rights, fair business and sustainable procurement practices.

As for train traffic safety, RFI S.p.A. met its 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 S.p.A. network below Italy's NRV (national reference value) for the railway risk category for "society as a whole".

With respect to its perceived quality targets, which are scored by the percentage of passengers who rated their satisfaction with services at stations as six or higher (on a scale of one to nine), the results of the customer satisfaction surveys generally confirm, again in 2017, the indicators that were already high (between 94% and 99%) and the continued improvement of those that were weaker (between 89% and 94%).

Customer satisfaction with the quality of public information under critical traffic conditions has also improved, rising around 1.5% from 91.8% to 93.2%.

Customer satisfaction is substantially the same for the overall quality of the entire network (95.5%), commercial services, which are steady at over 99%, and cleaning services both overall and by network.

The improvement actions taken have been extremely effective, with a widespread increase in the percentage of fully satisfied passengers on 2016 (giving scores of seven to nine) for nearly all surveyed service areas, with interviewed passengers giving an average score of seven.

Finally, the percentage of passengers with reduced mobility who used the Sale Blu assistance services who were satisfied with the service remains at the excellent levels reached in the past. Indeed, a specific survey showed a satisfaction rate of 99% again in 2017.

LOGISTICS AND WAREHOUSES

At year end, RFI S.p.A.'s total stocks amount to €658 million (at standard prices), up €150 million on 31 December 2016. In particular, the increase was due to technological material (signalling devices, cables, track equipment and copper wires) for technological development projects on the network.

Actual consumption came to €651 million, up on the previous year (€59 million).

Following production orders, the national workshops in Bari, Bologna and Pontassieve generated material stock worth a total of €90 million for construction, mainly consisting of diverter cores, complete diverters, switches, glued insulation joints and electrical equipment.

During the year, the company's purchases of supplies, calculated at standard prices, totalled €707 million, up by roughly 23% on 2016 (€573 million).

During the year, 1,383 orders were issued for contracts in place (total of approximately €731 million) to meet the user structures' requests for materials directly from suppliers.

ELECTRICITY AND OTHER ENERGY ISSUES

As described in detail in the section on "Legislative and regulatory framework" with respect to "Energy" of the directors' report, to which reference should be made, Law no. 167 of 20 November 2017 (the "2017 Europe Law") radically changed the special rate regime applicable to railway transport (previously amended by Law no. 116/2014).

NEGOTIATIONS

In 2017, RFI S.p.A.'s negotiations increased considerably on the years prior to 2016 and 2016, when they slowed mainly because of the new Contracting Code no. 50/2016, which took effect in that year. In particular, in 2017, RFI S.p.A. managed 408 new negotiations for a total of roughly €7.4 billion. It won 331 tenders, while 77 were still pending at 31 December 2017.

A total of 594 contracts was signed, with a counter value of roughly €6.9 billion.

RAILWAY OPERATING AND INFRASTRUCTURE SAFETY

Railway operating safety

Safety (rate of railway accidents)

2017 results confirm the ongoing efficiency of the actions taken by RFI S.p.A. to constantly improve its safety performance, which are in any case supported by excellent scores compared to main European countries.

The safety targets of the national railway infrastructure managed by RFI S.p.A. are monitored using indicators determined with the data in its databases (the danger database to monitor accidents and incidents and INRETE2000 for superstructure precursors), in accordance with current international criteria (defined by the European Union Agency for Railways ("EUAR")).

The following main indicators are used to monitor safety targets:

- common safety target indicators;

- significant incidents (train collisions, train derailings, accidents at railroad crossings, fires on board rolling stock, injuries to people involving moving rolling stock, except for suicides and attempted suicides, other);
- overall incidents for which RFI S.p.A. is responsible;
- significant incidents for which RFI S.p.A. is responsible;
- typical accidents (*Union Internationale des Chemins de Fer* ("UIC"));
- benchmarking of overall accidents (UIC);
- overall safety index for accidents (UIC).

For some of these indicators, the EUAR has prepared and assigned common safety targets ("CST[1]") at European level and national reference values ("NRV"[2]), based on historical data.
The table below compares the infrastructure operator's cumulative performance in each risk category[3] and for each indicator defined (measured in FWSI[4] on the standard scale) with the common safety targets (CST) and specific national railway values (NRV) for Italy.

Risk category	Measurement unit	Basis of calculation	OBJECTIVES		RECORDED VALUES
			CST	NRV	Cumulative
			Shared (x10-9-9)	ITALY (x10-9-9)	RFI (x10-9-9)
1. Passengers	1.1 No. of FWSI passengers per year due to serious accidents/no. of ptk per year	PTK per year	170.00	38.10	7.71
	1.2 No. of FWSI passengers per year due to serious accidents/no. of passenger-km per year	Km-passengers per year	1.65	0.257	n.p.
2. Employees or contracting companies	No. of FWSI employees per year due to serious accidents/no. of ptk per year	Km-train per year	77.90	18.90	5.93
3. Railroad crossing users	3.1 No. of FWSI railroad crossing users per year due to serious accidents/no. of train-km per year	Km-train per year	710.00	42.90	18.08
4a. Other people on the pavement 4b. Other people not on the pavement	Annual number of FWSI involving people classified as "Other" due to serious accidents /no. train-km per year	Km-train per year	14.50	6.70	-
5. People unduly crossing the railway tracks	No. of FWSI involving people per year due to serious accidents/no. of train-km per year	Km-train per year	2,050.00	119.00	129.13

The analysis of the table below shows that, in the period considered, the index of injuries to people illegally crossing the railway tracks exceeded the target.

There were 94 **significant accidents**[5] on the infrastructure managed by RFI S.p.A. in 2017, classified as prescribed by the EUAR, which cumulatively caused (in addition to damage to the infrastructure and rolling stock involved) 53 deaths and 35 serious injuries. They are broken down by absolute amount and type in the table below. The table also gives absolute values for the previous year.

[1] Common safety targets ("CST")

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

[3] Type of people who could potentially suffer an injury in a railway accident.

[4] Fatalities and Weighted Serious Injuries ("FWSI").

[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.

CSI accidents (ERA classification[6])	Accidents (number)	
	2017	*2016*
Train collisions	1	3
Train derailings	2	1
At railroad crossings	11	11
Fires involving rolling stock	0	1
Other	5	5
Injuries to people involving moving rolling stock	75	70
total	**94**	91

The analysis shows a slight increase in the number of accidents compared to the previous year. However, 86% of accidents were caused by factors outside railway system or the conduct of people interacting with the railway system in violation of current railway laws and regulations.

The 2017 trend in total accidents for which RFI S.p.A. was responsible highlights an improvement over the past five years, dropping to 67 accidents, versus 111 in 2016 and 203 in 2012. On the other hand, there was a slight increase (from four to five) in the number of accidents for which RFI S.p.A. was deemed responsible (Fig. 3) compared to 2016.

In addition to safety performance monitoring based on the EUAR classification, international monitoring takes place in accordance with UIC criteria.

Typical accidents according to the UIC are: collisions, derailing, fires involving rolling stock, accidents involving dangerous goods and involving at least one rail vehicle in motion (train, shunting vehicle, work vehicle) during operations and that caused a significant accident.

They exclude accidents in which people are hit, injuries to people as they unduly board/deboard trains in motion, suicides and attempted suicides.

This classification is regardless of injuries to people and its purpose is to measure the intrinsic safety of railway systems, assigning less weight to accidents caused by conduct in violation of railway regulations.

The 12 typical accidents that occurred in 2017, which reflect an improvement on previous years, include four due to external causes (i.e., caused by factors outside the railway system) and eight due to the reliability of the railway system management, three of which were due to RFI S.p.A.'s activities.

Based on the UIC's monitoring published in October 2017, the accident rate (for train-km) in Italy is below the average rate.

In 2015, the UIC has prepared a total accident safety index, whereby it weighs accident (individually) considering certain parameters, such as:

- the type of accidents (train on train, train on people, train on vehicles, etc.);
- the extent of the injuries to people (number of deaths or injuries);

[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.

- the category of people who suffered injuries (regardless of whether the person was in violation or not);
- responsibility for the accident (internal or external).

The breakdown of this overall safety index highlights how RFI S.p.A. ranks among the top performers (safety index per billion train-km).

QUALITY AND SAFETY

Integrated safety management system

In 2017, the integrated safety management system continued to see the extension of RFI S.p.A.'s health and safety in the workplace management system. This extension enabled the company, on the one hand, to include all its production units 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 BS OHSAS 18001:2007 standards, which it has already obtained for the local production units, the main line units and the national workshops.

The 2017/2018 annual integrated safety plan and 2016 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. Together, they make up the integrated safety plan.

During the year, the 2017 annual safety report on 2016 data was prepared and sent to ANSF, in accordance with article 13.4 of Legislative decree no. 162/2007, as amended and integrated, regarding the national infrastructure operator's obligations.

Safety authorisation

In 2017, RFI S.p.A. continued to carry out its activities as national railway infrastructure operator with the safety authorisation issued by ANSF in June 2014, pursuant to Directive 2004/49/EC, implemented in Italy with Legislative decree no. 162 of 2007.

ANSF's safety authorisation certifies the rules and regulations that RFI S.p.A. has established in its railway operation safety management system, which, together with the environmental and labour safety systems, constitutes the integrated safety management system.

Policies

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

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

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

Infrastructure safety

Tunnel safety

RFI S.p.A. finished drafting the annual report on safety in railway tunnels for 2016 pursuant to article 14 of Ministerial decree of 28 October 2005 and sent it to the MIT and ANSF on 10 August 2017, communicating the results of recalculation of the railway risk curves updated in line with new traffic data and infrastructural modifications carried out on 314 tunnels and 41 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 issue emergency and rescue plans for tunnels that are more than 1,000 metres long.
The technical panel is still working on harmonising the regulatory framework for tunnel safety.

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 surveying of an additional 226 bridges, in addition to the 600 of previous years.
In 2015, the results of seismic vulnerability testing on 121 bridges were not satisfactory and the executive design of seismic improvements/upgrades to these bridges and the initial work are currently underway. In addition, the definitive design of 107 bridges that did not pass seismic vulnerability tests was completed in 2017.

RESEARCH AND DEVELOPMENT

Research

In 2017, the company began the following activities, which will be completed in 2018:

- "Performance analysis of the laser, radar and loop systems used to monitor that there are no vehicles on railroad crossings", conducted with the institute of Communication Technologies, Information and Perception of the Sant'Anna School in Pisa;
- "Architecture for safety-critical applications", training offered with the "Ulisse Dini" Mathematics and Computer Department at Università degli Studi in Florence;
- "RFI S.p.A. platforms project-development of logic for the computerised interlocking systems", research conducted with Fondazione Bruno Kessler in Trento;
- "Research for the domain analysis and definition of specific requisites for the automated URV vehicle to monitor HS/HC railway lines for critical issues" with the Mechanical Engineering Department of the Politecnico University in Milan.

The "technological demonstrator" project began, worth roughly €10 million, for which the design and supply of three computerised interlocking systems are in progress.
In addition, an electronics workshop was set up for testing at the Firenze Osmannoro site and the four master agreements were prepared for research in the fields of embedded systems, software engineering, mechanical and diagnostics solutions and, with the inter-university consortium CINI, involving the most distinguished Computer Engineering Departments of Italy's premier universities for a five-year period.

Technological network plan

The technological network plan was issued on 29 December 2017. It constitutes the frame of reference for the design and construction of currently available technological systems and products or that are being built on single and double track lines, HS/HC lines and metropolitan hubs to meet design requirements with respect to safety, capacity, regularity, faster speeds, obsolescence, technological integration and interoperability.

It is divided into four sections defining:

I) the "Benchmark" for each system/product highlighting the technical specifications and related scopes of application;

II) "Migration Principles" in the time period covered by the business plan, to use as a reference from the current network technologies. This section, along with section I, constitute the manual for the design and implementation of projects, including in incremental stages on existing, updated and new plant/lines;

III) "Safety Standard Improvement Plans";

IV) "Technological Upgrade Plans" for medium/long-term projects to guarantee migration to standard solutions and the use of innovative, high-performance products with contained, definite "full life cycle" costs.

Technological development

General information

In 2017, actual spending for investments in technological innovation totalled €33.2 million. The following table analyses the amount of these investments by the main operating segments:

millions of Euros

Operating segment	2017	2016	2015	2014	2013
Safety technologies	28.9	36	44.7	7.0	9.1
Innovative diagnostics	-	0.1	0.8	0.8	4
Studies and tests on new parts and systems	3.7	10.2	18.4	2.6	10
Environmental and land protection	0.3	-	-	-	-
Other	0.3				
TOTAL	**33.2**	**46.3**	**63.9**	**10.4**	**23.1**

The drop in 2017 on 2016 is due to:

- the conclusion of activities (HTDS);
- the suspension of activities (ERTMS with different plant than the national standard) to repair the superstructure and carry out work on tunnels;
- the natural slowdown in activities nearing completion (portals).

In any event, the trend in expenditure for technological development varies over time depending on the nature of the projects, which go into production, or because of additional experimentation on a limited number of sites/type/plant.

Specifically, activities to continue/conclude projects that began in previous years and those that began in 2017 related to the following main areas:

1) completion of the executive design, with the construction of prototypes and outfitting of test sites for four prototype cameras with monitoring/alert systems to protect the railway bed from rapidly falling masses (including large objects falling, narrow and widespread landslides and sink holes); work is underway to adjust the management system and experimental devices before the observation stage begins in the first few months of 2018;

2) start of activities to carry out projects with alarm netting for falling masses to be used in railway operations and the preliminary studies for its construction are being completed;

3) start of activities for the testing and use of drones to inspect railway bridges and monitor infrastructure, in certain cases using BVLOS (Beyond Visual Line of Sight) technology, which will be used on some 100 sites;

4) completion of the design and construction of prototypes for the new slow-forged rail ends for RFI S.p.A.'s switches;

5) completion of the development and standard check of the vertical load measurement system tare trolley to tare the dynamic load measurement systems installed on cargo traffic generation plant;

6) fine-tuning of the roller bench and development of predictive diagnostics to detect the deterioration of train movement associated with the derailment of cargo carriages;

7) installation at specific points of the railway network, with the related approval for commissioning, of seven multi-functional portals for detection of temperature increases and the start of fires and obstacles in the structure gauge;

In addition, the construction of two post-earthquake management systems began, consisting of:

- a tool to generate earthquake "affected and shaken areas" maps, manage train traffic after an earthquake and organise teams to perform checks;
- an experimental earthquake early warning (EEW) system with the installation of an accelerometric network on a pilot section to slow and stop trains in the event of earthquakes.

Technical Committee

In 2017, the Technical and Monitoring Committee, chaired by the CEO and comprised of the company divisions and Research and Development, Network Safety and Quality, Research Centre and Innovative Projects Asset Management units, continued its development and analysis activities to review the policies for the purchase of new products/asset systems, examining their functional, operating and maintenance impacts on the railway system.

During the year, the committee reports that, *inter alia*, it examined 83 requirement charts, approved 54 requirement charts and assigned 38 preliminary research projects.

PERFORMANCE OF SUBSIDIARIES

Bluferries S.r.l. (wholly owned)

RFI S.p.A. set up this company on 4 November 2010 in accordance with anti-trust legislation (Law no. 287/90) through the contribution of RFI S.p.A.'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 S.p.A.. Its purpose is the transport of people, vehicles and goods by sea, the management and sale of its sea transport lines and the management of related services, the performance and provision of all port operations and services for ships at dock, the management, fitting out and lease and rental of its own and third party ships and the purchase and sale of ships and navigation and towing operations for its own and third party ships.

Bluferries reported a profit for 2017 of €2.3 million, up 20% on the previous year. The growth in operating costs and particularly in the cost of procuring diesel due to higher oil prices in the past year, partially offset the rise in revenue from heavy road vehicle services, generating a gross operating profit margin of 23.7%. Specifically, the 3% growth in revenue was due, on one hand, to the rise in traffic resulting from the combined effect of the increase in "heavy road vehicle" segment revenue and the slight drop in "passenger" segment revenue and the increase in revenue generated mainly by the lease of the N/T RIACE to another operator.

Furthermore, to expand its market shares and in line with the 2017-2026 business plan, the company continued construction work on the fourth bi-directional ship (OKEANOS I), slated for delivery in the first few months of 2018. In October, construction began on the ship's twin (OKEANOS II), which will be delivered in early 2019.

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

Mercitalia Shunting&Terminal (formerly 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 reported a profit for 2017 of €2.2 million, substantially in line with the previous year, despite the decrease in the operating profit, which was entirely offset by the positive impact of the reduction in the IRES (corporate income tax) rate from 27.5% to 24%.

2017 operating costs rose approximately 3.3% on 2016 due to the consolidation of the businesses managed by the company, which saw substantial growth in services, rents and leases.

The comparison of loads handled with the previous year shows an increase in production of roughly 2%, which helped the company recoup the 2016 drop in volumes following the return of the Milan Certosa terminal to RFI S.p.A..

Tunnel Ferroviario del Brennero – TFB (87.92%)

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.
In particular, during the extraordinary shareholders on 20 January 2017, the shareholders approved the eighth capital increase up to a maximum of €67 million, which was then carried out in one tranche on 15 March 2017. At 31 December 2017, the company's share capital totals €566 million and consists of 565,790,910 shares with a nominal amount of €1 each. Following the subscription of the eighth capital increase, RFI S.p.A.'s interest increased from 87.16% to the current 87.92%, which at 31 December 2017 corresponds to €497 million. The company has contributed €70 million to its associate BBT SE to finance the construction of Phase III.
Strictly due to management operations, TFB reported a profit for 2017 of approximately €25 thousand, exclusively due to financial income on bank deposits, reflecting a considerable decrease on previous years, following the renegotiation of lower interest rates paid to the company.

Nord-Est Terminal S.p.A. in liquidation (51% owned) – winding up

As noted by the official receivers in advance in the half-yearly report at 30 June 2017, the shareholders' meeting held on 25 July 2017, approved the winding up and the final distribution plan with the liquidation financial statements at 16 May 2017. The company was therefore definitively wound up and struck from the company registrar on 20 November 2017.

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

Introduction

This section details the most significant court and criminal proceedings pending at the reporting date. Unless otherwise indicated, up to the date of preparation of this report, no information had arisen that would indicate that the company is exposed to contingent liabilities or losses of any amount, nor is any information known with a potentially material impact on the company's equity, financial position or results of operations. Furthermore, where appropriate, the company has joined the criminal proceedings as a civil party.

In 2017, following criminal proceedings initiated by the public prosecutors against former or current company representatives, there were no definitive rulings against senior management (company officers or general managers) for any of the following:

- particularly serious crimes with wilful intent entailing substantial damage to the company or leading to the application of restrictive measures;
- negligent criminal acts covered by Legislative decree no. 231/2001;
- additional negligent criminal acts covered by Law no. 190/2012.

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

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 S.p.A. 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.

Litigation pursuant to Legislative decree no. 231/2001

There were no developments in 2017 in connection with:

- criminal proceeding no. 2554/2013 in the general register of crimes, pending the hearing before the Foggia Court in relation to the company's administrative liability for the fatal workplace accident on 5 March 2010 at Agro di Cerignola, in which an employee of Fersalento S.r.l. died.

The following court proceedings underwent developments in 2017:

- criminal proceeding no. 1933/2011 in the general register of crimes with the Public Prosecutor's office pending before the Latina Court were initiated following the fatal accident on 25 February 2011 involving an employee of an outside company on the Campoleone-Cisterna di Latina section of track. During the preliminary hearing held on 10 October 2017 before the Latina Court's preliminary hearing judge, RFI S.p.A. was found not guilty of the administrative liability pursuant to Legislative decree no. 231/01 charged by the Public Prosecutor. The preliminary hearing judge decided that "there were no grounds for action against RFI S.p.A. because there was no administrative violation due to a lack of elements necessary for the events to have been in its interest and/or to its advantage". The ruling became definitive for RFI S.p.A. on 16 October 2017 and the judge ordered the prosecution of all the natural persons charged (the local unit manager at the time of the incident as party responsible for the works - the customer - and the safety coordinator during RFI S.p.A.'s planning and the employer of the deceased). The hearing of arguments for the natural persons is pending.

