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Nuovo Trasporto Viaggiatori

2018 Annual Report

This document has been translated into English for the convenience of readers. In the event of discrepancy, the Italian language version shall prevail.

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CORPORATE BODIES
ITALO – NUOVO TRASPORTO VIAGGIATORI SPA

BOARD OF DIRECTORS

In office until approval of the financial statements for the year ended December 31, 2020

Chairman	Luca Cordero di Montezemolo
Deputy Chairman	Flavio Cattaneo
Chief Executive Officer and General Manager	Gianbattista La Rocca
Directors	Ines Gandini Andrew Gillespie-Smith Philip Marc Hiley Christoph Holzer Michael McGee Scott Allen Stanley

Board committees

Executive Committee – In office until approval of the financial statements for the year ended December 31, 2020, the Committee members are Flavio Cattaneo (Chairman), Philip Marc Hiley, Gianbattista La Rocca, Michael McGee and Scott Allen Stanley

BOARD OF STATUTORY AUDITORS

In office until approval of the financial statements for the year ended December 31, 2020

Chairman	Giovanni Fiori
Standing auditors	Gianfranco Orlando Fiorica Benedetta Navarra
Alternate auditors	Fabrizio Bonacci Franco Piero Pozzi

INDEPENDENT AUDITOR

The General Meeting of shareholders held on April 14, 2017 voted to engage Deloitte & Touche SpA to audit the financial statements for the period 2017-2019.

GLOSSARY

The terms and abbreviations listed below are those most regularly used in this document.
The following explanations should not be regarded as technical definitions but as a support for the reader to understand certain terms used in this document.

AGCM: *Autorità Garante della Concorrenza e del Mercato*, Italy's Anti-Trust Authority.

AGV fleet: the fleet consisting of 25 fully operational AGVs purchased by Italo.

AGV: the Alstom 575 high-speed train.

Alstom: Alstom Ferroviaria SpA

ANSF: *Agenzia Nazionale per la Sicurezza Ferroviaria*, Italy's Rail Safety Regulator.

ART: *Autorità di Regolazione dei Trasporti*, Italy's Transport Regulator.

Contract for the Use of Infrastructure: this is an annual contract between the Company and the Infrastructure Manager, setting out the tracks on which the Company can operate during the following railway year in return for payment of the fees provided for in art. 17 of Decree 112/2015.

Covenant: in a loan agreement, the commitment assumed by one party, generally the debtor, to carry out certain actions (a positive or affirmative covenant) or to refrain from carrying out certain actions (a negative covenant), or to comply with certain financial ratios (a financial covenant).

EVO fleet: Italo's own fleet consisting of 22 EVO Pendolino trains purchased by Italo (including 12 that are operational and a further 10 that are being built).

EVO Pendolino: the Alstom ETR 675 "EVO" high-speed train.

Framework Agreement: an agreement signed by Italo and RFI on January 17, 2008, and later amended, setting out the terms and conditions for access and use, in terms of track and services, of Italy's national railway infrastructure.

GME: *Gestore dei Mercati Energetici*, the state-owned company responsible for managing the energy market.

GSE: *Gestore per i Servizi Energetici*, the state-owned company responsible for promoting the use of renewable energy.

HS/HC: services or markets relating to high-speed/high-capacity rail transport for medium- and long-haul destinations in Italy.

Intermodal service: a service provided using different forms of transport.

Italo's fleet: the fleet of high-speed trains, consisting of the AGV fleet and the EVO fleet.

Italobus: the intermodal road transport service offered by Italo.

Leverage: the ratio of Net Debt to EBITDA (defined in the section, "Alternative Performance Indicators").

Load Factor: an indicator typically used in the air and rail transport sectors. It measures the utilization of capacity on trains, based on the ratio of the number of kilometres travelled by the passengers transported to the number of available seats (pass-km/seat-km). It enables the rate of capacity utilization on aircraft and trains to be assessed.

Lounge: a facility offering particular types of customer additional comforts, services and refreshments and located in the principal stations served by the Company.

MED: Ministry for Economic Development.

Minimum Access Package or MAP: the services that the Infrastructure Manager must provide to the Railway Undertaking in return for payment of a fee for the right to access and utilize the infrastructure, including: (a) the handling of requests for infrastructure capacity for the purposes of concluding Contracts for the Use of Infrastructure; (b) the right to utilize such capacity as is granted; (c) the use of railway infrastructure, including track, points and junctions; (d) train control, including signalling, train regulation, dispatching and the communication and provision of information on train movements; (e) electrical supply equipment for traction current, where available; (f) all other information as is necessary to implement or to operate the service for which capacity has been granted.

Pass-km or **passenger kilometres**: an indicator used in rail transport, representing total kilometres travelled by the total number of passengers transported in a certain period of time.

RFI or Infrastructure Manager: Rete Ferroviaria Italiana SpA, the Ferrovie dello Stato group company that has the public role of managing the railway infrastructure and is thus responsible for lines, stations and other equipment.

Safety Certificate: a certificate issued by the ANSF attesting to the railway undertaking's compliance with the regulations governing specific technical and operational requirements for rail services and safety requirements for personnel, rolling stock and the undertaking's internal organisation.

Seat-km or **seat kilometres**: an indicator used in rail transport, representing total kilometres travelled by the fleet by the total number of seats offered in a certain period of time.

TOE (Ton of Oil Equivalent): this represents the quantity or energy released by burning a tone of crude oil and is normally equivalent to approximately 42 GJ (Gigajoules).

Train-km or **train kilometres**: an indicator used in rail transport, representing total kilometres travelled by trains in a certain period of time, used to measure the capacity offered by the operator.

WCs (White Certificates) or EECs: Energy Efficiency Certificates, introduced by decree issued by the Minister for Productive Activities, in agreement with the Minister for the Environment and Land Protection, on July 20, 2004 (Ministerial Decree of July 20, 2004 for electricity and Ministerial Decree of July 20, 2004 for gas), as amended.

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2018 Report on Operations

KEY FINANCIAL AND OPERATIONAL DATA FOR 2018

Key financial and operational data for 2018 and 2017 is shown below.

(€m, as ratios and in %)	2018	2017	Increase/ (decrease)	% increase/ (decrease)
Operating performance				
Total Operating Revenue	571.6	454.9	116.6	25.6%
Revenues from Transport Services	536.5	414.9	121.6	29.3%
Net Revenues from White Certificates	30.4	32.8	(2.5)	(7.5%)
Other Revenues	4.7	7.2	(2.6)	(35.2%)
Non-recurring expenses[1]	(13.2)	(13.7)	0.5	(3.3%)
EBITDA	198.8	142.0	56.8	40.0%
EBITDA margin	*34.8%*	*31.2%*	*3.6 pp*	*n/a*
Adjusted EBITDA	212.0	155.7	56.3	36.2%
Adjusted EBITDA margin	*37.1%*	*34.2%*	*2.9 pp*	*n/a*
Organic EBITDA	181.7	122.9	58.8	47.9%
Organic EBITDA margin	*33.6%*	*29.1%*	*4.5 pp*	*n/a*
EBIT	162.7	112.6	50.2	44.6%
EBIT margin	*28.5%*	*24.7%*	*3.7 pp*	*n/a*
EBT	131.1	54.4	76.7	140.9%
EBT margin	*22.9%*	*12.0%*	*11.0 pp*	*n/a*
Profit for the year	92.9	33.8	59.1	175.2%
Profit margin	*16.3%*	*7.4%*	*8.8 pp*	*n/a*
Financial position				
Net Working Capital	(194.2)	(165.6)	(28.6)	17.3%
Non-current Assets	899.4	815.3	84.1	10.3%
Net Non-current Assets	876.5	795.1	81.4	10.2%
Net Invested Capital	682.3	629.5	52.9	8.4%
Available funds	289.0	267.1	21.9	8.2%
Gross Debt	722.7	710.1	12.7	1.8%
Net Debt	433.7	443.0	(9.3)	(2.1%)
Investment	147.0	123.3	23.7	19.2%
Total Assets	1,236.8	1,137.8	99.0	8.7%
Equity	248.6	186.5	62.1	33.3%
Financial ratios				
Net Debt / Equity	1.7x	2.4x	(0.7x)	n/a
Net Debt / EBITDA	2.2x	3.1x	(0.9x)	n/a
Operational indicators				
Passengers (in millions)	17.5	12.8	4.8	37.2%
Load Factor (LF%) = pass-km/seat-km	76.2%	77.4%	(1.1 pp)	n/a
Commercial offering (millions of train-km)	19.6	14.9	4.7	31.7%
AGV fleet (at year end)	25	25	-	0.0%
EVO fleet (at year end)	12	4	8	200.0%
Total AGV + EVO fleet (at year end)	37	29	8	27.6%
Work force at year end (number)	1,250	974	276	28.3%

A number of figures shown in the table constitute Alternative Performance Indicators, as defined in the section, "Alternative Performance Indicators" below. The financial data shown in this document are presented in millions of euros, and have been rounded with respect to the corresponding amounts shown in the financial statements for the year ended December 31, 2018, which are presented in euros. As a result, the totals for certain financial indicators may differ slightly from the effective mathematical totals and/or corresponding amounts in euros included in the financial statements for the year ended December 31, 2018.

[1] The figure for 2017 is solely for management purposes in order to provide a comparison of the Alternative Performance Indicators between the two years.