- criminal proceedings no. 7906/2009 in the general register of crimes with the Public Prosecutor's Office at the Latina Court concerning alleged injuries of two RFI S.p.A. employees due to negligence in connection with alleged violations of anti-accident legislation (following an accident that occurred on 10 August 2009) during maintenance work near Fondi, two of RFI S.p.A.'s managers, one of its employees and the company itself are being investigated for third-party and administrative liability. At the hearing on 14 December 2017, the judge dismissed the case against the defendants as the statute of limitations had been reached. The grounds of the decision were to be lodged within 90 days.
- criminal proceedings no. 6305/2009 in the general register of crimes pending before the Public Prosecutor's Office at the Lucca Court, following the railway accident in Viareggio on 29 June 2009. At the 31 January 2017 hearing, the judge read the first-level ruling. For FS Italiane group, the Court found that FS Italiane S.p.A. and FS Logistica S.p.A. had not committed administrative liability violations pursuant to Legislative decree no. 231/2001 "because there is no crime" and acquitted - "because they did not commit the crime" - FS Italiane S.p.A.'s former pro-tempore CEO for the allegations against him in his position as pro-tempore CEO, FS Logistica S.p.A.'s former CEO and former Chairman, and five RFI S.p.A. officials. However, it found Trenitalia S.p.A. and RFI S.p.A. guilty of administrative violations pursuant to article 25-septies of Legislative decree no. 231/2001, fined them €700 thousand each and prohibited them from advertising their goods and services for three months. The Court also issued guilty rulings for 12 natural persons within FS Italiane group, including two of RFI S.p.A.'s former pro-tempore CEOs who succeeded each other between 2001 and 2009 and Trenitalia S.p.A.'s former pro-tempore CEO, in addition to another 11 natural persons and three companies outside the group for violations of Legislative decree no. 231/2001, while one person was found not guilty. The Court also ordered the guilty parties, jointly and severally and with the related civil liability, to pay damages (in addition to court and defence costs) to the aggrieved parties that had filed the lawsuit, submitting most of the damages to the civil court judge for liquidation, while ordering payment of a provisional amount at the same time. The reasons for the ruling were lodged on 31 July 2017. The natural persons and companies found guilty have filed appeals. The Public Prosecutor's Office and aggrieved parties have filed similar appeals.
- criminal proceedings no. 5643/10 in the general register of crimes pending before the Sassari Court against three RFI S.p.A. employees and the company - for both third-party and administrative liability pursuant to Legislative decree no. 231/2001 - following a fatal accident involving the driver of train no. 8921 when it hit an obstacle on the tracks after an exceptional, unexpectedly large mudslide. On 28 June 2017, the judge issued a ruling finding no violation by the company. In addition, the court acquitted one of the employees charged, finding that he did not commit the crime, and ordered two years of imprisonment for the other two, granting suspension of their punishment. The two guilty parties were also ordered, together with RFI S.p.A., for third-party liability, to compensate the aggrieved parties for damage, subject to a separate case. With respect to the further arguments of the two aggrieved parties, the deceased driver's heirs and INAIL (which initially appeared as aggrieved party), were fully compensated by the insurance company. On 30 September 2017, the parties submitted the reasons supporting the court's decision of 28 June 2018: as for RFI S.p.A.'s

administrative liability, the panel recognised the adoption and effective implementation of an adequate organisational and management model to prevent the crimes in question from occurring and also denied that the company had an interest and economic advantage as a result thereof. With respect to the responsibility of the guilty parties, the panel found that the event was foreseeable and could have been avoided by taking feasible prevention measures. The RFI S.p.A. managers have appealed. With respect to whether the company is liable for an administrative violation, the decision became definitive on 11 January 2018 as the Public Prosecutor did not lodge an appeal.

- criminal proceedings no. 1430/2014 in the general register of crimes regarding the alleged administrative liability of RFI S.p.A. in connection with the incident in which three of RFI S.p.A.'s maintenance workers were fatally hit on 17 July 2014 by regional train no. 12852 travelling from Gela and directed towards Caltanissetta near km 217+728 between the Falconara and Butera stations. At the preliminary hearing held on 12 July 2017, the preliminary hearing judge with the Gela court ordered the prosecution of all people charged and the company, scheduling the first hearing of arguments for 26 September 2017, with respect to which the not-for-profit ONLUS Associazione Nazionale Mutilati e Invalidi sul Lavoro has joined the criminal proceedings as a civil party claiming damages. The judge admitted the not-for-profit association to the proceedings as civil party and the petition to summon RFI S.p.A. for third-party liability, which appeared according to standard procedure and appointed counsel. Hearings are pending.

Additional court proceedings of which the company has been notified since the last report include:

- criminal proceedings no. 3651/2018 in the general register of crimes before the Milan Court in relation to a railway accident that occurred on 25 January 2018 in Seggiano di Pioltello, involving the railway company Trenord S.r.l.'s regional train no. 10452 - operating the commercial service on the section between Cremona and the Milano Porta Garibaldi station - which caused the death of three passengers and injuries to others. Following the incident, the Milan Public Prosecutor initiated criminal proceedings against RFI S.p.A.'s CEO, Production Manager, Local Production Manager of Milan, Local South Line Unit Manager for the Local Production Unit of Milan, Head of the Brescia Works Maintenance Unit and the Superstructure Site Specialist for the Brescia Works Maintenance Unit. Trenord S.r.l's CEO and Operations Manager are also being investigated. In addition, the companies RFI S.p.A. and Trenord S.r.l. have administrative liability pursuant to Legislative decree no. 231/2001.

  Specifically, the natural persons are charged with the crimes covered by and punishable under articles 430 and 449.1/2 of the Criminal Code (negligent railway disaster), article 589.2/3 of the Criminal Code, article 590.2/3/4 of the Criminal Code (negligent manslaughter and injuries due to negligence with violations of accident prevention in the workplace regulations) and article 71 of Legislative decree no. 81/2008 (violation of employer obligations). The companies are charged with the administrative violations covered by article 25-*septies*.2/3 of Legislative decree no. 231/2001, with respect to sanctions for negligent manslaughter and serious injuries and for violations of accident prevention regulations.

  RFI S.p.A. has engaged a trusted attorney and technical advisor.

  Current insurance policies cover any liabilities that should arise in connection with these proceedings.

Other significant criminal court proceedings

There were no developments in the following criminal court proceedings:

- 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 S.p.A. appeared along with Trenitalia S.p.A., with an appeal lodged against the Brindisi Court ruling of 21 October 2014.
- 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 S.p.A. (some of whom in retirement) and parties external to FS Italiane group.

The following court proceedings underwent developments in 2017:

- criminal proceedings no. 20765/2014 in the general register of crimes are pending before the Florence Court (initially 356/2014 AGAINST unknown parties) against an RFI S.p.A. manager for negligent manslaughter in violation of accident prevention in the workplace legislation following an accident that occurred on 12 January 2014 at the Santa Maria Novella station involving a Trenitalia S.p.A. shunting worker. The case was definitively dismissed by the preliminary hearing judge with the Florence court on 27 September 2017.

Other investigations

Discount pursuant to Ministerial decree no. 44T/2000 (K2 discount) – Council of State decisions

With respect to RFI S.p.A.'s 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, after the public hearing on 14 June 2017, with ruling no. 9381/2017 (published on 22 August 2017) and after combining the two appeals cited above, the Lazio regional administrative court declared them partly inadmissible and partly denied them as they were without grounds.
With respect to compliance with the Council of State's decision cancelling DM 92T (reference should also be made to previous reports for a detailed description of all events in this stage of the proceedings),
following the Lazio regional administrative court's ruling on RFI S.p.A.'s appeals against URSF decisions nos. 18/2006 and 83/2007, on 13 September 2017, the four railway companies involved in the compliance ruling (namely, Rail Traction Company, SBB Cargo, NordCargo [now DB Cargo Italia] and DB Schenker [now DB Cargo Italy]) sent RFI S.p.A. (and the MIT and the ART) a formal "invitation to comply and notice to perform" to receive payment of the amounts previously determined by the *ad Acta* Commissioner's delegate (including legal interest calculated up to the date of payment) by 20 September 2017, reserving the right to take legal action to enforce payment should they fail to proceed with payment.
The railway companies had already initiated another legal case with notification on 3 April 2017 to the MIT and RFI S.p.A. of their appeal against the Council of State's decision for additional reasons to obtain clarifications on compliance with the K2 discount ruling (with specific reference to the "*ad Acta* Commissioner's conclusive report"

enforcement methods) or, alternatively, compensation for damage due to non-performance. The discussion hearing, initially scheduled for 19 October 2017, was postponed to 12 April 2018 upon the explicit petition for postponement lodged by the Attorney General, in order to verify the feasibility and potential settlement by the parties.

On 21 December 2017, the four railway companies affected by the "K2 discount" (namely Rail Traction Company, DB Cargo Italia, SBB Cargo and DB Cargo Italy) notified four different appeals to RFI S.p.A. with injunctions to obtain payment of the amounts due to them in accordance with the *ad Acta* Commissioner's report, plus interest and legal fees.

After the company examined the injunctions with the assistance of qualified professionals and did not find grounds to justify appeals against the aforementioned injunctions, also considering the risk of high costs for RFI S.p.A. should it lose the case, it offered to pay the railway companies the amounts indicated in the *ad Acta* Commissioner's report only, without interest and expenses.

The railway companies accepted this proposal and, accordingly, after informing the MIT, on 30 January 2018, RFI S.p.A. paid the amounts requested, using the specific accrual already recognised in the caption "Train operating and efficiency technologies - Charges arising from the application of Ministerial decree no. 44T of 22 March 2000" in the 2015 update of the 2012-2016 Government Programme Contract - Investments, totalling €13,315,862. In addition, RFI S.p.A. also used €6,074,847 of this caption as the same amount had already been withheld by three of the four appellant railway companies (as a self-discount) on the amount of the toll that they had been invoiced in 2006 and 2007.

Finally, Trenitalia S.p.A. – which had not independently appealed *ab origine* against Ministerial decree no. 92/T, nor subsequently appeared in the second-level proceedings and was found (in the compliance ruling mentioned above) outside the scope of the ruling on the K2 discount – lodged a summons with the Civil Court of Rome where RFI S.p.A. was asked to appear at the hearing on 26 February 2018, subsequently postponed to 16 May 2018, requesting the judge assess, due to the infrastructure operator's non-application of the K2 discount, payment, for the period from 1 December 2005 to 31 December 2007, of an infrastructure use fee exceeding that effectively due by a total of €243,058,346.75, consequently ordering RFI S.p.A. to refund the amount unduly received plus interest.

Currently, since the government is responsible for covering any funds that should be required following the ruling, all the necessary evaluations are in progress on the interests of the relevant Ministerial offices and the most appropriate lines of defence to take in respect of these proceedings. In any case, RFI S.p.A. prudently accrued a specific provision to cover any interest and related costs to be incurred pending the refund of the amounts that it might initially need to provide to Trenitalia S.p.A. in advance.

Regulatory measures in ART regulation no. 70/2014. RFI S.p.A. vs. ART, appeal before the Lazio regional administrative court no. 5406/2015

As previously reported in the 2016 annual report, on 3 March 2015, RFI S.p.A. had lodged an extraordinary appeal with the President of Italy for the cancellation of ART regulation no. 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"), subsequent regulation no. 76/2014 (instructions for the procedure relating to the 2015 Network Prospectus) and related attachments and deeds.

While reference should be made to previous reports for additional details, ruling no. 541/2017 was published on 21 April 2017, whereby the Piedmont regional administrative court partly denied and partly found inadmissible the extraordinary appeal before the President of Italy (which was later transferred to the regional administrative court) taken by RFI S.p.A. against ART regulation no. 70/2014. On 21 July 2017, RFI S.p.A. appealed against this ruling, mainly on the basis of the "HS/HC toll regulation". In particular, the appeal emphasised that RFI S.p.A. - during the albeit short-term of validity of regulation no. 70/2014 (i.e., 6/11/2014 to 31/12/2015) - had effectively recorded lower revenue (by approximately €100 million) as it was impossible to fully and adequately recover the "return on invested capital" cost component (WACC).

As for the appeal by Grandi Stazioni (still pending, in particular on the alleged illegitimacy of the regulation measures in paragraph 10 of the challenged regulation, concerning the "Assignment of advertising space, information counters and areas for the provision of automated customer services"), with ruling no. 1025 published on 24 August 2017, the regional administrative court denied the appeal. In this respect, an appeal was notified by both Grandi Stazioni Retail and Grandi Stazioni Rail on 30 November 2017 against this ruling.

Lastly, the Piedmont regional administrative court, with ruling no. 1239 of 20 November 2017, also denied NTV's appeal against the same regulation.

In particular, the panel expressly rejected NTV's argument that "the only service costs that can be measured in order to identify the toll would be direct operating costs", recognising that, instead, "long-term and infrastructure costs are not necessarily detached from the calculation of the network access charge".

Therefore, to date, the first-level appeals against ART regulation no. 70/2014 have all been denied.

ART resolution no. 96/2015 containing "the principles and criteria for the determination of railway infrastructure access and use tolls" - Extraordinary appeal before the President of Italy

As previously reported in the 2016 annual report, with its extraordinary appeal to the Head of State notified on 17 March 2016, RFI S.p.A. challenged ART resolution no. 96/2015 which provides criteria for the determination of railway infrastructure access and use tolls.

Trenitalia S.p.A. and Grandi Stazioni S.p.A. also lodged similar extraordinary appeals which were subsequently transferred to the Piedmont regional administrative court following the action taken by all three appellants (RFI S.p.A., Trenitalia S.p.A. and Grandi Stazioni S.p.A.).

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 S.p.A. appeared in court.

Reference should be made to previous reports for additional details, however, with respect to RFI S.p.A.'s appeal, a statement was lodged with the Piedmont regional administrative court asserting that RFI S.p.A. no longer wished to pursue the case, partly due to the resolution of RFI S.p.A.'s original complaints due to subsequent measures taken by the ART and actual market trends. In light of this statement, with ruling no. 1287, published on 29 November 2017, the Piedmont regional administrative court declared that the appeal could not proceed.

Following the hearing held on 7 November 2017, with rulings published on 11 January 2018, the Piedmont regional administrative court denied the appeals lodged by Trenitalia S.p.A., NTV and Grandi Stazioni S.p.A. against ART regulation no. 96/2015. Furthermore, with respect to the main developments of rulings in connection with regulations nos. 75 and 80 (implementing regulation no. 96/15) - whereby the ART had approved the compliance of the new 2016-2021 toll regime proposed by RFI S.p.A., the related minimum access package and the services outside the minimum access package - the appeals lodged by the cargo railway companies were settled with Piedmont regional administrative court rulings on 5 October 2017.

One important aspect of the two rulings is that, on one hand, the court denied the grounds of the appeal relating to the toll calculation, while, on the other, found the following two elements to be illegitimate:

1. the ART's incorrect identification of the scheduled rate of inflation for 2016 (1% rather than 0.2%);
2. the ART's unlawful approval of RFI S.p.A.'s proposed toll plans "without acknowledging that the compliance of the regulatory accounts with the previous criteria was effectively demonstrated and without correctly identifying and allocating costs relating to assets/infrastructure".

Although only partial, the admission of these appeals also entailed the cancellation of the consequent deeds applying ART regulations nos. 75 and 80/16, i.e., the 2017 Network Prospectus, December 2016 version and the 2018 Network Prospectus 2018, December 2016 version, which therefore gave rise to the need for the ART to re-issue an administrative deed - to indicate the actual tolls applicable on an interim basis - which it did with regulation no. 138 of 22 November 2017.

On 12 January 2018, the cargo railway companies - whose appeals against ART regulations nos. 75 and 80/2016, as described above, were partly denied and partly admitted - notified RFI S.p.A., as a concerned party, of the appeal before the Council of State - petitioning for a precautionary suspension - against the aforementioned rulings not in their favour. The Council hearing was set for 8 March 2018 and was postponed to 29 November 2017.

With rulings respectively published on 20 and 30 November 2017, the Piedmont regional administrative court denied the appeals lodged by Trenitalia S.p.A. and NTV against ART regulation no. 80/2016. In particular - with respect to the NTV ruling - the panel, agreeing with RFI S.p.A.'s defence arguments, denied the appellants' argument that the capital increases subscribed by RFI S.p.A.'s government shareholder should be considered a "government grant" and, therefore, not remunerated. Public ownership of RFI S.p.A. shares, indeed, does not necessarily remove the company from market dynamics, as "RFI S.p.A. capital increase was mainly aimed at funding investments in the high speed line, which involves the highly profitable market segments in which NTV operates as a duopoly with Trenitalia Sp.A.". The fact that the shareholder is a government body does not, therefore, make the subscription of capital a non-repayable government grant but a public business decision, eligible for normal market remuneration where it meets the necessary conditions.

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

On 31 July 2015, with resolution no. 64, ART notified RFI S.p.A. 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.

As for the challenges under regulation no. 64 claiming that RFI S.p.A. had not submitted proposed commitments but only defence briefs (namely those relating to measures 4.6.1 "dismantling of the infrastructure", 5.6.1 "reformulation of the penalty/excess clause system for failure to prepare contracts and/or use routes" and 7.6.1

"performance regime"), with regulation no. 33 notified to RFI S.p.A. on 24 March 2016, the ART definitive ended the sanction proceedings, ordering:

i) the dismissal 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 regulation no. 70/2014;

ii) the assessment of violation with 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 €20,000;

iii) the assessment of violation with 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 S.p.A. 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 S.p.A. complied with the above within the due date, publishing the updates of the 2015 and 2017 Network Prospectuses and paying the total fine.
However, without prejudice to these measures, to protect its interests, RFI S.p.A. lodged an appeal on 23 May 2016 with the Piedmont regional administrative court against regulation no. 33 concerning only the assessment of the aforementioned violations. The date of the hearing has yet to be set.

Sanction proceedings under ART regulation no. 125 of 20 October 2017
With regulation no. 125/2017, the ART began proceedings for the potential assessment of sanctions against RFI S.p.A. - to be issued by the 18 April 2018 deadline - for the alleged violation of the procedure for the assignment of railway infrastructure capacity to Trenitalia S.p.A.. Specifically, the challenges concern: (i) the methods and timing whereby Trenitalia S.p.A. requested infrastructure capacity for the period from 11 June to 9 December 2017; (ii) the ways in which the infrastructure operator managed these requests. On 20 November 2017, RFI S.p.A. lodged the defence brief containing its arguments in response to the challenges in these proceedings.
These proceedings could lead to an administrative sanction for RFI S.p.A. up to a maximum of 1% of the revenue generated on the market by the violating party in the year ended before the assessment of the violation but, in any case, not exceeding €1,000,000, pursuant to article 37.14.a) of Legislative decree no. 112 of 2015.

Sanction proceedings under ART regulation no. 126 of 20 October 2017
With regulation no. 126/2017, the ART began sanction proceedings against RFI S.p.A. - to be concluded by the 18 April 2018 deadline - for RFI S.p.A.'s alleged violation of the transparency and disclosure obligations in the network prospectus and violation of the principles of fairness and non-discrimination, in connection with the railway infrastructure access conditions for the operation of double trains and the rise in speed to over 300 km/h.
On 20 November 2017, RFI S.p.A. lodged the defence brief containing its arguments in response to the challenges in these proceedings.
These proceedings could lead to an administrative sanction for RFI S.p.A. up to a maximum of 1% of the revenue generated on the market by the violating party in the year ended before the assessment of the violation but, in any case, not exceeding €1,000,000, pursuant to article 37.14.a) of Legislative decree no. 112 of 2015.

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 S.p.A. 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 S.p.A. 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.p.A.'s withdrawal points" and, therefore, the maximum applicable tariff applies).

The measure introduced with the aforementioned provision would entail a higher cost of energy for the market railway transport service, which, due to article 29.3 of Decree law no. 91/2014, converted into Law no. 116/2014, will also impact RFI S.p.A. which, for 2016 and 2017, will bear respective increases of 30% and 20%.

Certain railway companies appealed against regulation no. 654/2015.

Following the issue of Law no. 167/2017, published on 20 November 2017, which introduced (in article 19) sweeping changes to article 29 of Decree law no. 91/2014, revising the scope of application of the special rate regime and introducing new regulations for general system charges, the company is consulting with its lawyer on an appeal. The first hearing has yet to scheduled.

TAX DISPUTES

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

- RFI S.p.A. has appealed against the Provincial Tax Court's ruling 10454/2017 with respect to the notice of tax assessment IRAP for 2010, which denied its appeal.
- The appeal against the notice of tax assessment concerning IRAP for 2011, file no. TJBOC0100229/2016 notified on 24 November 2016 by the tax authorities – Lazio Regional Department - Large Taxpayers Office is still pending.☐
- On 13 April 2017, the company appealed against the notice of tax assessment concerning IRAP for 2012, file no. TJBOC0100251/2016 notified on 22 February 2017 by the tax authorities – Lazio Regional Department - Large Taxpayers Office, with the relevant Provincial Tax Court.☐

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.

Risk management

As part of the group-wide enterprise risk management project, the results of FS Italiane group's risk assessment were analysed and consolidated in the first half of 2017, an activity which began in 2016 with a top-down approach.
During the assessment, particular attention was devoted to areas largely connected with the development lines in the group's business plan, for which initiatives and projects are currently in progress.
With respect to RFI S.p.A. and the network efficiency and development business area, the risk assessment covered:

- the management and updating of the Government Programme Contract (Investments and Services);
- compliance with regulations and management of regulatory operations;
- network access and related services;
- asset management;
- project/service management.

The results showed a context mainly presenting medium to low risk levels, attesting to the risk mitigation capacity of existing controls.
Next, activities continued to help FS S.p.A.'s Risk Management/Chief Risk Officer ("CRO") further develop the group's risk management framework, based on best practices in the identification, measurement, monitoring and mitigation of risks, with the involvement of the following work groups to, *inter alia*, define the country risk analysis model, conduct pilot risk assessments on certain aspects of the ANAS/FS integration process (operational development) and prepare the risk management system measurement methods and processes (methodologies, taxonomies, event data collection, etc.).

Business plan risks

The process to transform FS Italiane group into a global player in integrated and sustainable collective mobility, as plotted by the new business plan, sees RFI S.p.A. actively involved on various fronts. Its main initiatives relate to the significant investment plan to update the network's technology and infrastructure, in view of its connection with the European network, and projects to integrate with regional railways and stations in line with new concept of intermodal integration hubs.

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

In the regional railway integration projects, examples of these are the Steering Committee and related work groups to be established for the definition and start of each agreement/contract with the regions and regional railway operators, responsible for supervising operations, enforcing schedules and assessing the internal impacts of new initiatives.

Country risk

International development is one of the pillars of FS Italiane group's business plan and will progressively set the company on a path towards different scenarios than the domestic market, exposing it to new risks and altering its future risk profile.

In general, country risk is the possibility that political decisions, social or natural events or, more generally, changes in a country's operating context in which an investment is made could materially affect the value or forecast return of the same investment. To mitigate these risks, the group has adopted an international development framework that cross-checks the attractiveness of a country with its risk. To this end, it has adopted and implemented a country risk assessment methodology that takes into account the most significant variables for the group.

Regulatory and compliance risks

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

In general, to mitigate the risks arising from changes in legislation, the management of relationships and information flows with government bodies and regulators (independent sector authorities), including in the event of potential disputes, the company is always open to holding meetings and discussions with such parties, especially when they are meaningful, 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, given the complexity of its business and the many different activities performed, the company might be exposed to risks of non-compliance due, in general, to the potential failure to comply with legislation or regulations, with consequent legal or administrative sanctions, financial losses or damage to its reputation.

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

Given the maturity of the deregulation of markets on which the FS Italiane group companies operate, the group has begun a process to equip its companies, while respecting their autonomy and independence, with an antitrust compliance programme to improve their ability to prevent and manage antitrust risks, i.e., those related to non-

compliance with regulations protecting competition and prohibiting unfair business practices. Training will be offered for the units most exposed to antitrust and regulatory risks as part of this programme.
In line with the way in which data protection was previously managed, the group is preparing for when EU Regulation 2016/679 (General Data Protection Regulation – "GDPR") will take effect, by preparing a computer log of data treatments, assessing the risks related to the violation of people's freedom and rights and establishing the position of Data Protection Officer. RFI S.p.A. participates in the work group set up under the parent's supervision and coordination for the application of the GDPR.

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 S.p.A., 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, it has implemented specific contractual and organisational actions aimed at bolstering supervision over investment projects by RFI S.p.A. as the customer, and *ad hoc* training has continued for project managers.
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 providing accessory services to customers.
In particular, to limit possible situations in which the company relies on builders/suppliers for maintenance/assistance and to reinforce its railway know-how, the company has begun the progressive insourcing of critical maintenance and production processes for railway components and, for strategic supplies, is defining emergency stock levels, how to reconstitute these stocks and supplier diversification policies.
In general, the company manages purchases centrally and, for specialised railway system services and expertise, uses specific business vetting systems and lists of professionals with demonstrated skills.
To manage purchase price fluctuations due to market trends, the company has specialised units that monitor the prices of essential materials for its operations and regulations that apply to such prices. This enables it to pursue procurement management policies that mitigate these risks and to take action to protect the company's interests (e.g., master agreements that set fixed prices for the entire term of contracts and price review clauses when certain margins are exceeded). In particular, the company is constantly monitoring the electrical sector considering the various regulations issued by the Energy Authority adjusting the cost of energy in recent years.

With reference to stations and related services, the company is continuing work aimed at re-using and redeveloping the buildings and areas, including for social purposes, in order to improve accessibility for passengers/customers and projects focused on boosting connections and exchanges with other means of transport. As noted previously, 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 profit and reputation.

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

RFI S.p.A.has also updated the systems plan in order to take advantage of the innovation opportunities offered by digitalisation and increasingly improve internal and external customer services.

OUTLOOK

The macroeconomic trends have led to upwards revisions of growth forecasts for Italy in 2018, due to the stronger economy, the restructuring of banks and improved external international factors on one hand and, on the other, the slower tax consolidation process. Projections show that Italian GDP is expected to rise 1.4% in 2018 and 1.2% in the 2019-2020 two-year period. This recovery in economic activity is mainly due to the rise in domestic demand. Corporate confidence has returned to pre-recession levels, which is also demonstrated by the surge in spending for investments in the second half of 2017. Inflation is expected to dip temporarily in 2018 (annual average of 1.1%) but will then resume its gradual growth in the two years that follow as energy and food prices rise. Prices should begin increasing at an annual average of 1.5% over the next two years, reflecting the progressive improvement in the purchasing power of wages.

This outlook is based on the assumption that financial conditions will remain accommodating, with gradual adjustments in short and long-term interest rates, sound conditions on government bond markets and lending terms that are relatively relaxed. Overall, GDP trends should continue to benefit from expansive economic policies, although less than in the past.

The most significant risks in this context remain the geopolitical risks arising from the international context (the Middle East and North Korea) and the performance of financial markets. Heightening global tension and uncertainty surrounding the economic policies in the different areas could translate into spikes in volatility on financial markets and credit risk premiums, with negative repercussions on the Eurozone economy. In addition to the uncertainties in the international arena, the Italian macroeconomic context presents specific unknowns as we await the outcome of the new government's political negotiations.

In line with previous plan, the 2018-2026 business plan approved by the board of directors in November 2017 is based on this macroeconomic context and sets extremely ambitious business targets founded on the concepts of integration, insourcing and digitalisation, in which the company plays a decisive role in the development of a transport system that is increasingly secure, integrated, sustainable and capable of creating value for the market.

As described in detail in the directors' report to which reference should be made, RFI S.p.A. met a series of important milestones in the highly challenging first year of the business plan, and 2018 promises to be even more challenging in terms of its financial and performance targets. The volume of investments that RFI S.p.A. has developed and continues to develop confirm its credibility with public and private institutions, denoting its absolute expertise, reliability and vital role in the country's macreconomic context, thanks not only to the jobs it creates. The company has demonstrated its ability to interpret the new economic context and translate it into business strategies, setting challenging objectives and rapidly adjusting to new governance requirements, a process that has included implementing new control systems that privilege the professionalism, integrity and transparency with which the company operates.

The company has turned its attention to integrated infrastructures with significant investments in engineering and plans to continue to do so. It has set the short-term goal of finding a common ground for the application of shared road and rail technology with the three-fold aim of maximising safety, minimising costs without overlapping investments and making the end result for users more efficient. This strategy also encompasses RFI S.p.A.'s efforts to integrate its national network (spanning over 16,700 km) with that of the former railway companies (integrating over 2,500 km of track, out of a total of 3,500 km) in order to further extend the railway service and achieve door-to-door coverage, achieve more efficiency by bringing the entire national railway

network under one single operator, and develop new routes, shortening travel times and improving safety by attaining high technological standards.
The offer of railway routes will therefore grow through the expansion of local connections with new interconnections and alternative routes. RFI S.p.A. has selected potential targets for this railway company integration project based on criteria of technical compatibility and network extension to identify the former railway companies that are most suited to integration within RFI S.p.A.'s national network.
As part of this strategy, RFI S.p.A. signed an agreement with the Umbra region, Umbria TPL e Mobilità S.p.A. ("FCU") to govern RFI S.p.A.'s succession in the management of the Umbria regional railway infrastructure pursuant to article 47.4.2 of Decree law no. 50 of 24 April 2017, converted into Law no. 96 of 21 June 2017. In 2018, the FCU business unit will be transferred to RFI S.p.A. with the transaction close, following the institutional procedures for the signing of formal deeds and the concurrent issue of an Umbria region concession to RFI S.p.A. and the signing of the regional Government Programme Contract.
In addition, in late 2017, RFI S.p.A. signed an agreement with the Emilia Romagna regional and Ferrovie Emilia Romagna S.r.l. to govern the activities and commitments necessary to begin the redevelopment of the entire railway network in Emilia Romagna by implementing article 47 of the aforementioned law, in accordance with the relevant EU, Italian and regional regulations. This redevelopment will improve network management and pave the way for the future transfer of the lines that will become part of the national railway infrastructure.
In 2018, the MIT is expected to issue decrees in concert with the MEF identifying which regional railway lines are of interest for the national railway network and are therefore eligible for government funding for investments on those lines. Based on the agreement described above, in 2018, RFI S.p.A. will hold talks with the region and the MIT to agree on works to be carried out on the railway lines in the region and to determine the regional network to be integrated in the national network. RFI S.p.A.'s succession in the regional network management is aimed at guaranteeing safety, efficiency and lower costs in light of the synergies and economies of scale that it will generate.

RFI S.p.A. plays a pivotal role in the field of interoperability since the connection of roads, ports and airports is at the foundation of a strategy to boost Italy's performance and competitive edge. In the broadest sense of interoperability and in the pursuit of its shortest-term operational objective, RFI S.p.A. is committed to integrating technological solutions that combine railway and road infrastructures, never losing sight of the three-fold targets of improving safety, cutting costs and satisfying end users.

In close connection with these areas, RFI S.p.A. is a crucial force in the development of the Connection, which is to say the physical link between the points on the metropolitan railway and hub network, striving to reduce travel and waiting times and thereby contributing to the shift in the concept of the city and commuting and, therefore, breaking down the cultural barriers between cities. This social role includes the granting of increasingly larger spaces at stations to not-for-profit activities and promoting the use of green means of transport with the right emphasis on healthy and sustainable environmental practices.

In addition, FS Italiane group finalised the acquisition of ANAS, with the aim of combining its operations with those of RFI S.p.A. to create an infrastructure hub to more efficiently design, plan and manage transport infrastructures by exchanging ideas and synergies with shared investment and maintenance policies and to more effectively and efficiency bid for tenders as a team. The aim is to shift from a concept of "interference" between the companies to one of "integration" for the design of mobility infrastructure.

The final transaction in this process is the merger of Centostazioni into RFI S.p.A., the plan for which RFI S.p.A.'s board of directors approved in February 2018. The plan provides for the transformation of many stations into intermodal hubs, with RFI S.p.A. acting as single manager of Italy's roughly 620 medium and medium-small railway stations.

The new organisational model developed for this purpose centralises a series of processes within RFI S.p.A.: the definition of development strategies for all stations and related services, governance over design and monitoring of commercial policies to develop stations in accordance with the station concept and the definition of standard station lay-outs and business management services, ensuring that stations are similar and recognisable throughout the country. In line with the strategy outlined in the 2018-2026 business plan, this station network reorganisation and development projects will entail the transfer of management of the Centostazioni activities/stations not currently within the scope of development by RFI S.p.A. back to the single operator model, so they can be managed together with those under RFI S.p.A.'s direct management. Therefore, the target for 2018 is to take back management of the rail operations previously performed by Centostazioni at the stations in its network, such as infrastructure activities and certain non-retail services that are closely related to passenger mobility.

In this new vision, RFI S.p.A. will therefore play a central role in the relaunch of stations as integrated, sustainable mobility hubs, the beating heart of the metropolis and the force behind urban mobility. The railway station will be the gateway to the smart city and the place where passengers enjoy the innovative solutions designed specifically for them.

In this new paradigm, stations will increasingly become attractive places to be, through the creation of new services for the city.

With its Easy Station and Smart Station projects, RFI S.p.A. aims to improve accessibility, with a special focus on services for people with reduced mobility, ensure public information, reconfigure spaces, implement station Wi-Fi throughout Italy, create a smart energy management platform and ensure better security.

The installation of high-tech solutions has made it possible to launch new services for passengers, transforming their experience at the station.

The company has devoted specific attention to innovation, and this focus has included a business reorganisation process entailing the establishment of a research and development centre to evaluate the creation of prototypes for new railway systems by gathering innovation requests from the various businesses, justifying and supporting them – including at IT level – tracking their progress and bringing them to life, thereby increasing the intrinsic value of the company's products. These requirements (which relate to commercial operations, e.g., network development and the increase in capacity; functional needs and maintenance; technical aspects, such as those resulting from legal regulations; and pure technological innovation) are in line with the business plan's aim of updating the network technology in the constant pursuit of better safety. This corporate reorganisation will lead to consistent, standardised technology and systems throughout Italy.

It has evaluated approximately 90 requests for technological innovation and commenced studies (preliminary research) on around 35 of these, often in collaboration with Italy's most prestigious universities. In 2018, this will translate into the development of prototypes for laboratory testing, then the start of the qualification process for products to be tested in operations and, finally, approval of the final products for use in operations.

With respect to international services, RFI S.p.A. has set the goal of exporting its sophisticated technological expertise outside Europe and "standardising" applied technologies to resolve the issue of transition outside Italy.

As described in extensive detail in the directors' report to which reference should be made, the railway context is, in 2018, highly regulated. Specifically, ART measure 58 of regulation no. 96 "*Provisions on the coming into force of the new toll system*" provided for the first year of application of the new tariffs for the minimum access package, while the tariffs regulated under measure 40 of ART regulation no. 96/2016 apply to the other services provided to the railway companies, accordingly to the methods established for each individual service, as in 2017. In addition, the impact of these tariffs on the shunting services at border stations has yet to be assessed on the basis of ART regulation no. 140/2017 (measure 5.3.1.)
Lastly, with regulation no. 152 of 23 December 2017, concluding the regulatory procedure that began with regulation no. 77/2017, the ART adopted "*integrations of the principles and criteria regulating access to the national railway system in relation to the findings of the survey pursuant to regulation no. 127/2016 - impact of the introduction of innovative train operating methods on the passenger transport retail market in the open access premium segment".* This regulation, which will impact 2018, introduced technical/regulatory and economic provisions.

The provision concerning the pricing of electrical energy used for traction has a particularly significant impact on the market, requiring RFI S.p.A. to implement modulated tariffs according to the actual energy consumption of each train.

Also in terms of regulations and legislation applicable to the cost of electrical energy for traction, as described extensively in the directors' report to which reference should be made, the regulatory context in 2018 reflects the regulations issued with the Law of 20 November 2017 and the ARERA (the energy authority) interpretation, which impacted RFI S.p.A.'s general system cost component (back-dated for 2016 and 2017) but not its offsetting component (for 2018) for which RFI S.p.A. is a pass-through entity.

The government will continue to drive the "rail therapy" project again in 2018 with another increase in public funding for railway investments. The 2017-2026 business plan is based on the government's allocation of these resources (€56 billion). As noted in the directors' report, in addition to the funds earmarked in prior years, totalling €31.5 billion, 2018 will see the finalisation of the additional resources allocated in the 2018 Budget Act and the CIPE's 2014-2020 Development and Cohesion Fund during its meeting on 22 December 2017.
Alongside the government's commitment to continue the investments plan in line with the business plan, the company will continue financing its requirements through programmes cofinanced with the EU, such as the national and regional operating programmes for 2014-2020 and the Trans-European Network (the 2014-2020 Connecting Europe Facilities) financing programme. The total resources allocated up to 2017 will be formalised in the new 2017-2021 Government Programme Contract - Investments, which was sent to the MIT in its proposed version in late June 2017. Furthermore, activities are in progress for the preparation of the 2018 update to the

same contract, which will formalise the additional resources allocated in the 2018 Budget Act and the CIPE's 2014-2020 Development and Cohesion Fund during its meeting on 22 December 2017.

Despite the long-term contract with the government (2016-2021 GPC – Services) still being in effect, the resources allocated to cover ordinary maintenance and financial requirements for safety, security and traffic were significantly definanced by chapter 1541 of Law no. 205 of 27 December 2017 (Government budget for 2018 and long-term budget for 2018-2020). In particular, these resources were curtailed by €100 million from 2019, with the curtailments referring to grants related to income under the new contract. Because of the significant impact of these changes on the company, it is currently evaluating, in coordination with the granting ministry and the MEF, how to raise the necessary resources to cover these cuts in light of the current contractual regulatory context.

This is all the more urgent considering that the company had evaluated the need to expand the scope of its activities as the infrastructure operator, with specific regard to the "station gate project", which provides for the introduction of access control gates for arriving and departing trains at the network's main stations, assistance to people with reduced mobility and activities relating to repair carriages, translating into greater requirements for government funds.

FINANCIAL STATEMENTS AT 31 DECEMBER 2017
FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

			Euros
	Notes	**31 December 2017**	**31 December 2016**
Assets			
Property, plant and equipment	*(5)*	33,603,095,382	33,546,932,341
Investment property	*(6)*	1,122,197,030	1,137,534,622
Intangible assets	*(7)*	540,874,238	437,945,222
Equity investments	*(8)*	132,310,527	132,701,549
Non-current financial assets (including derivatives)	*(9)*	1,699,827,082	2,166,252,083
Non-current trade receivables	*(12)*	3,416,940	1,719,032
Other non-current assets	*(10)*	1,214,159,869	1,976,562,225
Total non-current assets		**38,315,881,068**	**39,399,647,074**
Inventories	*(11)*	644,358,670	500,751,549
Construction contracts	*(11)*	54,082,348	30,955,352
Current trade receivables	*(12)*	524,910,358	867,931,291
Current financial assets (including derivatives)	*(9)*	795,129,520	697,102,641
Cash and cash equivalents	*(13)*	1,138,003,046	1,168,778,808
Tax assets	*(14)*	17,055,152	17,054,156
Other current assets	*(10)*	3,938,405,945	2,200,818,272
Total current assets		**7,111,945,039**	**5,483,392,069**
Total assets		**45,427,826,107**	**44,883,039,143**
Equity			
Share capital	*(15)*	31,525,279,633	31,525,279,633
Reserves	*(15)*	106,845,036	47,806,571
Valuation reserves	*(15)*	(220,855,917)	(235,808,406)
Retained earnings	*(15)*	1,668,060,439	1,596,329,614
Profit for the year	*(15)*	261,500,769	180,769,289
Total equity		**33,340,829,960**	**33,114,376,701**
Liabilities			
Non-current loans and borrowings	*(16)*	3,321,839,305	3,519,125,338
Post-employment benefits and other employee benefits	*(17)*	673,549,338	693,652,237
Provisions for risks and charges	*(18)*	515,061,792	522,209,108
Non-current financial liabilities (including derivatives)	*(19)*	23,110,412	34,196,208
Non-current trade payables	*(21)*	34,707,042	16,236,085
Other non-current liabilities	*(20)*	127,030,382	124,292,286
Total non-current liabilities		**4,695,298,271**	**4,909,711,262**
Current loans and borrowings and current portion of non-current loans and borrowings	*(16)*	714,189,446	783,349,204
Current trade payables	*(21)*	3,003,081,990	2,653,454,754
Current financial liabilities (including derivatives)	*(19)*	1,945,953	3,174,323
Other current liabilities	*(20)*	3,672,480,487	3,418,972,899
Total current liabilities		**7,391,697,876**	**6,858,951,180**
Total liabilities		**12,086,996,147**	**11,768,662,442**
Total equity and liabilities		**45,427,826,107**	**44,883,039,143**

INCOME STATEMENT

	Notes	2017	2016
			Euros
Revenue from sales and services	*(22)*	2,192,919,334	2,274,194,752
Other income	*(23)*	344,806,731	301,072,651
Total revenue		**2,537,726,065**	**2,575,267,403**
Personnel expense	*(24)*	(1,445,195,418)	(1,416,963,569)
Raw materials, consumables, supplies and goods	*(25)*	(617,737,537)	(777,538,973)
Services	*(26)*	(683,172,905)	(634,872,343)
Use of third-party assets	*(27)*	(52,654,633)	(48,889,501)
Other operating costs	*(28)*	(134,637,995)	(139,507,042)
Internal work capitalised	*(29)*	874,950,910	799,212,786
Total operating costs		**(2,058,447,578)**	**(2,218,558,642)**
Amortisation and depreciation	*(30)*	**(107,722,951)**	**(93,866,970)**
Net reversals of impairment losses	*(31)*	**(39,024,123)**	**(22,607,156)**
Accruals	*(32)*	**(40,000,000)**	**(25,000,000)**
Operating profit		**292,531,413**	**215,234,635**
Financial income and expense		**(31,030,644)**	**(34,465,346)**
Financial income	*(33)*	14,230,836	8,452,337
Financial expense	*(34)*	(45,261,480)	(42,917,683)
Pre-tax profit		**261,500,769**	**180,769,289**
Income taxes	*(36)*	–	–
Profit from continuing operations		**261,500,769**	**180,769,289**
Profit for the year		**261,500,769**	**180,769,289**

STATEMENT OF COMPREHENSIVE INCOME

			Euros
	Notes	**2017**	**2016**
Profit for the year		**261,500,769**	**180,769,289**
Items that will not be reclassified to profit or loss			
Actuarial gains (losses)	*(15)*	(14,780,560)	(10,439,968)
Tax effect on actuarial gains (losses)			
Items reclassified to profit or loss	*(15)*	**18,682,555**	**21,286,702**
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	*(15)*	11,050,494	2,297,785
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 (expense), net of the tax effect		**14,952,489**	**13,144,519**
Comprehensive income		**276,453,258**	**193,913,808**

STATEMENT OF CHANGES IN EQUITY

(Euros)