An overview of 2018

2018 was an important year for Italo with, among other things, major changes in the Company's governance, including the entry of new shareholders, payment of our first ever dividends and further improvement of the already solid performance recorded in the previous year.

At the beginning of the year, the Company proceeded with the IPO process that began in the second half of 2017. Then, in February, the shareholders accepted the offer presented by Global Infrastructure Partners (GIP) to acquire Italo's entire share capital. This led to withdrawal of the Company's listing application. GIP is a leading international infrastructure investment fund with over US$50 billion in assets under management.

From an operational viewpoint, 2018 witnessed the completion and delivery of 12 new EVO Pendolino trains, bringing the total number of trains in Italo's fleet to 37 and increasing the average number of trains in the fleet from 25 in 2017 to 35 in 2018. During the year, the Company also exercised an option to purchase a second group of 5 EVO trains which, together with the first lot of trains previous ordered, will result in a total of 47 trains in Italo's fleet (25 AGVs and 22 EVOs).

This additional rolling stock and the fleet management efficiencies introduced enabled the Company to increase the number of daily services by 60.7% from 56 to 90, and to boost capacity in terms of train-kilometres by 31.7%. Among other things, this enabled us to launch the new Milan-Turin–Venice route and extend the rail network by adding the cities of Trento, Bolzano and Rovereto.

Thanks to this increased capacity and extension of the network, Italo carried 17.5 million passengers in 2018, 4.7 million more than in the previous year (up 37.2%). These results reflect the success of our commercial strategy and, despite the increased offering, our ability to limit the impact of load factor dilution.

The process of continuously monitoring the quality of the services provided, introduced in previous years, was reinforced. Market surveys show that, in terms of customer satisfaction, Italo has increased the quality perceived by its customers, reflecting ongoing improvements in the level of service offered before, during and after their journeys.

In terms of operating results, 2018 saw a significant increase in profitability, driven by a combination of strong revenue growth and a further improvement in operational efficiency. The EBITDA margin is 34.8% for 2018, a 3.6 percentage point improvement on 2017.

2018 was also an important year from a financial point of view. By taking advantage of the market opportunities that presented themselves during the summer months, the Company was able to optimise its capital structure by totally refinancing existing debt. The new structure benefits from improved borrowing terms and conditions and a capex line to support investment.

Financial highlights

The following operating and financial performance was recorded in 2018:

- **Total operating revenue** of €571.6 million, up 25.6% on 2017 (revenues from transport services up 29.3%).

- **EBITDA** of €198.8 million, up 40.0% compared with the previous year and resulting in an EBITDA margin of 34.8%. EBITDA for 2018 reflects the negative impact of non-recurring expenses of €13.2 million, without which the figure would have been €212.0 million, with a margin of 37.1%. On an organic basis, EBITDA amounts to €181.7 million, an increase of 47.9% compared with 2017 and representing a margin of 33.6% (after deducting revenues from White Certificates), up 4.5 percentage points compared with the previous year.

- **EBIT** of €162.7 million, marking an increase of 44.6% (up €50.2 million) compared with 2017.

- **Profit for the year** of €92.9 million, up 175.2% (€59.1 million) on the previous year.

- **Investment** amounted to €147.0 million in 2018 (€123.3 million in 2017) and, in continuity with the previous year, reflects the overall growth of the business, in terms of increased traffic volumes and the addition of new routes, which led the Company to purchase 22 new EVO Pendolino trains.

- **Net debt** of €433.7 million marks a 2.1% (€9.3 million) reduction compared with the previous year, reflecting the strong operating performance, which more than offset the increase in bank borrowings. The positive operating and financial performance enabled the Company to fund the investment forming the basis of its growth strategy.

Non-recurring events

The Company incurred **non-recurring operating costs** in 2018 connected with events and transactions that, by their nature, do not occur regularly during normal operating activities.
Non-recurring expenses of €13.2 million in 2018 regard the planned listing of Italo's shares on the screen-based trading system ("MTA") organized and managed by Borsa Italiana SpA, a process that began in the second half of 2017. The original plan was then abandoned following the decision to sell a 100% interest in the Company to the US infrastructure fund, GIP.
These expenses are presented separately in the financial statements for 2018 as they are of a material amount.

ITALO AND SUSTAINABILITY

The current social environment is changing, making it necessary to integrate economic and financial concerns with those of a social and environmental nature. With the adoption of the 2030 Agenda for Sustainable Development by the United Nations General Assembly and the list of 17 Goals (Sustainable Development Goals – SDGs) covering all aspects of human life and the planet, the idea that sustainability relates solely to the environment has been superseded and an integrated vision of the various aspects of human development is coming to the fore.
For this reason, whilst not being subject to any legal requirements in this sense, Italo chose to prepare its first sustainability report in 2018, not only to evaluate and assess the initiatives taken and the results achieved, but also to share the values that have always inspired the Company to face new challenges and achieve new goals.

Italo aims to contribute to the achievement of five of the Sustainable Development Goals in the 2030 Agenda.

Italo has always paid close attention to **Environmental** concerns. Aware of the fact that our natural resources are not limitless, the Company is committed to managing them in an efficient manner, continually looking for alternative solutions in order to reduce our consumption.

Italo also recognises the strategic importance of **Safety**, not only in terms of its railway operations, but also in terms of the health and safety of people, starting with our workforce.

Italo's **People** represent a strategic asset forming the basis for the Company's success. For this reason, the Company has always striven to foster the human and professional development of its personnel. In addition, Italo is aware of the need to create a working environment that ensures **Gender equality** and that makes the most of the talents and skills of everyone, not only as a matter of social equity and cohesion, but in order to help ensure the business's competitiveness and success. This has led the Company to focus on the goal of not only employing a greater number of women in managerial and operational roles, but also on an internal policy paying closer attention to the different needs of men and women.

Finally, Italo fulfils the role of a connector of **Communities**, and it is for this reason that, as well as taking people to Italy's principal historical cities, we also actively support the conservation and development of Italian cultural heritage. Finally, Italo, acting alone or in partnership with other organisations, engages in projects designed to promote cultural equity, participation and identity in order to ensure that the conditions are right for human wellbeing to be distributed fairly across all members of society.

FINANCIAL REVIEW

Operating results

The table below shows the main operating results for 2018, compared with the previous year.

OPERATING RESULTS (€m)	2018	2017	Increase/ (decrease)	% increase/ (decrease)
Operating revenue	571.6	454.9	116.6	25.6%
of which revenues from White Certificates	30.4	32.8	(2.5)	(7.5%)
Operating costs	(372.8)	(312.9)	(59.8)	19.1%
of which non-recurring[2]	(13.2)	(13.7)	0.5	(3.3%)
EBITDA	**198.8**	**142.0**	**56.8**	**40.0%**
Amortization, depreciation, impairments, gains and losses on disposal of non-current assets	(36.1)	(29.5)	(6.6)	22.5%
EBIT	**162.7**	**112.6**	**50.2**	**44.6%**
Net financial income (expenses)	(31.6)	(58.1)	26.5	(45.6%)
EBT	**131.1**	**54.4**	**76.7**	**140.9%**
Income tax	(38.2)	(20.7)	(17.5)	84.9%
Profit (loss) for the year	**92.9**	**33.8**	**59.1**	**175.2%**

Profit for 2018 amounts to €92.9 million.

Operating revenue of €571.6 million is up €116.6 million (25.6%) compared with 2017.

The increase in **revenues from transport services** (up 29.3%) primarily reflects the commercial offering. The improvement is due to the progressive entry into service of 12 new trains in the EVO fleet through to July, as well as the positive performances of all the services offered, including on the newly introduced routes.

As a result of various regulatory interventions, there was a significant reduction in the market price of energy efficiency certificates. This impacted **revenues from White Certificates**, which are down €2.5 million (7.5%) compared with the previous year.

Operating costs of €372.8 million are up €59.8 million (19.1%), primarily due to the enlarged offering and the connected train costs. The increase was, in any event, less than proportionate to the increase in revenue due to the achievement of economies of scale.

EBITDA is up 40.0% to €198.8 million, compared with the €142.0 million of 2017, whilst the EBITDA margin has improved by 3.6 percentage points. The improvement primarily reflects an increase in revenues from transport services linked to the enlarged offering, which has more than offset the increase in costs, including the non-recurring expenses incurred as a result of the IPO process. After stripping out these expenses, adjusted EBITDA amounts to €212.0 million.

EBIT is up €50.2 million (44.6%) compared with the previous year to €162.7 million, after amortization and depreciation of €35.8 million and losses on the disposal of current assets of €0.3 million. The increase in EBIT in 2018 is broadly linked to the improvement in EBITDA, totalling €56.8 million, partially offset by an increase in "Amortization, depreciation, impairments" linked to the start of depreciation of the new fleet entering service (up €6.8 million).

[2] The figure for 2017 is solely for management purposes in order to provide a comparison of the Alternative Performance Indicators between the two years.

EBT of €131.1 million is up €76.7 million on the €54.4 million of 2017, resulting in an improvement of 140.9%. In terms of EBT margin, the increase is 11 percentage points from 12.0% in the previous year to 22.9% in 2018.

Net financial expenses of €31.6 million are down €26.5 million compared with the previous year (a reduction of 45.6%). Despite the impact of the refinancing that took place in August 2018, which resulted in the recognition of settlement fees connected with the cancelled borrowing, the figure for 2018 is lower than the balance for the previous year, when the cost of debt was higher and the impact of the cost of the two refinancing transactions undertaken was significant.

Income tax amounts to €38.2 million, an increase of €17.5 million (84.9%) compared with 2017 due to the improved results.

Profit for the year totals €92.9 million, an improvement of €59.1 million (175.2%) on 2017. The resulting margin for 2018 is 16.3%, up 8.8 percentage points compared with the previous year.

Financial position

The table below shows key financial data for 2018, compared with data for the previous year.

FINANCIAL POSITION (€m)	December 31, 2018	December 31, 2017	Increase/ (decrease)
Intangible assets	9.0	6.4	2.6
Property, plant and equipment	844.6	736.4	108.2
Deferred tax assets	45.8	72.5	(26.7)
A. Non-current assets	**899.4**	**815.3**	**84.1**
Inventories	7.4	5.6	1.9
Trade receivables	7.2	4.9	2.3
Other current assets	33.7	44.8	(11.2)
Trade payables	(177.9)	(172.3)	(5.6)
Current tax payables	(4.4)	(2.2)	(2.2)
Deferred revenues from transport services[3]	(31.9)	(22.9)	(9.0)
Other current liabilities[3]	(28.3)	(23.6)	(4.7)
B. Net working capital	**(194.2)**	**(165.6)**	**(28.6)**
Employee benefits	(18.3)	(15.4)	(2.9)
Non-current provisions	(3.3)	(2.3)	(0.9)
Other non-current liabilities	(1.3)	(2.5)	1.2
C. Other assets (liabilities)	**(22.9)**	**(20.3)**	**(2.6)**
D. Net invested capital (A)+(B)+(C)	**682.3**	**629.5**	**52.9**
E. Net debt	**433.7**	**443.0**	**(9.3)**
F. Equity	**248.6**	**186.5**	**62.1**
G. Total sources of financing (E)+(F)	**682.3**	**629.5**	**52.9**

Non-current assets primarily regard rolling stock and amount to €899.4 million. The increase of €84.1 million compared with December 2017 is primarily due to investment in the new EVO fleet.
Deferred tax assets are down €26.7 million, primarily due to the taxable profits recorded by the Company, which have offset tax losses generated in previous years.

Net working capital is a negative €194.2 million, marking an increase of €28.6 million compared with the

[3] The figure for 2017 is solely for management purposes in order to provide a comparison of the Alternative Performance Indicators between the two years.

previous year.
The retail nature of the business means that working capital is generally negative, due to the fact that most customers pay in advance for the service they then subsequently use. This results in a low amount of trade receivables compared with the volume of sales. In contrast, current liabilities, and above all trade payables, reflect payment terms for suppliers that are normally extended with respect to the date of supply. As a result, the value of current liabilities, and above all trade payables, tends to remain above the value of current assets.

Other assets and liabilities have registered an increase of €2.6 million in liabilities, due to normal movements of an immaterial nature.

Net invested capital of €682.3 million is covered by equity of €248.6 million and net debt of €433.7 million, having registered an increase of €52.9 million compared with the end of the previous year. This primarily reflects the increase in equity due to the positive results achieved.

Net debt

An analysis of net debt as of December 31, 2018, compared with amounts for the end of the previous year, is shown below.

NET DEBT (€m)	December 31, 2018	December 31, 2017	Increase/ (decrease)
A. Cash	(2.9)	(2.6)	(0.4)
B. Other cash equivalents	(286.1)	(264.5)	(21.6)
C. Securities held for trading	-	-	-
D. Liquidity (A)+(B)+(C)	**(289.0)**	**(267.1)**	**(21.9)**
E. Current financial receivables	**-**	**-**	**-**
F. Current bank borrowings	-	-	-
G. Current portion of non-current borrowings	4.5	2.2	2.4
H. Other current financial payables	-	-	-
I. Current debt (F)+(G)(+H)	**4.5**	**2.2**	**2.4**
J. Net current debt (I)+(E)+(D)	**(284.5)**	**(264.9)**	**(19.6)**
K. Non-current bank borrowings	718.2	707.9	10.3
L. Notes issued	-	-	-
M. Other non-current payables	-	-	-
N. Non-current debt (K)+(L)+(M)	**718.2**	**707.9**	**10.3**
O. Net non-current debt (J)+(N)	**433.7**	**443.0**	**(9.3)**

Net debt of €433.7 million is down €9.3 million compared with December 31, 2017, reflecting an increase in liquidity of €21.9 million, more than offsetting the increase in debt of €12.7 million.

The improvement in net debt, together with other factors, is reflected positively in the Company's financial ratios, continuing the positive trend of the previous year.

The "**Net Debt /Equity**" ratio has improved, falling to 1.7x (2.4x in 2017). This reflects both the reduction in net debt and the positive operating performance for the period, which has resulted in an increase in equity.

"**Net Debt/EBITDA**" has also fallen to 2.2x (3.1x in 2017) due to the reduction in net debt and the significant increase in EBITDA.

Cash flow

The table below shows a summary of the cash flow statement for the years ended December 31, 2018 and 2017.

CASH FLOW (€m)	2018	2017	Increase/ (decrease)
Cash flow from/(for) operating activities	206.3	179.0	27.3
Cash flow from/(for) investing activities	(152.5)	(4.2)	(148.3)
Cash flow from/(for) financing activities	(31.9)	14.9	(46.8)
Total net cash generated/(used) during the period	**21.9**	**189.7**	**(167.8)**

Net cash generated in 2018 amounts to €21.9 million and is indicative of the Company's ability to generate sufficient cash to meet its current liabilities resulting from future investment commitments, pay financial expenses and dividends and meet any working capital requirements.

Cash generated in 2018 primarily reflects an increase in cash flow from operating activities (up €27.3 million), driven by the increase in EBITDA and the favourable movement in net working capital, which fare exceed the cash used during the period to pay dividends, finance investment and service debt.

The reduction in net cash generated compared with the previous year reflects further investment in the EVO fleet and the payment of dividends totalling €30 million.

INVESTMENT DURING THE YEAR

Investment amounted to €147.0 million in 2018, an increase of €23.7 million compared with the previous year and in line with the Company's growth plan that aims to deliver on its expansion strategy.

Details of investment in property, plant and equipment and intangible assets in 2018 are provided below (for further details, reference should be made to the notes to the financial statements).

INVESTMENT (€m)	2018	2017	Increase/ (decrease)
Property, plant and equipment			
AGV fleet	1.5	-	1.5
EVO fleet	61.1	48.2	12.9
Onboard telecommunications - AGV fleet	0.1	1.1	(1.0)
Onboard telecommunications - EVO fleet	0.1	0.3	(0.2)
Investment assets under construction	74.0	64.3	9.7
Investment in railway stations	1.2	0.3	0.9
Other PPE	2.7	4.0	(1.3)
Total investment in property. plant and equipment	**140.7**	**118.3**	**22.4**
Intangible assets			
Software	3.9	3.4	0.6
Investment in intangible assets in progress	2.3	1.6	0.7
Total investment in intangible assets	**6.2**	**5.0**	**1.3**
Total investment	**147.0**	**123.3**	**23.7**

Investment in new trains represents the main component of the Company's investment, in line with previous years.

Investment in the EVO fleet amounted to €130.1 million in 2018, including 8 trains that entered service during the year and payments on account for a further 10 trains under construction (recognized in assets under construction).

Further investment during the year regarded:

- other property, plant and equipment of €2.7 million, primarily relating to new upholstery for trains in the AGV and EVO fleets;
- investment in assets under construction in addition to the EVO supply contract, totalling €3.6 million, primarily relating to: (i) the installation of new onboard telecommunications systems, amounting to €0.5 million, and (ii) further improvements to trains in the EVO and AGV fleets;
- software, amounting to €3.9 million and primarily relating to the upgrade of IT systems;
- investment in intangible assets in progress, totalling €2.3 million and primarily regarding work in progress on the upgrade of IT systems.

KEY EVENTS DURING THE YEAR

Operating activities

The Fourth Addendum to the train supply contract, committing the Company to the purchase of a further 5 Italo EVO trains (lot 1) and the related maintenance services, was signed on January 17, 2018, with the trains due to be delivered between April and October 2019. Together with the 12 trains already purchased, this will bring the EVO fleet to 17 trains and the NTV fleet to 42.

On March 8, the Company was issued with a “UK Rail Franchising PQQ Passport” by the UK’s Department for Transport, following a process that began in October 2017. The Passport will allow the Company to bid for rail franchises in the UK. The Passport was issued following a strict, in-depth assessment by the UK’s Department for Transport, during which Italo’s organizational, technical, commercial and safety performances were measured against the high standards of quality, productivity and safety required by the Department.

The Turin-Milan–Venice route was launched in May, with 14 daily services offered.

The new training centre at Rome Termini was opened in June. The centre has 3 classrooms providing basic and recurrent training for train drivers, plant operators, train managers and onboard hostesses and stewards. The centre boasts a highly advanced train simulator, capable of reproducing exactly what happens in the driver’s cabin.