	Equity								
		Reserves							
		Reserves	Valuation reserves						
	Share capital	Legal reserve	Hedging reserve	Actuarial reserve	Other reserves	**Total reserves**	Retained earnings (losses carried forward)	Profit for the year	**Total equity**
Balance at 1 January 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									–
Comprehensive income									
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**
Balance at 1 January 2017	**31,525,279,633**	**47,806,571**	**(110,552,413)**	**(125,255,993)**		**(188,001,835)**	**1,596,329,614**	**180,769,289**	**33,114,376,701**
Dividend distribution								(100,000,000)	**(100,000,000)**
Allocation of profit for the previous year		9,038,465				9,038,465	71,730,825	(80,769,289)	–
Decreases from demerger					50,000,000	50,000,000			**50,000,000**
Comprehensive income						–			–
of which:						–			–
Cash flow hedges - effective portion of changes in fair value			11,050,494			11,050,494			**11,050,494**
Actuarial losses				(14,780,560)		(14,780,560)			**(14,780,560)**
Other changes			18,682,555			18,682,555			**18,682,555**
Profit for the year								261,500,769	**261,500,769**
Balance at 31 December 2017	**31,525,279,633**	**56,845,036**	**(80,819,364)**	**(140,036,553)**	**50,000,000**	**(114,010,881)**	**1,668,060,439**	**261,500,769**	**33,340,829,960**

STATEMENT OF CASH FLOWS

	Notes	2017	2016
			Euros
Profit for the year		**261,500,769**	**180,769,289**
Amortisation and depreciation	*(30)*	107,722,951	93,866,970
Accruals to the provisions for risks	*(24)(26) (28)(32)*	101,881,197	79,112,023
Impairment losses	*(31)*	61,598	10,560,891
Accruals for employee benefits	*(17)*	7,209,567	7,488,264
Accruals to provisions and impairment losses		**109,152,362**	**97,161,178**
Profits on sales	*(23) (28)*	(56,814,411)	(30,383,167)
Change in inventories	*(11)*	(166,734,118)	(86,900,416)
Change in trade receivables	*(12)*	341,323,026	(87,104,438)
Change in trade payables	*(21)*	368,098,194	134,088,390
Change in other assets and liabilities	*(10) (20)*	(750,292,620)	(533,727,482)
Utilisation of the provisions for risks and charges	*(18)*	(109,028,514)	(48,268,870)
Payment of employee benefits	*(17)*	(42,093,026)	(39,066,504)
Net cash flows generated by (used in) operating activities		**62,834,613**	**(319,565,050)**
Increases in property, plant and equipment	*(5)*	(4,252,230,326)	(4,068,406,411)
Investment property	*(6)*	(461,700)	(319,642)
Increases in intangible assets	*(7)*	(106,053,323)	(73,623,044)
Increases in equity investments	*(8)*	(62,725,400)	(87,780,910)
Investments, before grants		**(4,421,470,749)**	**(4,230,130,007)**
Grants for property, plant and equipment	*(5)*	4,147,712,958	4,228,877,365
Grants for investment property	*(6)*	461,700	
Grants for intangible assets	*(7)*		
Grants for equity investments	*(8)*	62,725,400	87,780,910
Grants		**4,210,900,058**	**4,316,658,275**
Decreases in property, plant and equipment	*(5)*	84,125,097	78,877,723
Decreases in investment property	*(6)*	13,135,236	198,690
Decreases in intangible assets	*(7)*	–	664
Decreases in equity investments and profit-sharing arrangements	*(8)*	329,434	153,000
Decreases		**97,589,767**	**79,230,077**
Net cash flows generated by (used in) investing activities		**(112,980,924)**	**165,758,345**
Disbursement and repayment of non-current loans	*(16)*	(166,348,598)	(437,163,477)
Disbursement and repayment of current loans	*(16)*	(100,097,222)	300,045,208
Change in financial assets	*(9)*	459,557,655	469,343,028
Change in financial liabilities	*(19)*	17,418,884	21,908,337
Dividends	*(15)*	(100,000,000)	(30,000,000)
Changes in equity		**–**	**–**
Net cash flows generated by financing activities		**110,530,719**	**324,133,096**
Total cash flows		**60,384,408**	**170,326,391**
Opening cash and cash equivalents		**1,297,006,243**	**1,126,679,855**
Closing cash and cash equivalents	*(9) (13)*	**1,357,390,651**	**1,297,006,243**
of which: intragroup current account		**219,387,605**	**128,228,073**

NOTES TO THE FINANCIAL STATEMENTS

1. Introduction

Rete Ferroviaria Italiana S.p.A. (the "company" or "RFI S.p.A.") is a company incorporated and domiciled in Italy which operates in accordance with the laws of the Italian Republic. The company has its registered office in Rome.

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

The directors approved the publication of these financial statements on 6 March 2018 and they will be submitted to the shareholders for approval and subsequent filing within the terms established by law. The shareholders have the power to make changes to these financial statements.

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

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

2. Basis of preparation

These financial statements as at and for the year ended 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Union pursuant to EC Regulation no. 1606/2002 and in effect at the reporting date ("IFRS"). Specifically, the company has consistently applied the IFRS to all periods presented in these financial statements.

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

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

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

The annual report also includes the directors' report.

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

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

3. 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, in its useful life, 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 S.p.A. uses the number of train-km actually sold during the year and resulting from the company's specific monitoring system, as the indicator of the quantity generated during the year.
The depreciation rates applied in 2017 and 2016 are as follows:

	Production indicators	
	2017	**2016**
Padana cross-rail and international transits (Line A)	2.16%	2.13%
North Tyrrhenian line and confluent lines (Line B)	2.18%	2.10%
Backbone and confluent lines (Line C)	2.20%	2.13%
South Tyrrhenian line (Line D)	2.24%	2.22%
Adriatic line and Apennines cross-rails (Line E)	2.29%	2.21%
Complementary network (Line F)	2.22%	2.18%
HS/HC network (Line G)	2.37%	2.02%

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

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

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

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

Financial instruments

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 are derecognised when 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 with the 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;
- using market value calculation models for collars.

The inputs used to feed the above models reflect observable market parameters, which are available with the main financial 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 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 decrees and regulations introduced significant amendments to TFR regulations, including the employees' right to choose to transfer the TFR being accrued either to supplementary pension funds or to the "Treasury Fund" managed by INPS (the Italian Social Security Institute). Consequently, the obligation to INPS and the contributions paid into supplementary pension funds are now treated, pursuant to IAS 19 Employee benefits, as defined contribution plans, while the amounts recognised under post-employment benefits at 1 January 2007 are still treated as defined benefit plans.

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 to use resources that produce economic benefits in order to settle the obligation or because the obligation cannot be estimated with sufficient reliability.

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 with 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.

Dividends

They are recognised in profit or loss when the shareholders' right to receive payment thereof arises. The latter usually coincides with the shareholders' resolution approving dividend distribution.

Dividends distributed to the company's shareholders are presented as a change in equity and recognised under liabilities when their distribution is approved by the shareholders.

Cost recognition

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

Income taxes

Current taxes are calculated based on estimated taxable income and in accordance with ruling tax legislation. Deferred tax assets, 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.

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.

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 coordinated 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 12 – Income taxes

On 19 January 2016, the IASB issued some amendments to IAS 12 - Income taxes. The document Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 1) clarifies the accounting for deferred tax assets on debt instruments measured at fair value. The amendments apply to annual periods beginning on or after 1

January 2017. Application of the amendments did not have a material effect on these financial statements due to their nature and/or scope.

Amendments to IAS 7 – Statement of cash flows

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

Accounting standards, amendments and interpretations endorsed by the European Union, but not adopted earlier by the company

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

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

Estimated effects of the adoption of IFRS 15 and IFRS 9

The effects of the impact of the adoption of IFRS 15 - Revenue from contracts with customers and IFRS 9 - Financial instruments, set for 1 January 2018, on the financial statements were calculated beforehand. This estimate is based on the assessments carried out up to the date of presentation of the financial statements and showed the following:

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

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

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

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

IFRS 15 – Revenue from contracts with customers and amendments

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

IFRS 9 – Financial instruments

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

In light of the findings of the work groups set up specifically to conduct gap analyses on the application of IFRS 9, despite the significance of the critical masses affected by this standard, especially in relation to the measurement of financial assets (impairment), the company does not expect any significant impact on its financial position or results of operations. This is because: i) the application of the expected loss model to most of the balances in question with debtors (including the government and other public bodies) indicates impairment losses that are immaterial considering the solvency and the progress of allocation of the same financial assets (where applicable); and ii) the company has exercised the option permitted by the IASB to continue applying the hedge accounting criteria of IAS 39 for derivative financial instruments. However, even if the company had applied IFRS 9, this would not have had any significant impacts given the nature of these instruments and the simplified approach permitted by the standard.

IFRS 16 – Leasing

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

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

Amendments to IFRS 4 – Insurance contracts

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

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

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

IFRS 14 – Regulatory deferral accounts

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

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

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

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

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

Annual Improvements to IFRS: 2014-2016 Cycle

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

IFRIC 22 – Foreign currency transactions and advance consideration

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

Amendment to IAS 40 – Investment property

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

IFRIC 23 – Uncertainty over income tax treatments

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

Amendments to IFRS 9 - Prepayment features with negative compensation

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

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

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

Annual improvements to IFRS: 2015-2017 cycle

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

Use of estimates and valuations

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

The cost of property, plant and equipment and investment property and of intangible assets with a finite useful life is depreciated/amortised based on production volumes, as described in detail in the note to property, plant and equipment. The company assesses any technological, usage and sector changes to update these volumes on a regular basis. These updates may entail a change in the amortisation and depreciation period and in the amortisation and depreciation rates of future years.

Calculating depreciation and amortisation entails a complex accounting estimate that is influenced by multiple factors, including estimated production volumes expressed as train-km, the estimated residual value and any changes in the regulatory structure.

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

4. 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.

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

thousands of Euros

	31 December 2017	31 December 2016
Non-current financial assets (including derivatives)	1,699,827	2,166,252
Non-current financial assets (including derivatives)	**1,699,827**	**2,166,252**
Non-current trade receivables	3,417	1,719
Non-current trade receivables	**3,417**	**1,719**
Other non-current assets	1,214,160	1,976,562
Other non-current assets	**1,214,160**	**1,976,562**
Construction contracts	**54,082**	**30,955**
Current trade receivables	658,448	999,998
Allowance for impairment	(133,538)	(132,067)
Current trade receivables	**524,910**	**867,931**
Current financial assets (including derivatives)	795,130	697,103
Current financial assets (including derivatives)	**795,130**	**697,103**
Cash and cash equivalents	**1,138,003**	**1,168,779**
Other current assets	3,942,003	2,206,437
Allowance for impairment	(3,597)	(5,619)
Other current assets	**3,938,406**	**2,200,818**
Total exposure, net of the allowance for impairment (*)	**9,367,935**	**9,110,119**

(*) 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 December 2017	31 December 2016
Public administration, Italian government and regions	6,187,305	5,628,606
Ordinary customers	245,941	262,908
Financial institutions*	308,346	188,903
Other debtors	1,488,340	1,860,923
Total exposure, net of the allowance for impairment	**8,229,932**	**7,941,340**

* it includes the balance of the intragroup current account held with the parent (€219,387 thousand at 31 December 2017).

	31 December 2017	31 December 2016
Public administration, Italian government and regions	75%	71%
Ordinary customers	3%	3%
Financial institutions	4%	2%
Other debtors	18%	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.

The tables below show financial assets at 31 December 2017 and 2016, 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 December 2017					
		Overdue by				
	Not overdue	0-180	180-360	360-720	beyond 720 days	Total
Public administration, Italian government and regions (gross)	6,179,970	6,254	1,126	11,429	5,862	6,204,641
Allowance for impairment	(3,050)			(8,424)	(5,862)	(17,336)
Public administration, Italian government and regions (net)	**6,176,920**	**6,254**	**1,126**	**3,005**	**–**	**6,187,305**
Ordinary customers (gross)	136,343	43,259	28,811	124,766	28,964	362,143
Allowance for impairment	(23,024)			(64,214)	(28,964)	(116,202)
Ordinary customers (net)	**113,319**	**43,259**	**28,811**	**60,552**	**–**	**245,941**
Total exposure, net of the allowance for impairment	**6,290,239**	**49,513**	**29,937**	**63,557**	**–**	**6,433,246**

thousands of Euros

	31 December 2016					
		Overdue by				
	Not overdue	0-180	180-360	360-720	beyond 720 days	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**

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.

As for Ferrovie dello Stato Italiane group's other main companies, the parent oversees RFI S.p.A.'s cash management using the intragroup current account, enabling the company to manage its cash needs for ordinary operations using committed funds that it may request from the parent.

Furthermore, RFI S.p.A. holds a non-interest bearing current account with the MEF, included under cash and cash equivalents and amounting to €1,133 thousand, to ensure that the amounts disbursed by the government to finance RFI S.p.A.'s investments match the progress of the investments.

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 S.p.A. a three-year revolving and committed intragroup 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.
The company used this credit facility in 2017, which has an active balance of €200 million at 31 December 2017.

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

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

thousands of Euros

31 December 2017	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	1,579,792	1,868,589	114,834	114,919	230,258	648,772	759,807
Loans and borrowings from other financial backers	159,377	168,814	31,807	15,902	31,816	76,686	12,603
Loans and borrowings from group companies	2,296,859	2,529,672	304,803	239,080	343,880	1,332,310	309,600
Total	**4,036,028**	**4,567,075**	**451,443**	**369,901**	**605,954**	**2,057,768**	**1,082,009**
Trade payables	**3,028,168**	**3,028,168**	**388,483**	**2,604,978**	**34,707**		
Derivative financial liabilities	**23,110**	**25,153**	**5,774**	**4,501**	**7,003**	**7,470**	**405**

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

thousands of Euros

31 December 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	114,818	229,972	693,805	942,407
Loans and borrowings from other financial backers	186,797	200,461	31,807	31,807	31,804	95,686	25,262
Loans and borrowings from group companies	2,351,855	2,635,263	400,113	400,113	339,080	1,656,990	
Total	**4,302,474**	**4,931,545**	**546,738**	**546,738**	**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**	**90,023**	**14,444**	**1,766**

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

The contractual flows from variable-rate loans have been calculated using the forward rates estimated at the reporting date.

Loans and borrowings from group companies comprise the current portion of loans from the parent which, due to their nature, are among those due within 6 months.

Most amounts relate 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 2017 and 2016 by due date within one year, from 1 to 5 years and after 5 years.

thousands of Euros

31 December 2017	Carrying amount	Within one year	1-5 years	Beyond 5 years
Non-derivative financial liabilities*				
Bank loans and borrowings	1,579,792	193,196	741,555	645,040
Loans and borrowings from other financial backers	159,377	44,154	102,723	12,500
Loans and borrowings from group companies	2,296,859	476,838	1,520,984	299,036
Total	**4,036,028**	**714,188**	**2,365,262**	**956,576**

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

thousands of Euros

31 December 2016	Carrying amount	Within one year	1-5 years	Beyond 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**

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

Market risk

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

The objective of the market risk management is the management and control of the company’s exposure to this risk within acceptable levels, while optimising returns on investments.

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 S.p.A. 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 S.p.A. 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 2017, the outstanding notional amount is €100 million.

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

The outstanding notional amount is €457 million at 31 December 2017.

Fair value estimate

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

- determining the net present value of future flows for swaps;
- calculating option contracts (caps and collars) using market value calculation models.

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

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

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

						thousands of Euros
	Carrying amount	**Contractual flows**	**Current portion**	**1-2 years**	**2-5 years**	**beyond 5 years**
- variable rate	1,070,907	1,091,462	339,216	133,472	358,975	259,798
- fixed rate	2,965,121	3,475,613	482,127	472,482	1,698,792	822,211
Balance at 31 December 2017	**4,036,028**	**4,567,075**	**821,344**	**605,954**	**2,057,768**	**1,082,009**
- 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**

*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 December 2017	**31 December 2016**
Before hedging with derivatives		
variable rate	26.5%	30.3%
fixed rate	73.5%	69.7%
After hedging with derivatives		
variable rate	10.3%	12.2%
hedged variable rate	5.0%	5.8%
fixed rate	84.8%	81.9%

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 2017.

	+ 50 bps shift	**- 50 bps shift**
Interest expense on variable-rate debt	2,642	(493)
Net cash flow from hedges	(3,350)	2,581
Total	**(708)**	**2,088**

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 €708 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 €2,088 thousand higher.

The following sensitivity analysis shows the effects of a parallel shift of 50 basis points up or down in the swap rate curve at 31 December 2017 on the fair value of the derivative financial instruments. The effects would be substantially recognised in the specific equity reserve.

	+ 50 bps shift	- 50 bps shift
Fair value of hedging derivatives	8,124	(8,379)
Total	**8,124**	**(8,379)**

Currency risk

RFI S.p.A. 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 December 2017	Loans and receivables	Loans and borrowings	of which: hedging derivatives
Non-current financial assets (including derivatives)	1,699,827		
Non-current trade receivables	3,417		
Other non-current assets	1,214,160		
Construction contracts	54,082		
Current trade receivables	524,910		
Current financial assets (including derivatives)	795,130		
Cash and cash equivalents	1,138,003		
Tax assets	17,055		
Other current assets	3,938,406		
Non-current loans and borrowings		3,321,839	
Non-current financial liabilities (including derivatives)		23,110	23,110
Non-current trade payables		34,707	
Other non-current liabilities		127,030	
Current loans and borrowings and current portion of non-current loans and borrowings		714,189	
Current trade payables		3,003,082	
Tax liabilities		–	
Current financial liabilities (including derivatives)		1,946	
Other current liabilities		3,672,480	

thousands of Euros

31 December 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	

5. 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	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 December 2016	**29,263,910**	**72,711**	**98,738**	**128,255**	**71,871**	**3,911,447**	**–**	**33,546,932**
Investments	601	–	–	27	12	3,391,015	860,576	4,252,230
Roll-outs	3,476,640	2,168	4,947	82,019	5,731	(2,931,094)	(649,592)	(9,181)
Depreciation	(97,036)	(18)	(2,283)	(2,830)	(1,572)			(103,738)
Impairment losses	–	–	–	–	–	–	–	–
Extraordinary transactions (1)	81,353	–	–	–	–	–	–	81,353
Changes in historical cost due to extraordinary transactions	*178,321*	–	–	–	–	–	–	*178,321*
Decreases in accumulated depreciation due to demergers	*(38,366)*	–	–	–	–	–	–	*(38,366)*
Decreases due to reversals of impairment losses/impairment losses due to demerger	*(53,098)*	–	–	–	–	–	–	*(53,098)*
Changes in grants due to demerger	*(5,504)*	–	–	–	–	–	–	*(5,504)*
Change in grants	(3,158,133)	(1,754)	(4,560)	(80,245)	(5,619)	(677,415)	(210,984)	(4,138,709)
Disposals and divestments	(25,696)	–	–	(1,046)	(543)	–	–	(27,285)
Decreases in historical cost due to disposals and divestments	*(121,212)*	*(11)*	*(565)*	*(4,051)*	*(5,004)*	–	–	*(130,843)*
Decreases in accumulated depreciation due to divestments	*40,536*	–	*83*	*2,523*	*2,426*	–	–	*45,569*
Decreases in grants due to other divestments	*41,754*	*11*	*481*	*243*	*1,827*	–	–	*44,318*
Decreases in impairment losses/reversals of impairment losses due to divestments	*13,225*	–	–	*239*	*208*	–	–	*13,672*
Other reclassifications	11,475	(9,105)	65	44	(203)	(783)	–	1,494
Changes in historical cost due to other reclassifications	*51,763*	*(45,543)*	*122*	*23*	*(182)*	*(58,624)*	*(2,363)*	*(54,805)*
Changes in accumulated depreciation due to reclassifications	*(28,238)*	*27,600*	*(13)*	*(1)*	*73*	–	–	*(578)*
Changes in grants due to reclassifications	*(6,547)*	*6,991*	*(29)*	*29*	*(142)*	*57,842*	*2,363*	*60,507*
Changes in impairment losses/reversals of impairment losses due to reclassifications	*(5,503)*	*1,847*	*(15)*	*(7)*	*48*	–	–	*(3,630)*
Total changes	**289,204**	**(8,708)**	**(1,831)**	**(2,031)**	**(2,193)**	**(218,277)**	**–**	**56,163**
Historical cost	88,682,929	155,846	448,163	730,608	356,092	22,906,980	4,228,267	117,508,884
Depreciation and impairment losses	(23,725,104)	(69,358)	(242,085)	(356,318)	(203,439)	(1,553,231)	–	(26,149,535)
Grants	(35,404,711)	(22,485)	(109,171)	(248,066)	(82,975)	(17,660,578)	(4,228,267)	(57,756,254)
Balance at 31 December 2017	**29,553,114**	**64,002**	**96,907**	**126,224**	**69,678**	**3,693,170**	**–**	**33,603,095**

(1) Partial demerger of FS to RFI S.p.A.

Grants related to assets

In 2017, grants related to assets under construction amount to €4,133,729 thousand, €3,574,541 thousand of which from the government. They can be analysed as follows:

- €29,784 thousand related to advances for grants related to assets from the MEF for infrastructure investments related to the HS/HC system;
- €3,342,077 thousand related to advances for grants related to assets from the MEF for infrastructure investments in the traditional network;
- €202,680 thousand related to advances for grants related to assets from the MIT for infrastructure investments in the traditional network.

The other grants related to assets amount to €559,188 thousand and were mainly disbursed by the European Union and local bodies (€557,168 thousand).

6. Investment property

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

thousands of Euros

	2017			31/12/2016		
	Land	Buildings	TOTAL	Land	Buildings	TOTAL
Balance at 1 January						
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)*	*(61,582)*
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**
Changes of the year						
Acquisitions (roll-out)	462	8,719	9,181	27	3,558	3,586
Reclassifications	(4,284)	2,007	(2,276)	(5,762)	5,902	140
Changes in historical cost due to reclassifications	*(6,521)*	*338*	*(6,183)*	*(7,348)*	*(50,481)*	*(57,829)*
Changes in accumulated depreciation due to reclassifications	*477*	*101*	*578*	*(333)*	*33,846*	*33,513*
Changes in grants due to reclassifications	*–*	*(302)*	*(302)*	*(28)*	*167*	*139*
Changes in impairment losses/reversals of impairment losses due to reclassifications	*1,761*	*1,870*	*3,631*	*1,948*	*22,370*	*24,318*
Disposals and divestments	(12,665)	(470)	(13,135)	(125)	(74)	(199)
Decreases in historical cost due to disposals and divestments	*(15,114)*	*(969)*	*(16,083)*	*(176)*	*(448)*	*(624)*
Decreases in accumulated depreciation due to divestments	*1,672*	*378*	*2,050*	*17*	*284*	*302*
Decreases in grants due to other divestments	*–*	*12*	*12*	*–*	*31*	*31*
Decreases in impairment losses/reversals of impairment losses due to divestments	*777*	*109*	*887*	*34*	*59*	*93*
Extraordinary transactions	–	–	–	–	–	–
Changes in historical cost due to extraordinary transactions	–	–	–	–	–	–
Changes in accumulated depreciation due to extraordinary transactions	–	–	–	–	–	–
Changes in reversals of impairment losses/impairment losses due to extraordinary transactions	–	–	–	–	–	–
Changes in grants due to extraordinary transactions	–	–	–	–	–	–
Reclassifications from/to “Assets held for sale”	–	–	–	–	–	–
Changes in historical cost due to reclassifications from/to assets held for sale	–	–	–	–	–	–
Change in grants	(462)	(8,568)	(9,029)	(27)	(3,097)	(3,124)
Depreciation (of the year)	*–*	*(78)*	*(78)*	*–*	*(64)*	*(64)*
Total changes	**(16,949)**	**1,611**	**(15,338)**	**(5,886)**	**6,225**	**339**

Balance at		**31 December**			**31 December**	
Cost	827,289	294,908	1,122,197	844,237	293,297	1,137,535
of which:						
Historical cost	*1,897,250*	*822,854*	*2,720,104*	*1,916,275*	*814,766*	*2,731,041*
Accumulated depreciation	*–*	*(320,149)*	*(320,149)*	*–*	*(320,550)*	*(320,550)*
Grants	*(3,540)*	*(70,316)*	*(73,856)*	*(3,078)*	*(61,458)*	*(64,537)*
Reversal of impairment losses - Impairment losses	*(1,066,421)*	*(137,481)*	*(1,203,902)*	*(1,068,959)*	*(139,460)*	*(1,208,419)*
Carrying amount	**827,289**	**294,908**	**1,122,197**	**844,237**	**293,297**	**1,137,535**

7. Intangible assets

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

thousands of Euros

	Development expenditure	Concessions, licences, trademarks and similar rights	Assets under development and payments on account	Total
Historical cost	106,775	471,477	292,115	870,366
Amortisation and impairment losses	(79,439)	(129,060)	(4,746)	(213,245)
Grants	(6,214)	(194,393)	(18,570)	(219,177)
Balance at 31 December 2016	**21,122**	**148,024**	**268,799**	**437,945**
Investments			106,053	106,053
Roll-outs	7,637	55,815	(63,453)	–
Amortisation	(463)	(3,444)	–	(3,907)
Impairment losses				–
Changes and grants	(7,637)	(52,568)	60,205	–
Disposals and divestments				–
Decreases in historical cost due to disposals and divestments	–	–	–	–
Decreases in accumulated depreciation due to divestments	–	–	–	–
Decrease in impairment losses/reversals of impairment losses due to divestments	–	–	–	–
Other reclassifications	–	–	783	783
Changes in historical cost due to other reclassifications	–	–	*60,987*	*60,987*
Changes in accumulated amortisation due to reclassifications	–	–	–	–
Changes in grants due to other reclassifications	–	–	*(60,205)*	*(60,205)*
Total changes	**(463)**	**(196)**	**43,383**	**103,712**
Historical cost	114,412	527,292	395,703	1,037,407
Amortisation and impairment losses	(79,902)	(132,503)	(4,746)	(217,151)
Grants	(13,851)	(246,961)	(18,570)	(279,382)
Balance at 31 December 2017	**20,659**	**147,828**	**372,388**	**540,874**

8. Equity investments

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

thousands of Euros

	Carrying amount at 31 December 2017	Carrying amount at 31 December 2016
Equity investments in:		
Subsidiaries	76,222	76,613
Associates	7,077	7,077
Other companies	49,012	49,012
Total	**132,311**	**132,702**

thousands of Euros

	Carrying amount 31 December 2016	Changes of the year			Carrying amount 31 December 2017
		Impairment losses/ Reversals of impairment losses	Reclassifications	Divestments/ repayments	
Investments in subsidiaries					
Nord Est Terminal S.p.A. in liquidation	390	(62)	–	(328)	–
Tunnel Ferroviario del Brennero - Società di partecipazioni S.p.A.	48,455	–	–	–	48,455
Terminal Italia S.r.l.	6,538	–	–	–	6,538
Bluferries S.r.l.	21,229	–	–	–	21,229
Investments in associates					
Quadrante Europa Terminal Gate S.p.A.	7,077	–	–	–	7,077
Other companies					
Isfort S.p.A.	48	–	–	–	48
Stretto di Messina S.p.A. in liquidation	48,882	–	–	–	48,882
Interporto Marche S.p.A.	82	–	–	–	82
Total	**132,702**	**(62)**	**–**	**(328)**	**132,311**

thousands of Euros

	Carrying amount 31 December 2015	Changes of the year			Carrying amount 31 December 2016
		Impairment losses/ reversals of impairment losses	Reclassifications	Other changes	
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
Investments in associates					
Quadrante Europa Terminal Gate S.p.A.	7,393	(315)	–	–	7,077
Other companies					
Isfort S.p.A.	48	–	–	–	48
Stretto di Messina S.p.A. in liquidation	48,882	–	–	–	48,882
Interporto Marche S.p.A.	82	–	–	–	82
Total	**133,170**	**(315)**	**–**	**(153)**	**132,702**

Equity investments of €132,311 thousand decreased by €390 thousand in 2017 because of the subsidiary Nord Est Terminal S.p.A. was wound up and struck from the company registrar. In addition, the carrying amount of the equity investment in Tunnel Ferroviario del Brennero S.p.A. increased by €62,725 thousand, but this increase is not shown, as it was entirely offset by the increase in grants related to assets from the MEF and transferred to the subsidiary (section 7122).

In the following table, the carrying amounts of 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 (deficit) at 31 December 2017	% of investment	Attributable equity (a)	Carrying amount at 31 December 2017 (b)	Difference (b) - (a)
Equity investments in subsidiaries								
Tunnel Ferroviario del Brennero - Società di partecipazioni S.p.A.	Rome, Piazza della Croce Rossa 1	565,791	24	567,696	87.9%	499,118	48,455	(450,663)
Terminali Italia S.r.l.	Rome, Piazza della Croce Rossa 1	7,346	2,243	16,359	89.0%	14,560	6,538	(8,022)
Bluferries S.r.l.	Messina, Via Calabria 1	20,100	2,293	28,223	100.0%	28,223	21,229	(6,994)
Equity investments in associates								
Quadrante Europa Terminal Gate S.p.A.	Verona, Via Sommacampagna 61	16,876	(149)	14,165	50.0%	7,082	7,077	(5)

thousands of Euros

	% of investment	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit/ (loss)
31 December 2017										
Equity investments in associates										
Quadrante Europa Terminal Gate S.p.A.*	50.00%	1,011	17,799	**18,810**	944	3,700	**4,645**	1,177	1,326	**(149)**
31 December 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)**

*The company does not apply IFRS.

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

Financial assets are broken down below.

thousands of Euros

	Carrying amount								
	31 December 2017			31 December 2016			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	1,610,868	575,743	2,186,611	2,105,576	568,876	2,674,452	(494,708)	6,867	(487,841)
Loan assets	88,959	–	88,959	60,676	–	60,676	28,283	–	28,283
Other loan assets	–	219,387	219,387	–	128,227	128,227	–	91,160	91,160
Total	**1,699,827**	**795,130**	**2,494,957**	**2,166,252**	**697,103**	**2,863,355**	**(466,425)**	**98,027**	**(368,398)**

"Receivables from the MEF for the fifteen-year grants to be collected" of €2,186,611 thousand can be analysed as follows:

- €646,018 thousand related to the fifteen-year grants pursuant to article 1.84 of the 2006 Finance Act for the implementation of railway investments, obtained by means of discounting;
- €1,540,593 thousand related to the fifteen-year grants pursuant to article 1.964 of the 2007 Finance Act for the continuation of the projects involving the HS/HC capacity system of the Turin-Milan-Naples line.

The €487,841 thousand decrease in the receivables from the MEF is mainly due to:

- net decrease of €168,875 thousand in the grants as per article 1.84 of the 2006 Finance Act, due to the combined effect of the additional allocation of €31,125 thousand for interest accrued in 2017, and the collection of €200,000 thousand of the annual grant by the granting body in accordance with the collection proxy that it was given;
- net decrease of €318,966 thousand in the grants as per article 1.964 of the 2007 Finance Act, due to the combined effect of the additional allocation of €81,034 thousand for interest accrued in 2017 and the collection of €400,000 thousand of the annual grant.

Non-current loan assets of €88,959 thousand mainly refer to the restricted current account with Unicredit (€85,560 thousand). The amounts in this caption are usually restricted following seizures by third-party suppliers as a result of orders/injunctions to pay which were not honoured.

The €91,160 thousand increase in "Other loan assets" is mainly due to the current portion of this caption and refers to the increase in the receivable from the parent for the intragroup current account on 31 December 2016.

10. Other current and non-current assets

They can be analysed as follows:

thousands of Euros

	31 December 2017			31 December 2016			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Other assets from group companies	248,839	433,703	682,542	1,010,929	58,409	1,069,338	(762,090)	375,294	(386,796)
VAT credits	9	–	9	9	–	9	–	–	–
MEF and MIT	962,313	2,964,601	3,926,914	962,746	1,947,394	2,910,140	(433)	1,017,207	1,016,774
Grants related to assets from the EU, other ministries and other	–	47,787	47,787	–	23,295	23,295	–	24,492	24,492
Other government authorities	–	4,014	4,014	–	3,954	3,954	–	60	60
Sundry receivables	2,999	482,308	485,307	2,878	158,178	161,056	121	324,130	324,251
Prepayments and accrued income	–	9,590	9,590	–	15,207	15,207	–	(5,617)	(5,617)
Total	**1,214,160**	**3,942,003**	**5,156,163**	**1,976,562**	**2,206,437**	**4,182,999**	**(762,402)**	**1,735,566**	**973,164**
Allowance for impairment	–	(3,597)	(3,597)	–	(5,619)	(5,619)	–	2,022	2,022
Total net of the allowance for impairment	**1,214,160**	**3,938,406**	**5,152,566**	**1,976,562**	**2,200,818**	**4,177,380**	**(762,402)**	**1,737,588**	**975,186**

The net decrease of €386,796 thousand in "Other receivables from group companies" is mainly due to the combined effect of the following factors:

- the €254,101 increase in the receivable from the parent due after one year for VAT credits;
- collection of the 2016 VAT credit due from the parent within one year (€96,331 thousand);
- collection of the 2014 VAT credit due from the parent after one year (€233,666 thousand);
- collection of the 2015 VAT credit due from the parent after one year (€300,312 thousand);
- the €29,536 thousand decrease in other non-trade receivables, relating to the partial demerger from the parent to RFI S.p.A.;
- the €18,811 thousand increase in other non-trade receivables from other group companies, mainly due to performance regime penalties (€7,411 thousand), for services related to tolls and safety (€1,245 thousand);

Receivables from the MEF and the MIT at 31 December 2017 are analysed below:

thousands of Euros

	31 December 2016	Increase	Decreases	Other changes	31 December 2017
Grants related to income:					
- MEF: sec. 1541	–	975,557	(975,557)	–	–
Grants related to goods:					
- MIT: sec. 1274	51,113	139,772	(142,110)	–	48,775
Grants related to assets and investments:					
- MEF: sec. 7122	1,541,867	2,176,229	(2,396,107)	1,334,159	2,656,148
- MIT: sec. 7060-7514-7515-7518-7540-7532-7549-7550-7563	1,317,160	398,770	(529,435)	35,496	1,221,991
Total	**2,910,140**	**3,690,328**	**(4,043,209)**	**1,369,655**	**3,926,914**

During the year, the caption rose by a net €1,016,774 thousand due to the combined effect of the following factors:

- the recognition of new receivables for grants related to income, cargo, assets and investments of €3,690,328 thousand, broken down as follows:
  - grants related to income of €975,557 thousand (MEF section 1541) pursuant to the 2017 Budget Act;
  - grants related to cargo of €139,772 thousand (MIT section 1274), broken down as follows:
    - €48,775 thousand transferred to the network operator pursuant to article 47-bis. 6 of Law no. 96 of 21 June 2017 converting Decree law no. 50 of 24 April 2017;
    - grants related to cargo of €90,885 thousand (MIT section 1274) for amounts allocated under article 1.294 of Law no. 190/2014, allocated to the MIT by article 11.2-*ter* of Decree law no. 185 of 25 November 2015 (section 1274) and the related annual amounts for 2017, to be transferred to the railway companies;
    - grants related to cargo of €112 thousand (MIT section 1274) for amounts allocated under article 1 of Law no. 190/2014, allocated to the MIT by article 294-ter of Decree law no. 185 of 25 November 2015 (section 1274) and the related annual amounts for 2015, to be transferred to the railway companies;
  - grants related to assets of €2,176,229 thousand (MEF sections), of which:
    - €200,000 thousand (section 7122 – Management Programme ("MP") 1), allocated under article 1.176 of Law no. 228/2012 (2013 Stability Act) and refinanced by Law no. 190/2014 (2015 Stability Act) and reformulated for collection on MP2;
    - €287,488 thousand (section 7122 – MP2), allocated under article 1.86 of Law no. 266/2005 and included in Law no. 232/2016 (2017 Budget Act);
    - €420,000 thousand allocated under article 15.1 of Decree law no. 148 of 16 October 2017, converted into Law no. 172/2017;
    - €137,000 thousand for 2017, drawn from the resources, allocated under article 1.140 of the 2017 Budget Act and assigned to section 7122-MP2 of MEF decree no. 177410 of 16 October 2017;
    - €750,000 thousand (section 7122 of MP5) for 2017, allocated under article 1.73 of Law no. 147/2013 (2014 Stability Act) for extraordinary maintenance in relation to the amounts due as part of the Government Programme Contract - Services) and refinanced under Law no. 190/2014 (2015 Stability Act);
    - €320,000 thousand (section 7122 – MP7) for 2017, allocated under article 1.76 of Law no. 147/2013 (2014 Stability Act) for the Brescia Verona Padua – Apice Orsara line, and refinanced by Law no. 190/2014 (2015 Stability Act), €214,000 of which was reformulated for collection on MP2;
    - €50,000 thousand (section 7122 of MP8) for 2017, allocated under article 1.80 of Law no. 147/2013 (2014 Stability Act) for the update of the route and speeding up the Adriatic Bologna Lecce railway line, refinanced by Law no. 203/2015 (2016 Stability Act);

    - €10,000 thousand (section 7122 – MP9) for 2017, allocated under article 1.591 of Law no. 232/2016 (2017 Budget Act) for the construction of the new "Ferrandina – Matera la Martella" railway line;
    - €1,741 thousand (section 7123) for 2017 pursuant to Law no. 232/2016 (2017 Stability Act);
- €398,770 thousand related to the MIF sections, of which:
    - €100,000 thousand (section 7518) of amounts allocated under article 32.1 of Decree law no. 98/2011 (rail and road infrastructure fund), refinanced by Law no. 190/2014 (2015 Stability Act) and assigned to RFI S.p.A. for the Milan-Genoa HS/HC line: Third Giovi pass - III construction lot;
    - €15,000 thousand (section 7549) allocated under Law no. 164/2014 for 2017 for the elimination and automation of railroad crossings, making the terminal section of the Adriatic Bologna-Lecce corridor in Puglia a priority;
    - €4,800 thousand (section 7550) of the 2017 portion due to RFI S.p.A. out of the amounts allocated under Law no. 164/2014 for 2016 to upgrade the Cuneo-Ventimiglia railway line to safety standards;
    - €130,000 thousand (section 7518) allocated under Law no. 164/2014 ("Get Italy Moving" law) for 2017 for the Milan-Genoa HS/HC line: Third Giovi pass, as reformulated by Law no. 208 of 28 December 2015 (2016 Stability Act);
    - €88,970 thousand allocated under Law no. 164/2014 ("Get Italy Moving" law) for 2017 for another construction lot on the Verona-Padua HS/HC line, net of the €1,030 thousand definancing pursuant to MIT/MEF interministerial decree no. 426 of 13 September 2017;
    - €15,000 thousand (section 7563) for 2017, allocated under article 1.240 of Law no. 190/2014 (2015 Stability Act) as the 15-year grant for the start of works on the Andora-Finale Ligure section, confirmed by Law no. 232/2016 (2017 Budget Act);
    - €45,000 thousand (section 7060) for the recognition of the 15-year grants allocated under Law no. 443/2001 ("Obiettivo" law), referring to the portion earmarked for investments in the "strengthening of the Munich-Verona railway line: Brenner base tunnel" and for which the MIT/MEF issued the interministerial decree authorising the use of the grants (no. 446 of 14 December 2016).

➢ decreases due to collections of €4,043,209 thousand, broken down as follows:

- €975,557 thousand (MEF section 1541 – grants related to income);
- €142,110 thousand (MIT section 1274 - grants related to cargo) transferred to the railway companies;
- €2,312,321 thousand (MEF section 7122/7123 MEF) for various management programmes (MP1, MP2, MP4, MP5 and MP8), €414,000 thousand of which following the reformulation of various MPs;
- €83,787 thousand (MEF section 8000 MEF – Development and Cohesion Fund) of the amounts allocated by CIPE resolution no. 81/2009 for the first construction lot on the "Milan – Verona HS/HC line: Treviglio – Brescia functional lot" and resolution no. 101/2009 for the first construction lot on the "Genoa – Milan HS/HC line: Third Giovi pass";
- €109,490 thousand (section 7515) for 2015 of the amounts allocated by CIPE resolution no. 85/2011 in reference to the resources pursuant to article 32.1 of Decree law no. 98/2014 (rail and road infrastructure fund) allocated to RFI S.p.A. for the Milan-Verona HS/HC line: Treviglio Brescia line - II construction lot;

- €117,123 thousand (MIT section 7518) of the amounts allocated by CIPE resolution no. 86/2011 in reference to the resources pursuant to article 32.1 of Decree law no. 98/2011 allocated to RFI S.p.A. for the Milan-Genoa HS/HC line: Third Giovi pass - III construction lot;
- €17,215 thousand (section 7518) allocated under Law no. 164/2014 (the "Get Italy Moving" law);
- €52,470 thousand (MIT section 7060) of the amounts allocated under Law no. 443/2001 ("Obiettivo Law") for the HS/HC Milan-Genoa line: Third Giovi pass;
- €35,263 thousand (MIT section 7060) of the amounts allocated under Law no. 443/2001 ("Obiettivo Law") for the Milan-Verona HS/HC line: Treviglio Brescia section;
- €882 thousand (MIT section 7060) of the amounts allocated under Law no. 443/2001 ("Obiettivo Law") for the "Catania hub project – earthing of the central station";
- €11,348 (MIT section 7060) of the amounts allocated under Law no. 443/2001 ("Obiettivo Law") for the "laying of double tracks in Bari S. Andrea Bitetto";
- €185,642 thousand (MIT section 7540) of the amounts allocated under Decree law no. 69/2013 for improvements to the railway network.