To enhance the services offered during the summer season, a number of initiatives, including partnerships with other operators serving the principal tourist destinations, were launched in June, July and August.
The ItaloBus service was extended to include the Amalfi coast and the cities of Caserta, Benevento, Pompei and Sorrento. In addition, after its great success during the winter season, the intermodal road and rail service in Veneto was reintroduced in the summer, enabling travellers to reach the cities of Longarone, Tai di Cadore, Valle di Cadore, Venas, Peaio, Vodo, Borca di Cadore, San Vito di Cadore and Cortina D'Ampezzo, thanks to the Italobus service from Venice Mestre station.
Thanks to the partnership with SNAV, a leading ferry company operating in the Mediterranean, it was also possible to offer travellers discounted tickets for travel to a number of tourist destinations: Stromboli, Panarea, Vulcano, Salina, Lipari, Ventotene, Ponza, Ischia and Procida (departing from Naples) and Split in Croatia (departing from Ancona).

A further addendum to the train supply contract was signed on July 31, 2018 relating to the purchase of another 5 EVO Pendolino trains (lot 2) and the related maintenance, bringing the number of trains in Italo’s EVO fleet to 22 and in the NTV fleet to 47.

Delivery of the fleet of 12 EVO trains was also completed on July 31.

The rail network was extended to include the cities of Trento, Bolzano and Rovereto in August.

On August 31, 2018 the Venezia Santa Lucia Lounge was inaugurated, adding to those already present in Torino Porta Susa, Milano Centrale, Firenze Santa Maria Novella, Roma Termini, Roma Tiburtina e Napoli.

On September 6, 2018, Italo presented its new “Carnet Special” product for travel between Milan and Brescia, making it easier for the many travellers who commute daily between the two cities.

On November 13, the pilot project, “Italotaste”, was presented. The new at-seat refreshment service on Italo’s trains is in addition to the free welcome service offered in First Class, with sweet and savoury snacks and a wide range of drinks. The new service is available in all classes (except Club Executive where fresh products are included in the service) and passengers can choose from an extensive menu with fresh food prepared specially for Italo by leading partners from the food service sector. The range includes “traditional” and “gourmet” sandwiches using various types of bread and salads. Once the trial has been completed, the Company will decide whether or not to roll the service out across the network.

The Italobus service to Ercolano began operating on December 9, connecting to the high-speed rail service at the Naples – Afragola station.

Finally, in December, the Company reached agreement with RFI regarding the conditions for using rail infrastructure during the hours of service in the period from December 9, 2018 to December 14, 2019.

Financial matters

In the first half of 2018, the Company requested and obtained consent from its lenders for the following changes to its loan agreement: (i) authorisation to complete GIP’s acquisition of the Company without triggering early repayment of the debt and (ii) an improvement in the terms and conditions applicable to the existing loan, with a deferral of the terms regarding the increase in margins.

On August 3, 2018, the Company decided to take advantage of positive market conditions and agree a bank loan of €900 million, with the aim of improving on the previous financial terms and achieving greater flexibility in order to support future investment. The proceeds from this new borrowing was used to make early repayment of the previous loan agreed on December 6, 2017.
The new loan agreement is underwritten by six banks and consists of three facilities, in the form of cash disbursements, structured as follows:

- Facility A, amounting to €730,000,000, with a term to maturity of 5 years and drawn down on August 3, 2018 to repay existing borrowings and to pay the fees, costs and expenses related to the financing;
- Facility B, amounting to €150,000,000, which is to be used to fund the purchase of trains or other capital expenditures in relation to trains;
- a Revolving Facility of €20,000,000 to meet working capital requirements and for general cash requirements.

Facility A and Facility B are bullet loans for repayment at maturity (in August 2023), while the Revolving Facility will expire on the last day of the relevant interest period.

At the same time as the loan agreement was signed on August 3, 2018, the Company entered into a Deed of Pledge by which the shareholders have pledged 100% of the Company’s shares.

The process of syndicating the loan then began in order to bring in additional lenders.
The syndication process was completed in December 2018, with the amount to be syndicated 2.5 times overscribed. The syndication has resulted in the addition of eight new Italian and overseas banks to the original pool.

Corporate events

In order to equip the Company with a governance structure in keeping with its future stock market listing, General Meeting of shareholders held on January 19, 2018 elected the following to serve as members of the Board of Directors: Luca Cordero di Montezemolo (as Chairman), Flavio Cattaneo, Paolo Cipelli, Fabio Corsico, Andrea Faragalli Zenobi, Ines Gandini, Stefano Eugenio Marsaglia, Giada Michetti, Filomena Passeggio, Maurizio Petta, Roberta Pierantoni, Giovanni Punzo and Barbara Zanardi. At the same meeting, the shareholders elected the Board of Statutory Auditors, whose members were: Giovanni Fiori as Chairman, Benedetta Navarra and Gianfranco Orlando Fiorica as Standing Auditors, and Fabrizio Bonacci and Franco Piero Pozzi as Alternates.

The subsequent Board of Directors' meeting then appointed Flavio Cattaneo as the Company's Chief Executive Officer and established the board committees required for listed companies (the Audit, Risk and Related Party Transactions Committee and the Nominations and Remuneration Committee).

On February 5, 2018, the Company received a binding offer from Global Infrastructure Partners III funds ("GIP"), a leading international infrastructure investment fund with over US$50 billion in assets under management, for a 100% interest in Italo.

On February 8, 2018, Italo's shareholders accepted GIP's offer and the Company's Board of Directors approved withdrawal of the application for authorization to publish the three-part prospectus filed with the CONSOB and the application for admission of the Company's shares to listing filed with Borsa Italiana.

On February 11, 2018, the contract for the sale of all Italo's shares was signed on the basis of an equity value of €1.94 billion. The proposed transaction also provided that: (i) Italo's shareholders were to receive the dividend of €30 million approved by the General Meeting of shareholders held on January 19, 2018; (ii) the Company was to pay the expenses incurred in relation to the abandoned IPO process up to a maximum of €10 million. The full value of the transaction amounted to €1.98 billion.

GIP's purchase of the majority holding in the Company was completed on April 26, 2018. The acquisition of control took place through a newly created special purpose vehicle incorporated under Italian law, GIP III Neptune SpA. As part of the transaction, a number of former shareholders reinvested in Italo, again through GIP III Neptune SpA.

Following completion of the acquisition, all the members of the Company's Board of Directors resigned. The General Meeting of shareholders held on April 26 then elected the new Board of Directors, whose members were as follows: Luca Cordero di Montezemolo (as Chairman), Flavio Cattaneo, Andrew Gillespie-Smith, Philip Iley, Gianbattista La Rocca, Mark Lawrence Levitt and Michael McGhee. On the same date, the newly elected Board of Directors confirmed Flavio Cattaneo in his role as Chief Executive Officer.

An Executive Committee with five members was established on May 8, 2018. The Committee's members are: Flavio Cattaneo (as Chairman), Philip Marc Iley, Gianbattista La Rocca, Mark Lawrence Levitt and Michael John McGhee.
In September 2018, Italo's ownership structure underwent further change, as a number of new Italian and international institutional investors purchased shares in the Parent Company, Italo, from GIP.

On October 10, 2018, General Meeting of shareholders increased the number of members of the Board of Directors from seven to nine, electing the following Directors: Ines Gandini, Christophe Holzer and Scott Allen Stanley. The latter, who was co-opted on to the Board following the resignation of Mark Lawrence Levitt, was also appointed a member of the Executive Committee.

On October 10, the Board of Directors also met to approve the reverse merge of the parent, GIP III Neptune SpA, by Italo SpA, to be effective from 2019.

On October 19, 2018, an Extraordinary General Meeting of shareholders approved the reverse merge of the parent, GIP III Neptune SpA, by Italo SpA and the new articles of association, to come into effect at the effective date of the merger.

Following Flavio Cattaneo's decision to leave his role as the Company's Chief Executive Officer, on December 12, 2018, the Board of Directors appointed him Deputy Chairmen and Chairman of the Executive Committee, with responsibility for overseeing the Company's national and international strategies. Gianbattista La Rocca, who was already a Director and General Manager and had been at Italo since 2009, was then appointed Chief Executive Officer and General Manager.

Commercial initiatives

On July 18, 2018, the Company joined the non-profit organisation, LE.I.D.A.A, in launching a campaign designed to combat the abandonment of animals through a series of concrete initiatives, including: the offer of free tickets for larger animals (there has never been a charge for smaller animals if transported in a pet carrier), videos providing practical advice on travelling with domestic animals shown on Italo's official channels, and the offer of "special" passage for LE.I.D.A.A. teams accompanying strays who have been adopted by new owners far away from where they came from.

July also saw Italo, which has always been committed to spreading awareness of issues relating to social sustainability, decide to mark the 15th anniversary of the creation of the 114 child emergency line by supporting Telefono Azzurro's "#abordoconil114" campaign, confirming once again our concrete commitment to promoting social responsibility. The main aim of the campaign is to enable children and adolescents to speak about their experiences and talk about their needs and difficulties, including through the new communication channels, without the need for mediation by an adult. Italo thus decided to publicise the new multi-channel service, which offers psychological support and psycho-pedagogical, legal and sociological advice for young people in need, through its official social channels, including our website at www.italospa.it and the onboard magazine "Italo. I sensi del viaggio".

The Company began collaborating with the "Giovanni Agnelli" National Automobile Museum in Turin, offering travellers in possession of a qualifying Italo ticket a discount on the price of admission to the Museum.
This initiative springs from Italo's desire strengthen our presence in Piedmont's main city, in line with our aim of putting local communities and people at the centre of what we do. Since the beginning of 2018, the Company has been associated with a number of major events (such as the Stupinigi Sonic Park) and some of the city's best-known attractions (such as the Teatro Stabile), and has invested a great deal in Turin, increasing daily services to the city and launching the new connection with the city of Venice.