➢ other changes of €1,369,655 thousand, broken down as follows:

- the €1,389,531 thousand increase due to the recognition of grants related to assets from the MEF and MIT to cover works mainly in the year, broken down as follows:
  - €1,229,153 thousand (MEF section 7122/MP2) of the amounts allocated for the 2018-2020 three-year period as per the "Allocation decree in sections - 2018 financial year and 2018-2020 three-year period";
  - €105,440 thousand (MEF section 7122/MP4) of the amounts allocated under article 7-*ter*.2 of Decree law no. 43/2013, converted with amendments by Law no. 71 of 24 June 2013, reduced by article 15.3.d) of Decree law no. 102/2013;
  - €5,453 thousand (MIT section 7060) of the amounts allocated under Law no. 443/2001 for the construction of the "railway link between the Orte-Falconara and the Adriatica Falconara hub lines";
  - €49,485 thousand (MIT sections 7536/7549) of the amounts allocated under Law no. 164/2014 ("Get Italy Moving" law).
- €19,442 thousand decrease (MIT section 7550) of the amounts allocated under Decree law no. 133/2014, converted into Law no. 164/2014 for the "Upgrade of the Cuneo-Ventimiglia railway line to safety standards", mainly due to the combined effect of:
  - €10,642 thousand since the Piedmont region is the beneficiary of the grant;
  - €8,800 thousand since the asset must be recognised as with the Piedmont region and no longer with the MIT.

RFI S.p.A. collected €4,443,209 in 2017 (€400,000 thousand for financial assets to which reference should be made), €3,771,664 thousand of which from the MEF and €671,545 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 December 2017	31 December 2016	Change
Payments on account to suppliers - current services	60,900	46,339	14,561
Personnel	7,023	8,227	(1,204)
Social security institutions	6,780	4,550	2,230
Receivables under collection	497	544	(47)
Insurance compensation from insurance companies	370	352	18
Other non-trade receivables	409,737	101,043	308,694
	485,307	**161,055**	**324,252**
Prepayments and accrued income	9,590	15,207	(5,617)
Total	**494,897**	**176,262**	**318,635**

The increase in “Sundry receivables and prepayments and accrued income” (€318,635 thousand) is mainly due to the combined effect of the following factors:

- the €14,561 thousand increase in payments on account to suppliers, mainly electrical energy suppliers;
- the €308,693 thousand in other non-trade receivables mainly due to CCSE (the electricity sector equalisation fund) grants of €289,083 thousand pursuant to Law no. 167/2017 and the recognition of receivables from the customers authorities (€11,686 thousand) and the tax authorities for 2010-2011-2012 IRAP (€5,060 thousand) arising from interim payments pending judgement;
- the €2,230 thousand increase in receivables from social security institutions;
- the €5,617 thousand decrease in prepayments and accrued income mainly arising from the release of prepayments to TIM for roaming (€4,888 thousand).

Specifically, other non-trade receivables mainly reflect receivables for CCSE grants (€331,648 thousand), receivables for foreign VAT recovery (€13,106 thousand), toll receivables from third-party railway companies (€1,798 thousand) and performance regime receivables (4,149 thousand).

11. Inventories and construction contracts

Inventories and construction contracts can be analysed as follows:

thousands of Euros

	31 December 2017	31 December 2016	Change
Raw materials, consumables and supplies	658,173	511,135	147,038
Allowance for impairment	(13,814)	(10,383)	(3,431)
Carrying amount	**644,359**	**500,752**	**143,607**
Payments on account	–	–	–
Construction contracts	54,082	30,955	23,127
Carrying amount	**54,082**	**30,955**	**23,127**
Total inventories and construction contracts	**698,441**	**531,707**	**166,734**

The net increase in raw materials, consumables and supplies amounts to €143,607 thousand and is mainly due to:

- the purchases of materials (€707,123 thousand);
- the use of materials (€655,421 thousand);
- production by the Officine Nazionali of Bari, Pontassieve and Bologna (€95,336 thousand) of cores, diverters, glued insulating joints and electrical devices;
- the net increase of €3,431 thousand in the allowance for inventory write-down due to the following changes:

  - utilisation for eliminations/scrapping of the year (€5,650 thousand);

  - the €9,081 thousand increase following the analysis of obsolete and slow-moving materials to be written down or off.

The €54,082 thousand balance of "Construction contracts" reflects the amount due to customers for contracts work in progress, the progress of which, including profit margins, exceeds the amount already invoiced to the customer. The €23,127 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 €9,621 thousand balance, down €3,076 thousand 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 December 2017		31 December 2016	
Receivables and payables for construction contracts	**Receivables**	**Payables**	**Receivables**	**Payables**
Construction contracts	113,644	29,238	59,390	26,469
Payments on account from customers	(59,562)	(38,859)	(28,435)	(39,166)
Total	**54,082**	**(9,621)**	**30,955**	**(12,697)**

12. Non-current and current trade receivables

They can be analysed as follows:

thousands of Euros

	31 December 2017			31 December 2016			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Ordinary customers	233	361,852	362,085	125	378,218	378,343	108	(16,366)	(16,258)
Government authorities and other public administrations	3,184	36,132	39,316	1,594	34,035	35,629	1,590	2,097	3,687
Foreign railways	–	1,127	1,127	–	1,627	1,627	–	(500)	(500)
Railways under concession	–	1	1	–	1	1	–	–	–
Receivables from group companies	–	259,336	259,336	–	586,117	586,117	–	(326,781)	(326,781)
Total	**3,417**	**658,448**	**661,865**	**1,719**	**999,998**	**1,001,717**	**1,698**	**(341,550)**	**(339,852)**
Allowance for impairment	–	(133,538)	(133,538)	–	(132,067)	(132,067)	–	(1,471)	(1,471)
Total net of the allowance for impairment	**3,417**	**524,910**	**528,327**	**1,719**	**867,931**	**869,650**	**1,698**	**(343,021)**	**(341,323)**

The €16,366 thousand decrease 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 (€10,691 thousand), mainly due to the combined effect of greater receivables due from the third-party railway companies for tolls and ancillary services (roughly €8,400 thousand), greater receivables from ordinary customers in connection with real estate (approximately €8,000 thousand) and third party processing (around €3,200 thousand) and the approximate €10,000 thousand decrease in receivables (collections from network customers and Basictel);
- the €29,691 thousand increase for credit notes to be issued, mainly due to electrical traction (€27,941 thousand) following Law no. 167/1017 and leases of €2,008 thousand;
- the €3,395 thousand in receivables for invoices to be issued.

The current portion of receivables from the government authorities and other public administrations increased by €2,097 thousand on 31 December 2016, gross of the related allowance for impairment, mainly as a consequence of the following factors:

- the €4,683 thousand increase in receivables, mainly due to greater receivables from the Palermo municipal authorities (roughly €3,900 thousand) and greater receivables in connection with real estate;
- the €2,587 thousand increase in receivables for invoices to be issued.

Receivables from group companies show a net decrease of €326,781 thousand, mainly as a result of the €335,582 thousand decrease in receivables from related companies due to:

- the €168,636 thousand decrease in receivables for invoices to be issued;
- the €161,597 thousand increase in payables for credit notes to be issued, including for electrical traction (€102,538 thousand) following Law no. 167/1017;
- the €5,349 thousand decrease in receivables for invoices to be issued.

thousands of Euros

	31 December 2017	31 December 2016	Change
Italy	656,723	996,884	(340,161)
Eurozone countries	3,394	2,708	686
United Kingdom	8	7	1
Other European countries			–
Other European countries (EU, non-Euro)	25	144	(119)
Other non-EU European countries	1,699	1,974	(275)
United States			–
Other countries	16		16
	661,865	**1,001,717**	**(339,852)**

13. Cash and cash equivalents

They can be analysed as follows:

thousands of Euros

	31 December 2017	31 December 2016	Change
Bank and postal accounts	4,463	7,109	(2,646)
Cash and cash on hand	213	201	12
Cash pooling accounts	1,133,216	1,161,358	(28,142)
Other	111	111	–
Total	**1,138,003**	**1,168,779**	**(30,776)**

The overall decrease in the caption on the previous year is substantially due to the reduction in the treasury current account which represents the payments made by the MEF in relation to the Government Programme Contract and those related to other grants disbursed by the European Commission and subsequently transferred to the intragroup current account in accordance with cash needs. For information on the reasons underlying changes in cash and cash equivalents, reference should be made to the statement of cash flows.

Furthermore, seizures were notified to banks without generating availability restrictions (labour disputes), totalling €12,202 thousand, in addition to seizures which qualify as "restricted amounts on bank and postal accounts" of €2,306 thousand.

14. Tax assets

Tax assets amount to €17,055 thousand at 31 December 2017. This caption includes:

- the tax credit for IRAP self-taxation (€16,250 thousand), which 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 IRES tax credit for withholding taxes (in prior tax years, before participating in the group's tax consolidation scheme) of €805 thousand, which has been claimed for reimbursement.

15. Equity

Changes in the main equity captions in 2017 are detailed in the statement of changes in equity to which reference should be made.

Quota capital

At 31 December 2017, 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 2017, it amounted to €56,845 thousand, following the allocation of a portion of the profit for 2016, equal to €9,038 thousand.

Other reserves

The extraordinary reserve amounts to €50,000 thousand at 31 December 2017 and refers to the demerger of certain assets from the parent FS Italiane to RFI S.p.A..

Valuation reserves

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 2017, this reserve was negative by €80,819 thousand, down by €29,733 thousand on 31 December 2016. The decrease is due to the following factors:

- the fair value measurement of hedging instruments at the reporting date (increase of €11,050 thousand);
- the release of the portion of the year following the above-mentioned early termination of contracts (increase of €18,683 thousand);

Actuarial reserve

The actuarial reserve includes the effects of actuarial gains and losses on post-employment benefits and the free travel card. An actuarial loss of €140,037 thousand was recognised in 2017, up on the previous year-end balance following the changes of the year. The total actuarial loss amounts to €14,781 thousand.

Retained earnings

At 31 December 2017, retained earnings amount to €1,668,060 thousand, up €71,731 thousand on the previous year. The increase is due to the allocation of the profit for 2016 resolved by shareholders in their meeting of 28 April 2017.

Profit for the year

The company ended the year with a profit of €261,501 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

						Summary of use in the past three years**			
Origin	**Balance at 31 December 2017 (a+b)**	**Unavailable portion (a)**	**Possibility of use *** **	**Available portion (b)**	**Distributable portion (b)**	**Capital increase**	**Coverage of losses**	**Dividends**	**Other (Demergers)**
Share capital:									
Share capital	31,525,280	31,525,280							(482,353)
Income-related reserve:									
Legal reserve	56,845	56,845	B						
Retained earnings *	1,668,060	–	A, B, C	1,668,060	637,704				
Other reserves:									
Hedging reserve	(80,819)	(80,819)							
Income-related reserve and actuarial losses	(140,037)	(140,037)							
Reserve for extraordinary transactions	50,000			50,000	50,000				
TOTAL	**33,079,329**	**31,361,269**	**–**	**1,718,060**	**687,704**	**–**	**–**	**–**	**(482,353)**

* total equity is shown net of the profit for 2017 (€261,501 thousand)

** 2014-2015-2016

*** A = Capital increase; B = Coverage of losses; C = Dividends

16. Non-current loans and borrowings

thousands of Euros

Non-current loans and borrowings	Carrying amount 31 December 2017	 31 December 2016	Change
Bank loans and borrowings	1,386,596	1,573,647	(187,051)
Loans and borrowings from other financial backers	115,223	157,286	(42,063)
Loans and borrowings from group companies	1,820,020	1,788,192	31,828
Total	**3,321,839**	**3,519,125**	**(197,286)**

thousands of Euros

Current loans and borrowings and current portion of non-current loans and borrowings*	Carrying amount 31 December 2017	 31 December 2016	Change
Bank loans and borrowings (current portion)	193,196	190,175	3,021
Loans and borrowings from other financial backers (current portion)	44,154	29,511	14,643
Loans and borrowings from group companies (current portion)	476,839	563,663	(86,824)
Total	**714,189**	**783,349**	**(69,160)**

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

thousands of Euros

Loans and borrowings	Carrying amount 31 December 2017	 31 December 2016	Change
Bank loans and borrowings	1,579,792	1,763,822	(184,030)
Loans and borrowings from other financial backers	159,377	186,797	(27,420)
Loans and borrowings from group companies	2,296,859	2,351,855	(54,996)
Total loans and borrowings	**4,036,028**	**4,302,474**	**(266,446)**

Bank loans and borrowings (non-current and current) of €1,579,792 thousand, are shown gross of accruals not yet paid of €6,145 thousand. This caption is entirely comprised of payables to the European Investment Bank (EIB). The €184,030 thousand decrease on the previous year-end balance refers to the €183,151 decrease due to the principal repaid in 2017 and the €879 thousand decrease in accrued expenses included under the current portion.

Loans and borrowings from other financial backers (non-current and current) of €159,377 thousand are shown gross of accruals not yet paid of €2,091 thousand and entirely consists of amounts due to Cassa Depositi e Prestiti ("CDP"). The €27,420 thousand decrease on 31 December 2016 is due to the decrease in principal repaid in 2017 (€27,021 thousand) and in accrued interest (€399 thousand).

Loans and borrowings from group companies (non-current and current portion) of €2,296,859 thousand are shown gross of accrued expenses yet to be paid (€8,814 thousand). Specifically, they refer to liabilities with the parent related to two intragroup agreements entered into to transfer the agreements which, in turn, were signed by the parent with CDP and the European Investment Bank ("EIB"), respectively, to finance investments and the loans and borrowings related to the 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 €54,996 thousand decrease in these liabilities on 31 December 2016 is due to the combined effect of the following factors:

- the €168,875 thousand decrease due to the repayment of the principal of the loans and borrowings from Ferrovie dello Stato Italiane S.p.A. for CDP (traditional network and HS/HC network) made in 2017, which corresponds with the change in the corresponding receivables from the MEF. For additional information, reference should be made the note to financial assets;
- the €88,152 thousand decrease due to the repayment of the principal of the loans and borrowings from Ferrovie dello Stato Italiane S.p.A. for the EIB (HS/HC network) in 2017;
- the €2,179 thousand increase in accrued expenses, included under the current portion;
- the €298,968 increase following subscription of another intragroup loan in connection with the new FS bond placement as part of the FS EMTN Programme.
- the €884 thousand increase in amortised cost accruals;
- the €100,000 thousand decrease in the backup facility entered into with the parent to meet the company's cash needs, due to the combined effect of the repayment of €300,000 thousand and draw-down of €200,000 thousand;

The terms and conditions of non-current loans and borrowings in place, net of accrued interest, are summarised in the table below:

thousands of Euros

Type of work	Creditor	Currency	Notes	Nom. interest rate	Year of maturity	31 December 2017 Nom. Amount	31 December 2017 Carr. amount	31 December 2016 Nom. amount	31 December 2016 Carr. amount
HS/HC	EIB 1	€		Fixed	2023	149,185	149,185	171,888	171,888
HS/HC	EIB 2	€		Fixed	2023	111,969	111,969	127,469	127,469
HS/HC	EIB 3	€	(1)	Variable	2024	361,111	361,111	416,667	416,667
HS/HC	EIB 4	€	(3)	Fixed/Var.	2030	360,526	360,526	379,300	379,300
HS/HC	EIB 5	€	(1)	Variable	2025	14,222	14,222	16,000	16,000
HS/HC	EIB 6	€	(2)	Fixed	2032	153,747	153,747	160,776	160,776
HS/HC	EIB 7	€	(3)	Fixed/Var.	2032	222,886	222,886	234,697	234,697
HS/HC	CASSA DEPOSITI E PRESTITI 1	€	(4)	Fixed	2021	76,037	76,037	90,557	90,557
HS/HC	CASSA DEPOSITI E PRESTITI 2	€	(1) (4)	Variable	2023	81,250	81,250	93,750	93,750
HS/HC	INTRAGROUP CDP/FS HS	€		Fixed	2021	279,949	279,949	366,069	366,069
Traditional network	INTRAGROUP CDP/FS TN	€		Fixed	2021	366,069	366,069	448,824	448,824
HS/HC	INTRAGROUP EIB/FS	€		Fixed	2021	395,890	395,890	484,042	484,042
						2,572,841	**2,572,841**	**2,990,039**	**2,990,039**
HS/HC	EIB 300	€	(5) (6)	Variable	2021	250,000	200,000	250,000	250,000
HS/HC	INTRAGROUP EMTN 1 TR/FS	€	(6)	Fixed	2020	250,000	248,749	250,000	248,314
HS/HC	INTRAGROUP EMTN 2 TR/FS	€	(6)	Fixed	2021	500,000	498,352	500,000	497,971
HS/HC	INTRAGROUP EMTN 3 TR/FS	€	(6)	Fixed	2025	300,000	299,036		
						1,300,000	**1,246,137**	**1,000,000**	**996,285**
TOTAL						**3,872,841**	**3,818,978**	**3,990,039**	**3,986,324**

(1) The rate was converted from variable to fixed following a swap transaction 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 parameters refer to:

- the debt/equity ratio which should remain below 30%;
- equity which should be equal to at least €26 billion;
- total assets which should be equal to at least €36.5 billion.

To date, all financial covenants have been complied with.

As described in the Directors' report to which reference should be made, the company's net financial debt worsened by €132,630 thousand on the previous year balance in terms of both current net financial debt (€136,507 thousand) and non-current net financial debt (€269,138 thousand).
The following table gives a breakdown of net financial debt at 31 December 2017 and 2016.

thousands of Euros

Net financial debt	31 December 2017	31 December 2016	Changes
Net current financial debt	**(1,218,709)**	**(1,082,201)**	**(136,509)**
Treasury current accounts	(1,133,217)	(1,161,359)	28,142
Other financial (assets)/liabilities	(219,387)	(128,227)	(91,160)
Financial assets from the MEF for the fifteen-year grants to be collected	(575,743)	(568,875)	(6,867)
Bank loans and borrowings	193,196	190,175	3,021
Loans and borrowings from other financial backers	44,154	29,511	14,643
Loans and borrowings from group companies	476,839	563,663	(86,824)
Other	(4,553)	(7,089)	2,536
Net non-current financial position	**1,622,012**	**1,352,872**	**269,140**
Financial assets from the MEF for the fifteen-year grants to be collected	(1,610,869)	(2,105,577)	494,709
Loan assets	(88,959)	(60,676)	(28,283)
Bank loans and borrowings	1,386,596	1,573,647	(187,051)
Loans and borrowings from other financial backers	115,224	157,286	(42,062)
Loans and borrowings from group companies	1,820,020	1,788,192	31,828
Total	**403,302**	**270,672**	**132,630**

The following table illustrates changes in financial items, indicated separately from those that generated/used cash flows.

			Non-monetary flows				
	31 December 2016	Monetary flows	Change in accruals	Other non-mon. changes	Clean fair value (IFRS 13)	Time value effect (IFRS13)	31 December 2017
Disbursement/repayment of loans	4,302,475	(268,231)	900	885	-	-	4,036,029
Change in financial assets	(2,735,127)	571,429	287	(112,159)	-	-	(2,275,570)
Change in financial liabilities (Hedging derivatives)	37,371	78	(1,131)	(175)	(11,050)	(36)	25,056

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

thousands of Euros

	31 December 2017	31 December 2016
Present value of post-employment benefit obligations	645,213	666,071
Present value of free travel card obligations	28,482	27,722
Other provisions (health care trust, former National Social Security and Welfare Institute for Ferrovie dello Stato employees)	(146)	(141)
Other changes (advance on Italian revaluation tax)		–
Total present value of obligations	**673,549**	**693,652**

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 December 2017**	**31 December 2016**
Defined benefit obligations at 1 January	693,793	712,960
Service cost	157	171
Interest cost (*)	5,233	7,488
Benefits paid	(50,075)	(36,891)
Intragroup transfers	12,156	1,952
Other changes (estimated benefit payments)	(2,350)	(2,327)
Net actuarial losses recognised in equity	14,781	10,440
Defined benefit obligations	**673,695**	**693,793**
Other provisions (health care trust, former National Social Security and Welfare Institute for Ferrovie dello Stato employees)	(146)	(141)
Other changes (advance on Italian revaluation tax)		–
Post-employment benefits and other employee benefits (free travel card)	**673,549**	**693,652**

(*) 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.

A total of €40,269 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 2017 and employees' advances and transfers from/to other group companies.

Total actuarial losses generated by the actuarial gains and losses on post-employment benefits and the actuarial losses on the free travel card came to €14,781 thousand in 2017, compared to actuarial losses of €10,440 thousand in 2016. The actuarial loss is due to:

- the discount rate applied to post-employment benefits, which decreased from 0.60% in 2016 to 0.51% in 2017 (while the discount rate for the free travel card increased from 1.31% in 2016 to 1.67% in 2017, with only a marginal impact);
- greater than expected utilisations for post-employment benefits and free travel card benefits and, therefore, actual data differing from the previous actuarial assumptions.

In particular, the actuarial reports on post-employment benefits and the free travel card show a total loss based on financial assumptions (including the discount rate) of approximately €13,845 thousand and a loss on residual actuarial assumptions of roughly €936 thousand, which,summed together, generate a total actuarial loss of €14,781 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 December 2017	31 December 2016
Discount rate (post-employment benefits)	0.51%	0.86%
Discount rate (free travel card)	1.67%	1.05%
Future increases in pensions	75% inflation +1.5 percentage points	75% inflation +1.5 percentage points
Expected turnover rate for employees	4.00%	4.00%
Expected rate of advances	2.00%	2.00%
Probability of death	RG48 mortality rate published by the Italian government's General Accounting Office	RG48 mortality rate published by the Italian government's General Accounting Office

The expected mortality assumptions are based on published statistics and mortality rates.

The following sensitivity analysis shows the effects that would have been recorded in terms of changes in the present value of liabilities for defined benefit obligations, following reasonably possible changes in actuarial assumptions. The following tables show the expected contribution for next year, the average term of the defined benefit obligation and the disbursements provided in the plan.

SENSITIVITY ANALYSIS OF POST-EMPLOYMENT BENEFITS AND FREE TRAVEL CARDS

thousands of Euros

31 December 2017	Post-employment benefits	Free travel card
Turnover rate +1.00%	642,080	
Turnover rate -1.00%	648,654	
Inflation rate +0.25%	651,164	30,289
Inflation rate -0.25%	639,348	26,753
Discount rate +0.25%	635,819	27,833
Discount rate -0.25%	654,882	29,157
Future service cost	–	168
Term of the plan (years)	6.5	10
Total employees at year end	26,025	

Estimated future payments and free travel cards

thousands of Euros

31 December 2017	Post-employment benefits	Free travel card
Payment - first year	97,504	2,390
Payment - second year	38,292	2,304
Payment - third year	78,380	2,220
Payment - fourth year	64,871	2,133
Payment - fifth year	69,840	2,049

18. Provisions for risks and charges

The opening and the closing balance of and changes in the provisions for risks and charges for 2017 are given below. They are deemed adequate to cover the company's probable charges.

thousands of Euros

	2016	Reclassif.	Accrual	Utilisations	Release of excess provisions	2017
Provision for taxation	9,318		15,195	(3,888)		20,625
Other	512,891	–	86,687	(101,362)	(3,779)	494,437
TOTAL	**522,209**	**–**	**101,882**	**(105,250)**	**(3,779)**	**515,062**

Provision for taxation

It includes probable future tax charges.

Al 31 December 2017, the provision increased by a total of €11,307 thousand on the previous year end, mainly due to the combined effect of the following factors:

- the €15,037 thousand increase in the provision for local property taxes and the respective sanctions due - for years still open to tax inspection (2013-2017) - in connection with the areas rezoned as buildable within the scope of the urban redevelopment and building project in the Tiburtina station areas;
- the €3,353 thousand utilisation of the provision to pay amounts due following the settlement (to protect its interests) and acceptance of the six local property tax assessments notified by the Rome municipal authorities in relation to buildings and buildable areas in the municipality of Rome;
- the €158 thousand increase in registration, mortgage, land office and local property taxes on stations.

Reference should the made to the directors' report section "Tax disputes" for additional information about pending tax disputes.

Other provisions

This caption refers to the following items which changes as follows:

thousands of Euros

	31 December 2016	Reclassif.	Accrual	Utilisations	Release of excess provisions	31 December 2017
Expense related to						
- personnel	57,100		12,865	(22,225)		47,740
- third parties	285,521	(1,030)	8,109	(39,059)	(2,015)	251,526
Reclamation	51,380			(231)		51,149
Equity investments	48,882					48,882
Other provisions for risks and charges	70,008	1,030	65,713	(39,847)	(1,764)	95,140
TOTAL	**512,891**	**–**	**86,687**	**(101,362)**	**(3,779)**	**494,437**

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 2017, the provision was used by €22,225 thousand to cover the contribution charges and costs related to disputes with personnel (in court or out of court). It was increased by €12,865 thousand to meet the needs calculated at 31 December 2017.

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 2017, €39,059 thousand was used following the settlement of disputes with an unfavourable outcome for the company. It was increased by €8,109 thousand to meet the total requirements for pending disputes and to cover total requirements for pending disputes. At year end, the provision related to third parties includes accruals for disputed liabilities of €11,282 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.

Reclamation provision

This provision was accrued and used to cover the costs incurred to reclaim sites polluted by works to be sold/that have been sold. The initial calculation of this provision considered the costs to restore the affected areas based on their previous industrial use.

Provision for equity investments

This provision was accrued at 31 December 2013 to cover the equity investment Stretto di Messina S.p.A. in liquidation. It was unchanged in 2014.

Provisions for other risks and charges

These provisions mainly refer to:

- leaving incentives (€21,706 thousand);
- fund for the pursuit of pro-active policies to support income and employment (€51,242 thousand);
- performance regime, related to receivables for penalties due from railway companies as an incentive mechanism pursuant to the network prospectus (€1,473 thousand);
- other risks (€20,719 thousand).

2017 accruals, totalling €65,713 thousand, mainly relate to leaving incentives (€7,000 thousand), expenditure for the fund for the pursuit of pro-active policies to support income and employment (€40,000 thousand), compensation for damage (€12,631 thousand) and performance regime accruals (€1,473 thousand).

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

thousands of Euros

	Carrying amount								
	31 December 2017			31 December 2016			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Hedging derivatives	23,110	1,712	24,822	34,196	2,843	37,039	(11,086)	(1,131)	(12,217)
Other financial liabilities	–	234	234	–	331	331	–	(97)	(97)
Total	**23,110**	**1,946**	**25,056**	**34,196**	**3,174**	**37,370**	**(11,086)**	**(1,228)**	**(12,314)**

The €11,086 thousand decrease in the non-current portion of hedging derivatives is due to the fair value measurement of derivatives at 31 December 2017 (31 December 2016 - 2017 FV difference). Specifically, the effect is due to:

- the increase in the hedging reserve (€11,050 thousand), due to the fair value measurement of swaps, forward rate agreements and the intrinsic value of collars;
- the positive impact of the time value of collars on profit or loss (€36 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 4 "Financial risk management" to which reference should be made for a definition of the hierarchy levels within the fair value estimate.

20. Other current and non-current liabilities

thousands of Euros

	31 December 2017			31 December 2016			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Advances for grants	–	3,153,995	3,153,995	–	2,780,616	2,780,616	–	373,379	373,379
Social security charges payable	42,177	98,628	140,805	48,203	121,139	169,342	(6,026)	(22,511)	(28,537)
Other liabilities to group companies	286	71,202	71,488	424	46,709	47,133	(138)	24,493	24,355
Other liabilities	81,090	325,175	405,693	73,634	444,747	518,381	7,456	(119,572)	(112,688)
Accrued expenses and deferred income	3,477	23,480	26,957	2,031	25,762	27,793	1,446	(2,282)	(836)
Total	**127,030**	**3,672,480**	**3,799,511**	**124,292**	**3,418,973**	**3,543,265**	**2,738**	**253,507**	**256,246**

At 31 December 2017, advances for grants related to assets amount to €3,153,997 thousand and can be analysed as follows:

thousands of Euros

	31 December 2016	Increases	Decreases	Other changes	31 December 2017
Advances for grants:					
Ministry of the Economy and Finance	1,210,255	3,622,981	(3,502,541)	(62,721)	1,267,974
Ministry of Infrastructure and Transport	1,116,496	491,841	(202,680)	(8,800)	1,396,857
European Regional Development Fund	89,249	387,906	(432,194)		44,961
Trans-European network	154,840	64,309	(4,962)	(17,908)	196,279
Other PA	179,983	151,382	(120,013)	8,800	220,152
Other third parties	29,793		(2,021)		27,772
Total	**2,780,616**	**4,718,419**	**(4,264,411)**	**(80,629)**	**3,153,995**

The net increase of €373,379 thousand in payments on account is due to the combined effect of the increases in the recognition of additional receivables from the MIT, the MEF and other bodies recognised as other current and non-current assets and current and non-current financial assets, the decreases due to utilisations for their allocation to assets under construction and to cover borrowing costs and additional decreases classified as under other changes. In particular, other changes mainly relate to:

- the share capital increases of Società Tunnel Ferroviario del Brennero S.p.A. as described in the section on "Equity investments";
- the repayment of financial grants relating to the TEN-T budget;
- a reclassification of payments on account from MIT to other PA.

Other current liabilities with group companies amount to €71,202 thousand. The €24,493 thousand increase on 31 December 2016 is mainly due to:

• the €16,056 thousand increase in payables to Società Trenitalia S.p.A. in relation to the 2017 Cargo discount, recognised as a balancing entry to grants from the MEF pursuant to Law no. 190/2014;

• the €8,051 thousand decrease in liabilities for penalties to group companies.

Other current liabilities mainly refer to amounts due to personnel (€112,613 thousand), guarantee deposits (€37,539 thousand), holidays accrued but not taken (€25,621 thousand), fund for the pursuit of pro-active policies to support income and employment (€11,669 thousand), other tax liabilities for RFI S.p.A.'s withholdings on the income of employees and free lancers (€44,567 thousand) and amounts due to non-group railway companies for the 2017 Cargo discount (€35,010 thousand).

21. Current and non-current trade payables

They can be analysed as follows:

thousands of Euros

	31 December 2017			31 December 2016			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Trade payables	28,830	2,446,311	2,475,141	14,890	2,150,113	2,165,003	13,940	296,198	310,138
Payments on account	5,877	71,065	76,942	1,346	54,879	56,225	4,531	16,186	20,717
Trade payables to group companies	–	476,085	476,085	–	435,766	435,766	–	40,319	40,319
Payables for construction contracts	–	9,621	9,621	–	12,697	12,697	–	(3,076)	(3,076)
Total	**34,707**	**3,003,082**	**3,037,789**	**16,236**	**2,653,455**	**2,669,691**	**18,471**	**349,627**	**368,098**

At 31 December 2017, the increase in current trade payables on the previous year-end balance totals €296,198 thousand and is mainly due to more investment works in 2017 than in the previous year.

Current payments on account consist of payments of account received from ordinary customers and group companies totalling €76,942 thousand, up by €20,717 thousand on 31 December 2016. This increase is mainly due to the advances for the sale of assets received from Rete S.r.l. (power lines), amounting to €15,955 thousand.

Current trade payables to group companies show a net increase of €40,319 thousand, mainly due to the combined effect of the following factors:

- the €6,285 thousand increase in payables to the parent;
- the €16,845 thousand increase in payables to the Fercredit group companies following factoring by suppliers and the €14,492 thousand increase in payables to Italferr;
- the €29,760 thousand decrease in payables to the Trenitalia group companies, the €1,644 thousand decrease in payables to Centostazioni and the €7,296 thousand decrease in payables to Grandi Stazioni Rail;
- the €40,169 thousand increase in payables for invoices to be received (in particular, the €42,727 thousand increase in payables to Italferr);

Payables for construction contracts of €9,621 thousand reflect the gross amount due to customers for construction contracts the costs of which, net of recognised profit margins, exceed progress billing. This caption corresponds with "Construction contracts" in assets, to which reference should be made.

NOTES TO THE INCOME STATEMENT

22. Revenue from sales and services

The tables and comments below give a breakdown of Revenue from sales and services☐

thousands of Euros

	2017	2016	Change
Revenue from infrastructure services	**2,155,857**	**2,252,312**	**(96,455)**
√ *Government grants*	975,557	975,557	–
√ *Toll*	1,103,433	1,058,383	45,050
√ *Sale of electrical energy for traction*	59,242	200,176	(140,934)
√ *Ferry services*	17,625	18,196	(571)
Revenue from traffic-related services	**37,058**	**21,883**	**15,175**
Revenue from transport services	**4**	**–**	**4**
Total	**2,192,919**	**2,274,195**	**(81,276)**

Revenue from infrastructure services decreased by a net €96,455 thousand, due to the following factors:

- the €140,934 thousand decrease in revenue from the sale of electrical energy for traction, due to the lower price following Law no. 167 of 20 November 2017, described in more detail in "Legislative and regulatory framework" in the directors' report;
- the €45,050 thousand increase in toll revenue as a result of the growth in production volumes;
- the €571 thousand decrease in revenue from ferry services.

The €15,175 thousand increase in Revenue from traffic-related services is mainly due to the growth in revenue from holding services (€15,548 thousand), which were not reported in 2016, and the rise in revenue from washing platforms (€1,183 thousand), partly offset by the decrease in tolls for the connection tracks (€1,623 thousand).

23. Other income

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Change
Revenue from property management	**98,113**	**94,552**	**3,561**
√ *Leases*	92,386	85,937	6,449
√ Recharging of building expenses and registration tax	3,034	5,115	(2,081)
√ *Sale of advertising spaces*	2,693	3,500	(807)
Other sundry income	**246,694**	**206,521**	**40,173**
Total	**344,807**	**301,073**	**43,734**

"Revenue from property management" increased €3,561 thousand mainly as a result of the combined effect of the following factors:

- the €6,449 thousand increase in leases, mainly due to the rise in other revenue from property (€7,716 thousand), partly offset by the drop in revenue from rights of way (€1,573 thousand);
- the €2,081 thousand decrease in revenue from the recharging of building expenses and registration tax, mainly due to the recharging of expenses to GS Retail S.p.A.;
- the €807 thousand decrease in costs for the sale of advertising space.

"Other sundry income" can be analysed as follows:

thousands of Euros

	2017	2016	Change
Other sundry income			
√ *Health services*	36,950	37,552	(602)
√ *Sale of materials*	2,957	869	2,088
√ *Processing for third parties*	46,789	29,859	16,930
√ *Gains*	57,213	32,657	24,556
√ *Revenue from GSMR*	6,319	5,276	1,043
√ *Other sundry income*	96,466	100,308	(3,842)
Total	**246,694**	**206,521**	**40,173**

The €40,173 thousand increase in other sundry income is mainly due to the combined effect of:

- the €24,556 thousand increase in revenue from gains, substantially due to the growth in revenue from the sale of idle material no longer used in operations.
- the €16,930 thousand increase in revenue from work for third parties, mainly due to the works on the Palermo metro-rail and the noise barriers on the Brenner line;
- the €3,842 thousand decrease in other sundry income, mainly due to the drop in sundry services (€25,593 thousand), resulting from the drop in fees for maintenance and conduction of the high voltage lines of RETE S.r.l. (€17,539 thousand), partly offset by the increase in performance regime penalty income (€10,767 thousand), higher facilities revenue (€9,866 thousand) and greater insurance compensation (€547 thousand);
- the €1,043 thousand increase in revenue from GSMR;
- the €2,088 thousand rise in sales of materials due to the sale of spare parts and sundry materials.

24. Personnel expense

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Change
Employees	**1,416,567**	**1,387,173**	**29,394**
√ *Wages and salaries*	1,036,580	1,017,164	19,416
√ *Social security contributions*	293,675	284,023	9,652
√ *Other expense for employees*	(1,666)	(3,343)	1,677
√ *Post-employment benefits*	70,513	67,793	2,720
√ *Accruals/releases*	17,465	21,536	(4,071)
Consultants and freelancers	**33**	**86**	**(53)**
√ *Wages and salaries*	13	51	(38)
√ *Social security contributions*	20	35	(15)
Other costs	**28,595**	**29,705**	**(1,110)**
√ *Temporary workers/Seconded personnel and trainees*	901	1,693	(792)
√ *Other costs*	27,693	28,013	(320)
Total	**1,445,195**	**1,416,964**	**28,231**

"Personnel expense" increased by €28,231 thousand on 2016, mainly due to the rise in the cost of employees (€29,394 thousand), offset by the reduction in other costs (€1,110 thousand and lower costs per consultants and freelancers (€53 thousand).

For additional information, reference should be made to the directors' report section on "Human resources".

Average	2017	2016	Change
Managers	226	223	3
Junior managers	5,758	5,685	73
Other	19,724	19,474	250
TOTAL	**25,708**	**25,382**	**326**

25. Raw materials, consumables, supplies and goods

They can be analysed as follows:

thousands of Euros

	2017	2016	Change
Raw materials and consumables	582,393	511,393	71,000
Electrical energy and fuel for traction	(18,328)	222,953	(241,281)
Lighting and driving force	44,593	36,088	8,505
Accruals/Releases	9,080	7,105	1,975
Total	**617,738**	**777,539**	**(159,801)**

The total decrease of €159,801 thousand in "Raw materials, consumables, supplies and goods", mainly due to the following factors:

- the €241,281 thousand decrease in costs for electrical energy and fuel for train traction, due to the effects of Law no. 167 of 20 November 2017, as described in the paragraph on "Legislative and regulatory framework" in the directors' report;
- the rise in consumption of materials (€71,107 thousand) due to the combined effect of greater consumption for investments (€50,554 thousand) and for operations (€20,553 thousand);
- greater costs for "Lighting and driving force" of €8,505 thousand.
- greater accruals to the allowance for inventory write-down of €1,975 thousand, following the analysis on obsolete and slow-moving items to be written down or off;
- greater purchase costs for consumables (€880 thousand);
- the decrease in the price to purchase materials in inventories (€534 thousand);
- greater revenue from internal work (€453 thousand) due to an increase in production of cores, diverters, glued insulating joints and devices by Officina Nazionale Infrastrutture e Apparecchiature Elettriche (the Bari, Pontassieve and Bologna national workshops);

26. Services

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Change
Transport services	**9,379**	**12,322**	**(2,943)**
Other transport-related services	(327)	(19)	(308)
Shunting services	1,177	536	641
Ferry services	3,122	3,135	(13)
Cargo transport services	5,407	8,670	(3,263)
Maintenance, cleaning and other contracted services	**343,798**	**312,267**	**31,531**
Contracted services and work for third parties	34,143	22,767	11,376
Contract cleaning and other services	89,664	87,931	1,733
Maintenance and repair of intangible assets and property, plant and equipment	219,991	201,569	18,422
Maintenance accruals and releases	–	–	–
Property services and utilities	**106,952**	**107,896**	**(944)**
Administrative and IT services	**74,973**	**65,029**	**9,944**
External communications and advertising expense	**1,966**	**1,204**	**762**
Other sundry services	**146,105**	**136,154**	**9,951**
√ Consultancies	275	517	(242)
√ Insurance	14,702	14,562	140
√ Professional services	8,499	11,089	(2,590)
√ Agencies’ fees	16	997	(981)
√ Group-wide costs	2,234	1,230	1,004
√ Other	102,385	91,592	10,793
√ Accruals/releases	17,993	16,167	1,826
Total	**683,173**	**634,872**	**48,301**

Costs for services increased by a total of €48,301 thousand, mainly as a consequence of the combined effect of the following factors:

- the €18,422 thousand increase in costs for maintenance and repairs on real estate and chattels;
- the €11,376 thousand increase in work for third parties following the corresponding growth in revenue;
- the €9,951 thousand increase in sundry costs, mainly due to the rise in the costs for service tickets (€8,671 thousand), greater accruals/releases (€1,826 thousand) and greater group-wide costs (€1,004 thousand), partly offset by the decrease in professional service costs (€2,590 thousand).
- the €9,944 thousand increase in administrative and IT service costs;
- the €3,263 thousand decrease in cargo transport service costs, partly offset by greater shunting service costs (€641 thousand);

27. Use of third-party assets

This caption can be analysed in the table below.

thousands of Euros

	2017	2016	Change
Lease payments, building expenses and registration tax	39,738	34,818	4,919
Leases and indemnities for rolling stock and other	2,591	4,056	(1,463)
IT and other services	10,326	10,016	309
Total	**52,655**	**48,890**	**3,766**

The use of third-party assets increased €3,766 thousand, mainly due to the combined effect of the following factors:

- the €4,919 thousand increase in leases, primarily resulting for higher costs for leases and ancillary charges related to premises;
- the €1,463 thousand decrease in leases and indemnities for rolling stock and other;
- the €309 thousand increase in lease payments for hardware and software.

28. Other operating costs

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Change
Other costs	117,572	130,357	(12,785)
Losses	398	2,274	(1,876)
Accruals/releases	16,668	6,876	9,792
Total	**134,638**	**139,507**	**(4,869)**

Other operating costs decreased by €4,869 thousand, mainly due to:

- the €12,785 thousand decrease in other costs, primarily due to lower prior year expense (€10,581 thousand) and lower registration tax (€1,717 thousand);
- smaller losses on sales of assets, down €1,876 thousand;
- the €9,792 thousand increase in net accruals, mainly due to greater accruals for local property taxes of previous years.

29. Internal work capitalised

This caption amounts to €874,951 thousand and refers to internal costs for the use of personnel and overheads of €331,427 thousand and costs for materials used in investments of €543,524 thousand.
The €75,742 thousand increase in internal work capitalised in 2017 compared to the previous year is due to the greater use of materials for the substantial technological upgrading, development works and, especially, the extraordinary maintenance of the infrastructure.

30. Amortisation and depreciation

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Change
Amortisation and depreciation	3,907	3,851	56
Depreciation of property, plant and equipment	103,738	89,952	13,786
Depreciation of investment property	78	64	14
Total	**107,723**	**93,867**	**13,856**

The €13,856 thousand increase in depreciation is mainly due to the rise in the depreciation rate applied to the main line in the “G – HS network” and the complete roll-out of the Treviglio - Brescia line.

31. Impairment losses (reversals of impairment losses)

This caption can be analysed as follows:

thousands of Euros

	2017	2016	Change
Impairment losses on intangible assets	–	4,746	(4,746)
Impairment losses on property, plant and equipment and investment property	37,336	7,786	29,550
Net impairment losses on receivables	1,688	10,075	(8,387)
Total	**39,024**	**22,607**	**16,417**

Net impairment losses increased by €16,417 thousand on 2016, mainly due to:

- the €29,550 thousand increase in impairment losses on property, plant and machinery following the derecognition of assets;
- the €8,387 thousand decrease in net impairment losses on receivables;
- the €4,746 thousand decrease in impairment losses on assets under construction/development.