October witnessed the launch of the special offer enabling travellers in possession of a qualifying Italo ticket to obtain a discount on tickets for concerts being held as part of the 20th edition of the "Ferrara in Jazz" festival. The concerts take place in the Torrione San Giovanni, the home of Jazz Club Ferrara, a splendid renaissance tower forming part of the ancient walls of the city protected by UNESCO. The aim of the initiative is to introduce all travellers to the wonders of the world of art and music.

In December, Italo supported the "Compagnia di Babbo Natale" non-profit organisation, playing an active role in raising funds by purchasing copies of the organisation's history of Father Christmas which, on December 24 and 25, were given away to travellers using the Lounges at Florence Santa Maria Novella, Rome Termini and Milan Centrale. The Compagnia di Babbo Natale aims to provide support for deprived children. Over the years, thanks to the results achieved and its proven commitment, the number of "Father Christmases" who have decided to join the organisation and support its initiatives has risen to 150. These are highly respected professionals and businesspeople looking to get involved by dressing up as Father Christmas and taking part in charitable initiatives designed to help children in need.

Other significant events

On July 16, 2018, the Company was informed by Rete Ferroviaria Italiana – the entity that manages Italy's railway infrastructure – of a change to the cost of the electricity used for traction in the years from 2015 to 2017. The revised cost follows a review of the estimated average unit amounts payable for the provision of traction current.
The review resulted in balancing payments in the Company's favour, resulting in the recognition of income of €10.3 million in 2018.

THE GENERAL CONTEXT

The macroeconomic context [4]

The global economy continued to grow in the closing months of 2018, although there were signs of a slowdown in many advanced and emerging economies. Growth in the Euro area weakened, with manufacturing output falling sharply in Germany, France and Italy in November.

In Italy, where growth tailed off in the third quarter of 2018, the available economic indicators would appear to point to a further decline in the fourth quarter.

Youth unemployment was broadly stable at around 32%.

Inflation fell in the closing months of 2018, reflecting an easing of energy prices since October. Consumer price inflation declined in December to 1.2% (from 1.6% in November). The core component remained weak, falling to 0.5% in December (an average of 0.6% in 2018). Businesses lowered their inflation expectations for 2019.

Macroeconomic projections for Italy in the period 2019-2021 indicate that GDP is expected to grow by 0.6% in 2019 and 0.9% and 1% in 2019 and 2020. Consumer spending is due to increase in line with GDP and disposable income, benefitting from measures in the budget designed to support growth. Whilst monetary conditions are expected to remain easy, investment in the three-year period 2019-2021 will reflect increased borrowing costs and a downturn in business confidence, linked partly to worsening prospects for global trade.
Inflation is expected to be 1% in 2019, slightly below 2018. It will rise to an average of 1.5% in the following two years, driven above all by movements in the core component. It is estimated that margins in the private sector will rise by around half a percentage point overall in the three-year period 2019-2021.

The high-speed train market in Italy

Expansion of the high-speed rail network in Europe has resulted in significant growth in demand for passenger rail transport. The volume of passengers transported in western Europe has risen from 15 billion in 1990 to 92 billion in 2008.

More recently, this trend has slowed, with recovery being relatively sedate after the crisis of 2008. This is partly due to increased competition from low-cost airlines who have benefitted from trends in the cost of oil, their principal cost component.

From 2020, under Europe's Fourth Railway Package, national networks in Europe will be deregulated and open access will be granted. The deregulation is expected to result in new demand, as happened in Italy.

Over the last decade, high-speed trains have altered the way people travel in Italy, progressively reducing journey times between the north and south of the country and making it easier to travel. The changes have provided a major boost for the country's infrastructure and, indirectly, its economy.

[4] Source: data published by the Bank of Italy in Economic Bulletin 1 – 2019 (January 2019)

THE REGULATORY FRAMEWORK

The Company's business is subject to the rules governing railway transportation services, especially (HS/HC) passenger transportation services, in a free market regime (i.e. not subject to public service obligations).
This section provides a description of the regulatory framework for the sector in question, thereby providing the reader with information on the regulatory environment in the Company operates.

Applicable EU and national rules and regulations

Directives 2001/12/EC, 2001/13/EE and 2001/14/EC ("First Railway Package") kicked off the liberalization of the railway market, establishing the principle of freedom of access by railway undertakings to the railway network and the provision of transport services on a non-discriminatory, fair and transparent basis.
These directives were transposed into the Italian legal system by Legislative Decree no. 188 of July 8, 2003 ("Implementation of directives 2001/12/EC, 2001/13/EE and 2001/14/EC in the matter of railways).
The foregoing directives were recast into directive 2012/34/EC of November 21, 2012. This directive was eventually transposed by Legislative Decree no. 112 of May 15, 2012 ("Implementation of directive 2012/347EU of the European Parliament and the Council of November 21, 2012 establishing a single European railway area), which repealed and replaced Legislative Decree no. 188 of July 8, 2003.

Directives 2004/49/EC, 2004/50/EC and 2004/51/EC ("Second Railway Package") introduced measures aimed at rail safety and interoperability of the European rail system (the possibility for the trains of every Member State to travel throughout the European network).
These directives were transposed into the Italian legal system by Legislative Decree no. 162 of August 10, 2007 (implementation of directives 2004/49/EC, 2004/50/EC and 2004/51/EC relating to the safety and development of EU railways) and by Legislative Decree no. 163 of August 10, 2007 ("Implementation of directive 2004/50/EC amending directives 96/48/EC and 2004/51/EC on the interoperability of the trans-European high-speed rail system").

Further directives were eventually adopted (directives 2007/58/EC and 2007/59/EC ("Third Railway Package") and transposed by Law no. 99 of 23 July 2009, by Legislative Decree no. 15 of January 25, 2010 and by Legislative Decree no. 247 of December 30, 2010; directives 2016/797/EU, 2016/798/EU and 2016/2370/EU ("Fourth Railway Package", not yet transposed into law in every country), whose objective is the improved competitiveness of rail services and the consolidation of a single European railway area.

The role of the Infrastructure Manager

The Infrastructure Manager is the party responsible for building, operating and maintaining the railway infrastructure, which consists of the networks – including the HS line – equipment and plants utilized for train circulation (excluding regional and isolated local networks or those used only for urban and regional inter-city transportation and private networks).
The Infrastructure Manager allocates infrastructure capacity – in terms of train path - to the railway undertakings and sets and collects the relevant fees.
The current Infrastructure Manager is RFI by virtue of the concession granted by the Ministry of Infrastructure and Transport in ministerial decree no. 138T of October 31, 2000.

The functions of the Regulator

The Regulator oversees the relationships between the Infrastructure Manager and Railway Undertakings and may deal with appeals from Undertakings that think they have been treated unjustly, have been subject to discrimination or have been damaged in any other way by the Infrastructure Manager in terms

of the allocation of train paths and charges. The decisions of the Regulator may be challenged before an administrative court.
The Regulator in Italy is the Transport Regulation Authority, which was established pursuant to article 37 of Law Decree no. 201 of December 6, 2011 (converted into law, as amended, by Law no. 214 of December 22, 2011) in connection with regulatory authorities for public services under Law no. 481 of November 14, 1995.
The Transport Regulation Authority is responsible also for drawing up the criteria to be used by the Manager in setting the fees charged for access and use of the infrastructure.

Conditions for the provision of rail transport services

According to Legislative Decree no. 112 of May 15, 2015 – in line with Legislative Decree no. 188 of July 8, 2003 – the following conditions must be met in order to provide rail transport services:
- a railway license and, for railway passenger services with origin and destination in Italy, a national passenger license;
- a safety certificate;
- a contract governing use of the infrastructure.

The railway license is valid throughout the European Union and confers on the holder the ability to provide rail transport services as a "railway undertaking" (the ability can be limited to the provision of specific types of service).
The national passenger license is an authorization, valid only in Italy, that allows a railway undertaking with a registered office in Italy to provide rail transport services only to passengers with origin and destination within the country.
The railway license and the national passenger license are issued by the Ministry of Infrastructure and Transport. To obtain such licenses an operator must fulfil certain requirements relating to integrity, financial strength, professional competence and adequate civil liability insurance.
Licenses are for an unlimited period of time. However, the Ministry can review from time to time whether the above requirements have been met and, if they have not, licenses may be suspended or revoked. Licenses may be suspended or revoked also in case of suspension or termination of the railway activity.
The procedures involved in the issue, review and confirmation of licenses are contained in specific Guidelines adopted by the Ministry.

The safety certificate attests to the railway undertaking's compliance with rules and regulations on specific technical and operational requirements for rail services and with safety requirements related to personnel, rolling stock and the undertaking's internal organization.
The safety certificate is governed by the provisions of Legislative Decree no. 162 of August 10, 2007.
The safety certificate: (i) is issued by ANSF (Italy's Rail Safety Regulator); (ii) expires every five years and is renewed upon request of the railway undertaking; (iii) is upgraded, in whole or in part, whenever the type or scope of the activities change substantially.
The procedures governing the issue, renewal and upgrade of the Safety Certificate are contained in specific Guidelines adopted by the ANSF.

The contract to use the infrastructure is an agreement between the Infrastructure Manager and a railway undertaking, whereby the latter is granted permission to use the infrastructure in terms of train paths in exchange for the payment of fees for a period in which the service timetable applies.
The service timetable is set every year by the Infrastructure Manager and, generally speaking, includes the period between a given day of the month of December of year x and a given day of the month of December of year x + 1.
Use of the infrastructure entails the right for railway undertakings to use the services included in the minimum access package (MAP). These services are provided by the Infrastructure Manager and include: the handling of requests for railway infrastructure capacity in view of agreements on the use of the infrastructure; the right to use the allocated capacity; use of the railway infrastructure, including points

and crossings; train control including signalling, regulation, dispatching and the communication and provision of information on train movements; the use of power supply equipment for traction current, where available; all other information required to implement or operate the service for which capacity has been granted.
The contract for the use of railway infrastructure is signed after the allocation of train paths in relation to each service timetable and governs the use of the infrastructure (and other MAP services) – in legal and financial terms – in accordance with the regulatory framework implemented by the Infrastructure Manager and by the Transport Regulation Authority in pursuance of Legislative Decree no. 112 of May 15, 2015.
The Company entered into a Framework Agreement with RFI in 2008. This sets out the terms and conditions for access and use of Italy's national railway infrastructure. The Framework Agreement, drawn up on the basis of the model annexed to the Network Prospectus, was later amended and will expire in 2027.

RISK FACTORS

The first paragraph of art. 2428 of the Italian Civil Code requires a description of the principal risks and uncertainties the Company is exposed to, which might have an impact on the Company's situation in the foreseeable future.

The overall factors deemed to give rise to corporate risks, together with the activities carried out to monitor and mitigate them, are described below.

Operational risk

Risks related to reliance on the manufacturer and maintenance provider for Italo's fleet

The Company's activity relies heavily on the supplier, Alstom, from Italo has purchased its AGV and EVO fleets and which provides maintenance services under a thirty-year contract.
If the supplier were to be unable, or no longer wished, to provide maintenance services to the required standard, the Company might encounter difficulties in identifying a provider of maintenance services with the same technical capabilities at an acceptable price, with possible negative effects on the operation of Italo's fleet and safety levels. These occurrences might have an adverse impact on the Company's ability to deliver its services.
For this reason, the contract governing the maintenance services supplied by Alstom sets clear levels of service and includes a system of penalties applicable should the supplier fail to meet such levels, thereby enabling the Company to mitigate this risk.
There have never been any instances in which Alstom has failed to carry out maintenance of the trains to the required standard. The Company has, therefore, not had to find another provider of maintenance services with the same technical capabilities as the supplier on financially acceptable terms.

Risks related to maintenance facilities and interruptions to their operation

The Company does not own the facilities in which maintenance of its trains takes place. The potential impossibility of continuing to use these facilities could have a negative impact on the Company's business and, as a result, on its future prospects and operating performance, financial position and/or cash flow.
Maintenance of Italo's fleet is carried out at the Interporto Campano site (Nola, near Naples), owned by Alstom, and at the facilities located at Milan-Porta Garibaldi station and at Venice Santa Lucia station, both owned by RFI. The availability of these two facilities is governed by specific supplements to the Framework Agreement. In all the centres, maintenance is carried out by Alstom.
The ability to ensure timely and regular maintenance of Italo's fleet is a crucial factor for the Company's business.
To mitigate this risk and ensure availability of the facilities for the Company, Italo has entered into long-term contracts.
There have never been any instances in which it was not possible to carry out maintenance of Italo's fleet in a timely manner and with regularity.

Risks related to information systems, network infrastructure and data protection

Italo is dependent on technology infrastructure (hardware and a telecommunications network) and its software systems in order to coordinate planning and other aspects of the services provided, as well as the sale of tickets for the rail and bus services connected to the Italobus service, accounting and numerous other functions. Any malfunctions in this technology infrastructure and the related systems, or the Company's inability to ensure their maintenance and development, could have a negative impact on the Company's business and, as a result, on its operating performance, financial position and/or cash flow.

Information systems play a key role in ensuring that the Company can operate smoothly and in guaranteeing the desired level of customer satisfaction.
In order to safeguard the continuity of its essential processes and IT systems, and avoid serious malfunctions, the Company has adopted data centre architecture providing a high degree of availability and backup procedures that provide a stable environment capable of ensuring that data is protected.
To date, there have not been any cyber-attacks on the Company’s IT systems. In addition, the Company has launched a project that will lead to the implementation of Disaster Recovery solutions.

Risks related to industrial relations

The Company may have to deal with labour disruption that could interfere with its business and could have a negative impact on the Company’s operations and, as a result, on its operating performance, financial position and/or cash flow.
The Company’s relations with its employees are governed by the applicable legislation and collective agreements (*CCL Italo* and *CCNL Dirigenti delle Aziende Commerciali*), which include provisions covering the management of employee relations and, in certain cases, the termination of employment. The CCL Italo contract is a collective agreement entered into by the Company with the unions representing its employees after lengthy negotiations.
CCL Italo expired on December 31, 2014 and its renewal is currently being negotiated; in the meantime, the current *CCL Italo* continues to be applied.
On October 11, 2018, the Company signed an agreement with the unions relating to payment of a special performance-related bonus linked to the Company’s results for 2017 and, on December 28, 2018, agreement was reached regarding payment of a performance-related bonus for 2018.
The difficulties and disagreements encountered during talks with the unions could lead to, among other things, strikes, stoppages and other forms of industrial action by the workers concerned, and the Company could be forced to deal with significant disruption to its operations and an increase in personnel costs.
To date, the above difficulties and disagreements encountered during talks with the unions have not had a significant negative impact on the Company’s operating performance, financial position and/or cash flow.

Risks related to services provided by other suppliers

Italo relies on certain suppliers that perform activities necessary for the proper running of the business and for the safety and comfort of its customers and employees.
The provision of these services is more complex from a logistical point of view, due to the nationwide extension of activities and locations, and the fact that many of these services are provided onboard, while the trains are traveling.
In addition, the Company relies on external companies for the supply and operation of the buses used for Italobus services.
Should such companies discontinue their services, or in the presence of irregularities and malfunctions in the delivery of the services, NTV would be forced to identify and contact alternative suppliers. This circumstance could cause disruption to services and might, in turn, negatively affect its reputation and business.
In 2018 and in previous years, there were no instances of key suppliers being unable to provide contracted services to the required standard.

Risks related to the sector in which the Company operates

Risks related to access to and management of the infrastructure

The Company does not own or operate the rail transport infrastructure network, and related structures and services, that it uses for its activities. Moreover, it shares access to rail infrastructure with other

operators.
Even though access to and utilization of the rail network and other infrastructure is specifically regulated, the Company's operation relies on the activities and decisions of the infrastructure manager, on the regulatory decisions taken by the Italian authorities and on the rulings of Italian administrative courts.
Furthermore, the Company is exposed to the risk that agreements with the infrastructure manager and with other service providers may be terminated.
In the event that the Company is unable to negotiate the technical, operational and financial terms for access and utilization of the rail infrastructure, it might not be able to provide a commercial offering capable of attracting customers or might be forced to incur greater operating costs, which might make its business less profitable or even impractical. For example, if it cannot secure train paths in the hours of greater interest to customers, the Company's commercial offering might be considered less attractive, leading to a loss of passengers. In addition, any expansion of services, on existing or new paths, requires amendment of the Framework Agreement to obtain new access rights.
The Company has in place a Framework Agreement guaranteeing its right to access and use the Italian rail network through to 2027.
The notes to the financial statements provide further details of administrative disputes, with particular regard to the risk in question.

Risks related to the utilization of rail stations

The availability of the spaces utilized by the Company in the main rail stations is governed by lease agreements entered into with RFI, Grandi Stazioni Rail SpA and Centostazioni SpA.
Grandi Stazioni and Centostazioni operate a large number of rail stations throughout Italy. The ability to provide optimal locations for ticket offices and automated ticket vending machines, waiting rooms and areas, information points and other services is fundamental for the Company's business. However, the Company relies to a significant extent on these third parties to access the most attractive commercial areas in every station.
Should the Company be unable to reach agreement with railway station operators, Italo can request ART to take action in order to have its requirements met. In fact, in the recent past, the Company had to ask ART to intervene to resolve a dispute with RFI, Grandi Stazioni Rail, Grandi Stazioni Retail and Centostazioni. The resulting solution met Italo's requirements regarding the location of ticket offices and automated ticket vending machines, "Casa Italo" offices and lounges, obtaining the same degree of visibility given to the Company's competitor.

Risks related to changes in the fees for infrastructure access and in the cost of electricity

The Company is exposed to the risk that the fees charged for access to the infrastructure – including the cost of electricity – may rise, including retroactive increases, resulting in a negative impact on the business and on the Company's operating performance, its financial position and/or cash flow.
In the Network Prospectus, RFI fixes the level of fees applicable to railway operators based on specific regulatory guidelines (the criteria for setting the fees applicable to the MAP and services other than those covered by the Package) issued by ART. ART examines and approves the fees to ensure that they are in line with the above guidelines before they are applied to operators. ART's guidelines establish the principles and criteria applicable over periods of five years.
An increase in access costs (the fees relating to the MAP, other services or electricity costs) could compromise the Company's cost structure.
In terms of electricity costs, RFI passes on the electricity costs it pays to its energy suppliers to railway operators. These costs are determined in application of the current regulations for electricity prices, included in the regulations governing the industry and set out in specific determinations issued by the electricity, gas and water regulator (the "AEEGSI").
In this regard, the criteria for calculating the cost of traction energy have changed in the past few years and might change also in the future. During 2018, the criteria for determining the costs applicable between 2015 and 2017 were defined. This resulted in balancing payments in the Company's favour,

resulting in the recognition of income of €10.3 million in 2018.
The notes to the financial statements provide further details of administrative disputes, with particular regard to the risk in question.