32. Accruals

Provisions made in 2017, of €40,000 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.

33. Financial income

This caption may be analysed as follows:

thousands of Euros

	2017	2016	Change
Other financial income	13,894	8,290	5,604
Exchange rate gains	337	163	174
Dividends	–	–	–
Total	**14,231**	**8,453**	**5,778**

This caption increased by €5,778 thousand on 2016, mainly due to greater interest income on the VAT credit (€4,642 thousand) and greater default interest (€1,090 thousand).

34. Financial expense

This caption may be analysed as follows:

thousands of Euros

	2017	2016	Change
Interest on financial liabilities *	41,149	41,523	(374)
Impairment losses on financial assets	62	315	(253)
Exchange rate losses	473	50	423
Accruals/releases *	3,577	1,030	2,547
Total	**45,261**	**42,918**	**2,343**

* For a better accounting presentation, accruals and releases have been reclassified from interest on financial liabilities to accruals/releases

Financial expense increased by €2,343 thousand, due to the following factors:

- the €374 thousand decrease in interest on financial liabilities, mainly due to lower interest cost (€1,902 thousand) and lower interest and other expense to others (€1,687 thousand), partly offset by greater interest and other expense to the parent (€3,234 thousand);
- the €423 thousand increase in exchange rate losses;
- the €2,547 thousand increase in accruals/releases following changes in the provision for potential interest and expense in connection with the "K2 discount".

35. Capitalised financial expense

It was calculated based on the portion of financing allocated to assets under construction and amounts to €20,937 thousand.

36. Current and deferred taxes

The company's tax balance is nil due to decreases in tax items which have led to a negative tax base. The most significant of these decreases is due to fiscally-driven depreciation in excess of that accounted for under Italian Civil Code criteria.

The following table provides a breakdown of the depreciable cost used for tax purposes, which, unlike the depreciable cost accounted for under Italian Civil Code criteria, is shown, pursuant to article 1.86 of Law no. 266/2005, gross of the corresponding government grants related to assets to the railway infrastructure operator.

thousands of Euros

	2017
Depreciable cost under Italian Civil Code criteria	4,660,964
Government grants related to assets up to 2017	34,198,546
Government grants related to assets for 2017 extraordinary maintenance	4,228,267
Government grants related to assets up to 2060	42,368,925
Impairment loss as per IFRS, reducing the historical cost	3,583,999
Total depreciable cost under tax criteria	89,040,700
Total fiscally-driven portion	**2,007,168**

37. 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 S.p.A. – 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 S.p.A. 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 6 June 2018).

RFI S.p.A. 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.p.A.'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

While reference should be made to "Litigation and disputes" in the directors' report, following the outcome of the request to cancel ART regulation no. 70/2014, the Piedmont regional administrative court published ruling no. 541/2017, in which it partly denied and partly found inadmissible RFI S.p.A.'s extraordinary appeal before the President of Italy (which was later transferred to the regional administrative court). Accordingly, the potential asset presented in the 2016 annual report is no longer considered.

38. AUDIT FEES

Pursuant to article 37 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 €553 thousand, including fees paid to them for services other than the legally-required audit (€269 thousand).

39. 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

RECIPIENTS	**2017**	**2016**	**Changes**
Directors *	303	325	(22)
Statutory auditors	84	84	–
Total	**387**	**409**	**(22)**

*In addition, fees of €23 thousand were paid to the non-group members of the Supervisory body.

40. MANAGEMENT AND COORDINATION

The key figures of the direct parent at 31 December 2016 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 2016	31 December 2015
Assets		
Total non-current assets	42,539,698	41,564,011
Total current assets	5,268,296	4,728,356
Total assets	**47,807,994**	**46,292,367**
Equity		
Share capital	36,340,433	36,340,433
Reserves	7,120	(99,643)
Retained earnings (losses carried forward)	0	0
Profit for the year	638,773	137,380
Total equity	**36,986,326**	**36,378,170**
Liabilities		
Total non-current liabilities	7,299,976	6,569,168
Total current liabilities	3,521,692	3,345,029
Total liabilities	**10,821,668**	**9,914,197**
Total equity and liabilities	**47,807,994**	**46,292,367**

	2,016	2,015
Revenue	156,691	146,961
Operating costs	(167,266)	(145,146)
Amortisation and depreciation	(19,994)	(23,672)
Net reversals of impairment losses	(1,055)	(13,300)
Provisions		(2,969)
Net financial income	565,905	176,921
Income taxes	104,492	(1,415)
Profit for the year	**638,773**	**137,380**

41. 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	
	2017	**2016**
Short-term benefits	3,500	3,718
Post-employment benefits	227	232
Termination benefits	0	0
Total	**3,728**	**3,950**

In addition to short-term benefits, a variable portion is to be paid in 2018, for an amount not exceeding €850 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, reimbursement of personnel expense, company officers.	Trade and other: ferry services, professional training and sundry payments.
Nord Est Terminal S.p.A. in liquidation	Trade and other: reimbursement for company officers	-
Terminali Italia S.r.l.	Trade and other: lease of areas and premises to manage terminals, reimbursement for seconded personnel and company officers.	Trade and other: charges for owned chattels, services (utilities and insurance policies) and use of third-party assets (rolling stock).
Associates		
Quadrante Europa S.p.A.	Trade and other: company officers. Financial: shareholder loan.	
Parents		
Ferrovie dello Stato Italiane S.p.A. (a)	Trade and other: sundry services, personnel services, training, health services and leases. Financial: interest income on VAT credit and the intragroup current account.	Trade and other: licences to use the trademark, leases and ancillary charges related to premises, building expenses, information services, labour lawyer, recruitment and development services, professional training and consultancy. Financial: intragroup current account.
Other related companies		
Sita S.p.A. in liquidation	Trade and other: leases.	-

Ferservizi S.p.A. (b)	Trade and other: operating building leases, health services and reimbursement for company officers.	Trade and other: global service provider activities, IT services, administrative services, personnel management, training, accounting and treasury services, procurement services, facilities, railway hotels, administrative management of catering, seconded personnel costs and building expenses.
Italcertifer ScpA (b)	Trade and other: health services, leases, GSM utilities, repayments for testing, certification and consultancy.	Trade and other: preliminary activities and investigations for the certification of components and railway systems and rolling stock maintenance.
Mercitalia Logistics S.p.A. (b)	Trade and other: GSM users, health services.	Trade and other: cargo transport, seconded personnel, leases and ancillary charges.
Mercitalia Transport & Services S.r.l.	Trade and other: health services and other intragroup recharges.	Trade and other: cargo transport, shipping and seconded personnel.
Mercitalia Terminal S.p.A.	Trade and other: reimbursement for company officers, professional training, health services and services provided to the railway companies.	Trade and other: personnel reimbursement
Mercitalia Rail S.r.l.	Trade and other: operating and non-operating property leases, leases of land, revenue from GSM utilities, services provided to the railway companies (sale of energy, ferrying services and electrical energy used for traction), health services, revenue from works and supplies and performance regime penalty income.	Trade and other: transport and shipping services, rolling stock maintenance, carriage hire, contracting services and performance regime penalty expense.
Mercitalia Shunting & Terminal (formerly Serfer S.p.A.)	Trade and other: operating and non-operating property leases, leases of land, GSM utilities, services provided to the railway companies (sale of energy, ferrying services and electrical energy used for traction), health services, works and supplies, professional training, tolls and performance regime penalties.	Trade and other: rolling stock maintenance, third party services and performance regime penalties.
Grandi Stazioni Rail S.p.A. (b)	Trade and other: repurchase instalments, supplies and works.	Trade and other: charges for failing to vacate certain areas occupied for institutional purposes, building expenses, leases and ancillary charges related to premises.
Centostazioni S.p.A. (b)	Trade and other: repurchase instalments, health services and reimbursement for company officers.	Trade and other: indemnities for failing to vacate certain areas occupied for institutional purposes and building expenses.
Fercredit S.p.A. (b)	Trade and other: health services.	Trade and other: supplier analyses. Financial: default interest.
Italferr S.p.A. (b)	Trade and other: health services, sundry repayments, operating building leases, professional training and revenue from GSM utilities.	Trade: network investment works oversight, design and control, training, software maintenance, leases and ancillary charges related to premises.
Metropark S.p.A.	Trade and other: lease of buildings and areas,	Trade and other: seconded personnel services and

	reimbursement for seconded personnel, health services and revenue from supplies and services.	services.
Mercitalia Intermodal S.p.A. (formerly Cemat S.p.A.)	Trade: leases of cargo terminals and health services.	Trade and other: costs per seconded personnel. Financial: grant as per Law no. 166/2002
Grandi Stazioni Immobiliare S.p.A. (b)	-	Trade and other: lease and building expenses
Trenitalia S.p.A. (b)	Trade and other: tolls, traction, ferry services, health services, reimbursement of Polfer (railway police) charges, leases, GSM utilities, sale of high-voltage electrical energy, land leases, train traffic ancillary services, supplies and services and performance regime penalty income.	Trade and other: transport services for employees for work and leisure, IT services, carriage hire, purchase and maintenance of rolling stock, shunting and cargo transport services, travel and seconded personnel expenses, other services and performance regime penalty expense.
TX Logistik AG	Trade and other: tolls, traction, shunting and traffic-related services, cargo terminal leases, health services and sale of HV energy; performance regime penalty income.	Trade and other: performance regime penalty expense.
TX Austria GmbH	Trade and other: services provided to the railway companies (toll).	-
Thello Sas	Trade and other: health services.	-
FS Sistemi Urbani S.r.l. (b)	Trade and other: provision of works and supplies, health services and sundry reimbursements for company officers.	Trade and other: leases and ancillary charges related to premises.
Trenord S.r.l.	Trade and other: tolls, traction and shunting services, health services, revenue from GSM utilities, sale of HV energy, traffic-related services, leases, services and supplies, performance regime penalty income.	Trade and other: performance regime penalties.
Busitalia - Sita Nord (b)	Trade and other: health services, traffic-related services, sale of HV energy, tolls.	Trade and other: transport and shipping, seconded personnel services.
Busitalia Rail Service	Trade and other: health services, leases for vehicle parking areas.	Trade and other: port services.
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.	-
Ferrovie Sud Est S.r.l. (b)	Trade and other.: health services, professional training, revenue from services, works and supplies.	Trade and other: seconded personnel services.
Associates of subsidiaries		
BBT S.p.A.	Trade and other: reimbursement for seconded personnel and company officers, leases, sundry services.	Trade and other: seconded personnel services.
Terminal Tremestieri S.r.l.	Trade and other: company officers.	-
Group associates		
Eurogateway S.r.l.	Trade and other: reimbursement for company	-

	officers.	
LI-NEA S.p.A.	Trade and other: health services.	-
TELT Sas (b)	Trade and other: health services.	-
Other related parties		
CDP group	Trade and other: high-voltage electrical energy under the new rate regime, high-voltage network maintenance, crossings and special accesses. Financial: funds and current accounts with CDP.	Trade and other: high-voltage electrical energy under the new rate regime purchased from Terna, services and contract works with third parties, electrical energy for train traction. Financial: loan repayment.
ENEL group	Trade and other: leases, and crossings and special accesses.	Trade and other: utilities (water, energy and gas).
ENI group	Trade and other: crossings, special access and land leases.	Trade and other: gas utilities and fuel, use of vehicles.
Leonardo group	Trade and other: leases, crossings and special accesses, services, penalties and default interest.	Trade and other: software and line maintenance.
GSE group	Trade and other: services.	Trade and other: electrical energy for train traction, lighting and driving force and energy utilities.
Invitalia Group	Trade and other: crossings and special accesses.	-
IstPolZeccaStato Group	-	Trade and other: purchases of spaces for legal notices and press advertising.
ENAV Group	Trade and other: lifting services.	-
Poste group	Trade and other: operating and non-operating building leases. Financial: current accounts.	Trade and other: postal charges and sundry services.
RAI Group	Trade and other: leases, crossings and special accesses.	Trade and other: subscriptions to newspapers, magazines and other publications.
ANAS group	Trade and other: 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: crossings and special accesses.	-
EXPO Group	Trade and other: crossings and special accesses.	-
EUROFER/PREVINDAI pension funds	-	Trade and other: withholdings and social security contributions.
Other pension funds	-	Trade and other: insurance policies and social security charges.
Fondazione FS	Trade and other: leases, land leases and services.	Trade and other: donations, leases and ancillary charges related to premises.
Ferrovie Nord Milano's subsidiaries		Trade and other: fees for use of third-party assets.
Scarl, associations, EEIG, partnerships	Trade and other: recharging of services	Trade and other: membership fees

(a) Company carrying out management and coordination activities (direct parent)
(b) Company managed and coordinated by (a)

Related party transactions

The table below summarises the statement of financial position and income statement balances as at and for the year ended 31 December 2017 generated by related party transactions.

Financial transactions between the parent and its related parties are shown separately, i.e., without offsetting positive against negative components, although these components refer to similar transactions (e.g., repayments).

Consequently, the figures presented do not necessarily coincide with those set out in the corresponding tables of the notes to the financial statements.

Trade and other transactions

thousands of Euros

Company	31 December 2017			2017	
	Receivables	Payables	Guarantees	Costs	Revenue
Subsidiaries	**11,217**	**5,651**	**–**	**4,182**	**1,774**
Bluferries S.r.l.	397	1,621	–	2,948	247
Nord Est Terminal S.p.A. in liquidation	–	–	–	154	10
Terminali Italia S.r.l.	10,819	4,030	–	1,081	1,516
Associates	**27**	**–**	**–**	**–**	**27**
Quadrante Europa S.p.A.	27	–	–	–	27
Parents	**670,904**	**29,643**	**1,765,585**	**45,632**	**5,731**
Ferrovie dello Stato S.p.A.	670,904	29,643	1,765,585	45,632	5,731
Other related companies	**259,739**	**521,703**	**–**	**283,632**	**1,117,980**
Sita S.p.A. in liquidation	84	2	–	–	–
Ferservizi S.p.A.	1,248	22,238	–	66,326	831
Italcertifer ScpA	1,375	2,546	–	572	1,332
Mercitalia Logistics S.p.A.	2,482	1,879	–	277	11
Mercitalia Transport & Services S.r.l.	506	9,620	–	3,639	1
Mercitalia Terminal S.p.A.	266	–	–	(18)	116
Mercitalia Rail S.r.l.	29,506	64,167	–	10,157	84,944
Serfer S.r.l.	825	1,336	–	112	1,370
Grandi Stazioni Rail S.p.A.	5,096	19,641	–	72,250	8,324
Centostazioni S.p.A.	6,526	14,383	–	30,431	13,949
Fercredit S.p.A.	8	211,893	–	31	9
Italferr S.p.A.	2,983	119,581	–	3,153	455
Metropark S.p.A.	260	171	–	218	225
Cemat S.p.A.	1,149	585	–	95	23
Grandi Stazioni Immobiliare	–	158	–	1,189	–
Trenitalia S.p.A.	160,014	49,852	–	91,098	878,863
Ferport S.r.l. in liquidation	27	–	–	–	–
TX Logistik AG	1,117	1,507	–	544	2,488
TX Austria GmbH	5	–	–	–	25
Thello	11	–	–	–	23
FS Sistemi Urbani S.r.l.	4,071	203	–	1,224	1,789
Trenord S.r.l.	41,102	1,872	–	2,418	118,406
Busitalia Sita Nord S.r.l.	411	55	–	12	581
Busitalia Rail Service S.r.l.	54	14	–	40	46
ATAF Gestioni S.r.l.	52	–	–	–	382
Busitalia Veneto S.p.A.	76	–	–	–	169
Busitalia Campania S.p.A.	60	–	–	–	74
FSE S.r.l.	424	–	–	(135)	3,545
Associates of subsidiaries	**750**	**8**	**–**	**(1,869)**	**9,230**
BBT S.p.A.	450	8	–	(1,854)	9,229
Terminal Tremestieri S.r.l.	300	–	–	(15)	1
Group associates	**132**	**–**	**–**	**–**	**145**
Eurogateway S.r.l.	120	–	–	–	121
LI-NEA S.p.A.	11	–	–	–	23
Ferrovie Nord Milano	–	–	–	–	–
TELT Sas	–	–	–	–	1
F.NO.M. Autoservizi S.p.A.	1	–	–	–	–
Other related parties	**57,641**	**203,973**	**533,866**	**505,184**	**20,336**
CDP group	14,367	69,836	360,212	70,483	15,034
ENEL group	42,508	64,670	23,654	83,266	1,122
ENI group	990	615	–	2,693	468
Leonardo group	78	81,363	–	706	561
GSE group	–	650	150,000	321,592	29
Invitalia Group	110	975	–	–	143
IstPolZeccaStato Group	11	68	–	261	–
ENAV Group	14	–	–	–	1
Poste group	402	12	–	–	217
RAI Group	8	5	–	3	10
ANAS group	841	2,751	–	13	1,694
SOGIN Group	2	3	–	–	1
CONSAP Group	1	–	–	–	–
EXPO Group	28	27	–	–	9
EUROFER/PREVINDAI pension funds	4	4,957	–	6,852	–
Other pension funds	(2,020)	(23,528)	–	14,230	–
Fondazione FS	60	1,330	–	3,795	581
Subsidiaries of FNM	71	–	–	6	131
Other	165	241	–	1,282	335
TOTAL	**1,000,409**	**760,978**	**2,299,451**	**836,762**	**1,155,222**

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. ("CDP") group.
2) Any negative amounts, where present, reflect balances that are not offset.

Financial transactions

thousands of Euros

Company	31 December 2017			2017	
	Receivables	Payables	Guarantees	Expense	Income
Associates	**265**	**–**	**–**	**–**	**–**
Quadrante Europa S.p.A.	265	–	–	–	–
Parents	**219,387**	**2,296,860**	**238,626**	**27,750**	**11,799**
Ferrovie dello Stato Italiane S.p.A.	219,387	2,296,860	238,626	27,750	11,799
Other related companies	**–**	**–**	**–**	**30**	**–**
Cemat S.p.A.	–	–	–	12	–
Fercredit S.p.A.	–	–	–	17	–
Other related parties	**2,301**	**159,378**	**–**	**–**	**–**
CDP group	–	159,378	–	–	–
Poste group	2,301	–	–	–	–
TOTAL	**221,688**	**2,456,237**	**238,626**	**27,779**	**11,799**

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. ("CDP") group.

42. GUARANTEES

thousands of Euros

Guarantees	31 December 2017	31 December 2016
1. RISKS		
1.1 Sureties	325,231	328,890
Total 1	**325,231**	**328,890**
2. OTHER		
2.1 Sureties issued by third parties in favour of the company	4,779,678	4,961,438
Total 2	**4,779,678**	**4,961,438**

"Risks" mainly refer to the sureties that RFI S.p.A. has issued to the public administrations (the Ministry of the Environment, regions and provinces) affected by the laying of HS/HC lines.

Sureties issued in favour of the company mainly refer to guarantees issued by Ferrovie dello Stato Italiane on behalf of RFI S.p.A. 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.

43. THIRD-PARTY FINANCIAL COMMITMENTS

Developments at 31 December 2017 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 2017:

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 2016	102,084,451	69,339,649	5,649,714	66,552,613	*27,095,088*	*2,787,036*
At 31 December 2017	115,024,439	73,269,288	6,112,651	71,156,014	*35,642,500*	*2,113,274*
Delta	12,939,988	3,929,639	462,937	4,603,401	*8,547,412*	*(673,762)*

Specifically, total available resources considered at 31 December 2017 amount to approximately €115 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 European Union funds. Available resources rose €12,939,988 thousand on 31 December 2016. This amount reflects the net balance of the new loans granted to the company in the year. At 31 December 2017, the disbursements received in respect of the above granted amounts total €73,269,288 thousand and include total disbursements from public sources provided by the different Stability and Budget Acts and long-term financing laws, as well as EU funds.

At 31 December 2017, disbursements of €71,156,014 thousand were recognised, up €4,603,401 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 €6,112,651 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.

44. EVENTS AFTER THE REPORTING DATE

January

VAT credit reimbursement

The company collected the 2016 VAT credit of €386 million on 23 January 2017 (the value date).

Pioltello train accident

A railway accident occurred on 25 January 2018 in Seggiano di Pioltello, involving the railway company Trenord's regional train no. 10452 and causing the death of three passengers and injuring another. Addition details are given in the "Litigation and disputes" section of the directors' report.

February

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

On 26 February 2018, RFI S.p.A. paid in its subscribed portion of the ninth capital increase of the subsidiary Tunnel Ferroviario del Brennero, which was approved by the shareholders in their meeting of 20 December 2017 and called up in one tranche of €140 million. This portion, which RFI S.p.A. offered and paid in proportionally to its investment (87.92%) amounted to €123 million.

ALLOCATION OF PROFIT FOR THE YEAR

The financial statements as at and for the year ended 31 December 2017 show a profit for the year of €261,500,768.99.

The board of directors proposes allocating 5% of the profit for 2017, amounting to €13,075,038.45, to the legal reserve, a €100,000,000.00 dividend to the shareholder and the residual €148,425,730.54 to retained earnings.

Rome, 6 March 2018

The board of directors

The Chairman

The CEO