Risks related to the suspension or revocation of licenses

Rail transport is a highly regulated industry. More specifically, to operate a railway company it is necessary to obtain a license from the Ministry of Infrastructure and Transport to provide international rail passenger services and authorization to operate at national level.
Retention of these authorizations, permits and licenses is subject to specific requirements, which are reviewed from time to time by the competent authorities.
The suspension or cancellation of any of these authorizations, permits or licenses would limit or prevent the Company from conducting its business, seriously jeopardizing its prospects.
Since its establishment, none of the Company's licenses have ever been suspended or revoked.

Risks related to changes in industry regulations

The Company is subject to the risk that the large number of legal, administrative and regulatory requirements applicable to rail passenger transport may change over time.
Rail transport, especially high-speed rail passenger transport, is subject to numerous, stringent and constantly changing legal, administrative and regulatory requirements regarding, among others, the fitness of railway operators to provide rail transport services, the testing of rolling stock to be used in operations, safety certification and access to rail infrastructure.
Many of these requirements must be constantly met in the course of the railway operator's activity and are subject to constant checks and supervision by the regulator.
Failure by the Company to comply with applicable laws, regulations or provisions, or any change or interpretation thereof, might entail delays in the submission of additional applications for access to RFI or in the general operation of the train paths allocated, leading in some cases to an increase in the costs incurred to operate the business or an increase in the risk of incurring in sanctions, fines, civil actions or other unexpected expenses.

Fare evasion risk

The Company is subject to the risk of lost revenue due to fare evasion or other frauds perpetrated by customers.
If customers do not pay for the services rendered, the Company would still incur the costs related to the service without obtaining the relevant revenues. Loss of revenue is a general risk that concerns all transport operators, taking place when passengers take a train without purchasing a ticket and refuse to pay the ticket on board, or give false personal information to the conductor demanding payment, or commit frauds in using the payment system when they have to pay for the ticket.
The Company is committed to combating fare evasion. While it is not currently significant, this phenomenon has led the Company, over the years, to undertake a number of initiatives to deter fare evasion, mainly by increasing the number of inspectors on board its trains to collect the fare from passengers traveling without tickets and intensifying credit collection activities, related to the fines levied on evaders.
Among the main risks of fraud identified within the Company, that related to commercial transactions effected with electronic payment methods is a constantly growing phenomenon. To limit the impact of such a problem, the Company, through a team of dedicated staff, has adopted a series of measures designed to prevent and combat such activity, including with the support of specific anti-fraud software and partners, market leaders with which action is taken to mitigate this risk.

Strategic risk

Risks related to the competition

The Company is exposed to competition from the only other operator of high-speed railway services in Italy and from the operators of other passenger transport services.
In the first place, the Company competes on the basis of the quality of the services offered, the composition of its commercial offering, including the convenience of its train timetables, and price. Competition is expected to remain fierce, considering the aim of each competitor is to gain market share at the expense of the other. In addition, even though the high-speed passenger rail transport industry has high barriers to entry, the entry of new competitors in this market could further intensify these competitive pressures.
The Company must also deal with competition from the airline industry (particularly on the Rome-Milan route), private automobile transport and bus services. Consumer preferences and the competition among the different transport services is largely determined by travel times, the degree of comfort on offer, the ease of access to urban centres on departure and arrival, and the price and frequency of services.
Even though in the last few years consumers have shown a preference for high-speed rail transport over air transport, an increase in the number of air carriers, especially low-cost airlines, might constitute a further challenge for the Company.
In response adequately to these competitive pressures, the Company has devised a strategy that includes the expansion of intermodal services – on rail and road – through the introduction of new services, an increase in existing services, improved operating efficiency and expansion of the fleet.
In addition, in the belief that the quality of service provided – a feature considered to form part of our distinctive brand identity – offers a means of creating a lasting competitive advantage and of creating value, the Company has set up a unit with responsibility for the continuous monitoring of quality, both on board its trains and in the stations it serves.

Risks related to the concentration of the business in Italy and changes in the macroeconomic environment

The Company generates almost all its revenue in Italy and is, therefore, subject to the risk that adverse macroeconomic market conditions in the country could adversely affect its operating results, business and its financial condition.
The macroeconomic situation in Italy, the only country where the Company operates, affects its activity. The Italian economy is affected by national, European and global macroeconomic developments.
Italo's customers primarily use the services offered for business or leisure, each of which is significantly influenced by the state of the economy. A deterioration in economic conditions might have a negative impact on customers' propensity to travel.
The Company responds to this risk by continuously monitoring the market and through appropriate commercial and promotional initiatives.

Risks related to traffic volumes and changes in customer preferences

The Company is exposed to the risk of a downturn in traffic and, as a result, an adverse change in demand for Italo's services.
In a business characterized by substantial fixed costs (depreciation of rolling stock, infrastructure access fees, personnel costs), the Company's profitability depends, in essence, on its ability to generate revenues, which in turn depends on the number of tickets sold and the price of these tickets.
The ability to identify and meet customer expectations with a quality service in terms of high technological standards and comfort, at a competitive price, on routes with high demand and at appropriate hours, is a key factor for the Company's prospects and success.

Litigation risk

The Company is or may be involved in court and/or out-of-court legal proceedings brought by various categories of interested or entitled parties (including, but not limited to, customers, suppliers and employees, etc.).
For information regarding the litigation risk to which the Company is exposed, reference should be made to the notes to the financial statements.
The Company, based on the opinion of its legal counsel, has made specific provisions for risks and charges to cover potential losses that it might incur in unsolved disputes.
Provisions have been made for losses considered probable. No provisions have been made for losses considered remote or even just possible, as explained in greater detail in the notes to the financial statements.

FINANCIAL RISK

Pursuant to art. 2428, paragraph 2, point 6-*bis*, of the Italian Civil Code, an assessment of the Company's exposure to financial risk is provided below. Further details are provided in the notes to the financial statements.

Risks related to debt

The Company has obtained bank loans, paying in exchange interest and other financial expenses. In addition, the Company is exposed to the risk that its failure to comply with the obligations and commitments contained in loan agreements might, among other things, mean that it ceases to benefit from existing terms to maturity in the agreements. The provisions contained in these agreements also impose a number of restrictions on the Company's operations. These could have a negative impact on its business and operating performance, financial position and/or cash flow.

In fact, the loan agreement enables the lenders to call in the loan upon the occurrence of certain events, entailing immediate repayment of the sums borrowed.
The effects of these events are mitigated by certain agreed-upon materiality thresholds, exceptions (carve-outs) and grace periods.

The loan agreement in question includes a number of standard default events, such as:
- failure to pay any sum provided for in the loan agreement, if not remedied within the contractually required deadline;
- failure to comply with Financial Covenants;
- failure to comply with the reporting obligations provided for in the loan agreement, if not remedied within the contractually required deadline;
- cross default in the event of defaults on any of the Company's other borrowings;
- insolvency due to the Company's inability to meet its obligations or a declaration of bankruptcy pursuant to the law;
- failure to comply with the Inter-Creditor Agreement and related agreements;
- in the event of a Material Adverse Change, as defined therein.

In addition, there is a clause that calls for mandatory repayment in case of:
- a change of control
- the sale of all the Company's assets or the issue of a new financial instrument in the capital markets.

There were no events of default during the year, as the Company fulfilled all the obligations provided for in the loan agreements from time to time in effect and all the covenants were complied with. Further information on debt and the related positive (affirmative) and negative (restrictive) covenants is contained in the notes to the financial statements.

Liquidity risk

As of December 31, 2018, the Company's available funds amount to €289.0 million.
The Company expects to be able to generate adequate operating cash flow to meet its requirements and pursue its planned objectives.

Any default or acceleration of payment might give rise to a liquidity risk for the Company, given that its lenders could demand immediate repayment of the debt, but the occurrence of any such event is unlikely.

The Company does not currently believe that it is exposed to a significant level of liquidity risk.

Interest rate risk

Italo's financial risk management policies are designed to minimize market risk and the risks connected with interest rate fluctuations.

As the Company has floating rate liabilities, it is exposed to interest rate fluctuations. In line with the Company's hedging policy, the Company has adopted a new strategy for hedging interest rate risk, entering into Interest Rate Swaps with a total notional value of €600 million.

These derivatives are not speculative instruments but hedges of an underlying asset. For accounting purposes, these transactions qualify as cash flow hedges, in line with the risk mitigation strategy adopted by the Company.

Foreign exchange risk

The Company is not exposed to foreign exchange risk.

Credit risk

The extension of credit terms is governed by operational practices intended to achieve commercial growth in keeping with the Company's risk appetite. The selection of debtors takes the form of an analysis designed to assess creditworthiness. The constant monitoring of receivables allows the Company to promptly identify any risk of default or deterioration in the creditworthiness of counterparties and to adopt the necessary mitigating actions.

The type of business and the payment methods used guarantee that the Company's overall exposure to credit risk is limited. Specifically:

- payment for the services offered to customers is usually made before the service is used, as tickets are generally purchased before journeys are made;
- the sales channels and related payment methods offered to customers (electronic money, bank transfer, cash) guarantee the certainty of collection at the time of sale, except in the event of credit and debit card fraud.

EVENTS AFTER DECEMBER 31, 2018

Reference should be made to the section of the notes to the financial statements entitled "Events after December 31, 2018".

OUTLOOK

In 2019, the Italo's Directors and senior management intend to build on the positive performance of 2018 and to implement the five-year Business Plan for the period 2019-2023, which sets out the Company's strategy for continued growth, following the full entry into service of its fleet of 47 trains.

The business plan is based on four main pillars:

- an increased offering and an improved market share;
- commercial initiatives designed to boost revenue through pricing strategies based around the quality of the services provided and the introduction of extra services;
- improvements to operations and to the service offered to customers;
- the entry into new markets.

The Company plans to expand operating capacity which, together with the progressive increase in the size of the fleet, will aim to complete the offering with increased frequencies and an enlarged footprint, adding new routes and destinations.
From a commercial viewpoint, new pricing strategies will be introduced in the markets we serve and steps will be taken to improve distribution channels.
Other initiatives will be targeted at improving train maintenance and fleet management processes so as to boost operational efficiency, resulting in improved capacity utilisation and enhanced reliability and quality.

The strategy is based on maintaining a high-quality commercial offering, strengthening and expanding the offering through enlargement of the Company's geographical footprint, thanks to Italo's fleet and its Italobus services, and boosting frequencies on the routes operated and the introduction of new routes. These are the actions underpinning the Company's future plans and strategies.
Italo intends to pursue its growth and development strategy by implementing its business model, improving its competitive positioning and continuing with its growth strategy in Italy.

We also remain committed to delivering on Italo's long-term strategy by:

- maintaining an ongoing commitment to improving productivity, with close attention paid to cost and capex efficiencies, in keeping with the ethical principles that are at the heart of the Company's values;
- achieving revenue and EBITDA growth;
- maximising our return on investment;
- aiming to confirm Italo's position as a private railway company that leads the way in the provision of networked intermodal services in Italy, based on a dynamic, customer-centric approach and the offer of safe, high-quality services at competitive prices.

OTHER INFORMATION

Research and development

There was no expenditure on research and development during the year.

Related party transactions

The Company has adopted regulations aimed at establishing basic principles and defining criteria for the identification of related party transactions in order to provide procedural regulations designed to ensure that such transactions are conducted in compliance with fairness and procedural criteria, and on an arm's length basis.

The Company has entered into transactions with related parties during the year. Further details are provided in the notes to the financial statements.

Relations with subsidiaries, associates, parent companies and affiliates

Pursuant to art. 2428, paragraph 3, of the Italian Civil Code, the Company does not directly or indirectly own treasury shares or shares in parent companies, either through trust companies or proxies.

Treasury shares and shares/equity interests in parent companies

Pursuant to art. 2428, paragraph 3, of the Italian Civil Code, the Company hereby declares that is does not directly or indirectly own treasury shares or shares in parent companies.

Disclosures related to the environment and personnel

The Company recognizes the strategic importance of railway safety, the health and safety of workers and environmental protection as key factors in the sustainable development of its business.

To this end, the Company has adopted an integrated policy on operational safety on the railway, safety at work and environmental protection. This defines the values that the Company, its employees, other staff and all those that, for any reason work on behalf of Italo, whether on an ongoing or on an occasional basis, must comply with.

The Company's strategy in developing and managing its activities is constantly geared to ensuring ever improving service levels, taking all the necessary actions to guarantee railway safety, health and safety at work and environmental protection.
In addition, Italo ensures constant improvements in safety, with reference to the peculiarities of the work involved, its experience and technical standards and in relation to changes in the socio-economic context in which it operates, making choices consistent with universally accepted sustainability principles.

To guarantee the safety of its railway operations, the Company is committed to:
- ensuring adequate controls over the activities managed by external contractors with an impact on railway safety, with special emphasis on maintenance of the trains used by the Company;
- combining aspects related to the human factor in the railway safety management system and in its operational procedures;
- reviewing the organizational procedures supporting management of the risk associated with situations of immediate hazard for railway traffic;
- ensuring full compliance with the related regulations.

To guarantee health and safety at work, the Company is committed to:

- pursuing a constant and substantial reduction in occupational injuries, with the long-term objective of achieving "zero injuries";
- pursuing a constant and substantial reduction in the number of accidents at work;
- improving the culture of safety with systematic training and specific information initiatives, designed to enhance the awareness of hazards and risks and knowledge of the techniques involved in preventing injuries and managing emergencies;
- ensuring the effectiveness and efficiency of the occupational health and safety management system, by performing regular audits and implementing the corrective actions recommended following the audits performed;
- complying, and where possible exceeding, EU, national and local rules and regulations on health and safety at work, considering also the organizational and management measures provided for by Standard BS OHSAS 18001:2007;
- ensuring the proper evaluation of suppliers in relation to Health and Safety at Work requirements;
- ensuring effective internal/external communication concerning all stakeholders, reviewing the issues raised by external parties and responding.

Considering the prevention of pollution and environmental protection to be mandatory objectives, to be achieved and improved constantly, the Company is also committed to:

- compliance with existing legislation and any other environmental requirement adopted voluntarily;
- monitoring the energy consumption of the AGV575 and ETR675 fleets through the energy meters installed onboard and taking the actions necessary to minimize such consumption;
- improving energy efficiency at its sites and, where applicable, using renewable sources;
- improving the rational use of natural resources (e.g. water and paper);
- reducing to a minimum the negative direct and indirect impacts of its activities and services on the environment, to protect human health and the environment;
- reducing waste production, including through recycling and recovery activities;
- informing customers and stakeholders correctly on the environmental effects of the journey;
- pursuing continuous improvements in its environmental performance, minimizing the risks connected with its activities and the services provided.

To meet the foregoing commitments, the Company uses the following Management Systems: (i) Railway Safety Management System (compliant with Legislative Decree 162/2007); (ii) Integrated Health and Safety and Environmental Protection Management System (compliant with standards BS-OHSAS 18001 and UNI EN ISO 14001).

During 2018:

- there were three significant incidents in terms of railway safety, all classifiable as accidents involving people who were trespassing on railway tracks. Italo and its personnel were in no way responsible for the incidents concerned;
- there were no deaths or serious injuries at work;
- the Company was not held responsible for the occupational illness of employees or former employees and does not have any contingent liability for the occupational illness of employees or former employees or for legal actions brought in relation to harassment;
- there was no legal action brought against the Company in relation to environmental damage.

Certifications

Occupational health and safety

OHSAS 18001:2007 certification provides confirmation, at international level, of Italo's voluntary and substantial commitment to adopting a system that allows it to control and manage its operations in such a way as to minimise health and safety risks for its workers, thus reducing injuries as well as complying with the laws currently into force.

In this way, by regularly monitoring our trains, offices, ticket offices, lounges and training centres located around Italy, Italo guarantees not only the safety of its workers but also that of all those people operating or present at the various sites. This represents further confirmation of Italo's long-standing commitment to continuously improving people's safety and well-being.
Italo obtained the first certification, valid for three years, at the end of 2017 and, during 2018, the planned audit was conducted with success, certifying that the adopted system is in compliance with the law and capable of achieving the goals set.

Environmental protection

The assessment of the compliance of Italo's Health and Safety System and Environmental Protection Management System with the ISO 14001:2015 standard has been successfully completed. This led to the issue of Certificate IT18/0496, valid for three years from May 20, 2018.
The above certification provides confirmation, at international level, of Italo's voluntary and substantial commitment to adopting a system that allows it to control and manage all its activities, in order to minimise the impact of its business processes on natural resources, contributing to their conservation and to protection of the environment.
In this way, by regularly monitoring our trains, offices, ticket offices, lounges and training centres located around Italy, Italo guarantees protection of the environment, underlining once again the Company's long-standing commitment to continuous improvement in relation to the environment.

The Energy Efficiency Program: White Certificates

The Ministry for Economic Development admitted the AGV Fleet to a program designed to foster energy efficiency supported by the Italian Government and governed by the Ministerial Decrees of July 20, 2004 as amended, for a five-year period starting from January 1, 2015 (thus ending on December 31, 2019).
This program calls for the assignment of White Certificates (or EECs – Energy Efficiency Certificates) which attest to the achievement of energy savings through the application of efficient technologies and systems. The certificates, issued by the GSE, certify the savings obtained by the party admitted to the program.
One certificate is equivalent to the saving of one TOE (ton of oil equivalent), the conventional unit of measure commonly used in energy reports to express all the sources of energy based on their heating value.
The White Certificates assigned by the GSE can be sold either through bilateral contracts or through the market for EECs organized and managed by the GME.
Sales are not subject to limits on time or quantity. The largest buyers are electrical energy distributors which – as an alternative to the energy saving measures to be implemented with final consumers to meet the goals set in the Ministry for Economic Development's guidelines published each year – can fulfil the obligations provided for by the applicable regulations by purchasing White Certificates.
In the Company's case, the calculation is made on the basis of an algorithm that evaluates, for every period of reference, the energy efficiency of the service considering, among other things, energy consumption, the kilometres travelled and the load factor.

On May 10, 2018, the Ministry for Economic Development published a Decree amending and updating the Decree of January 11, 2017.
With the aim of restoring a balance between demand for and supply of EECs, the Ministry has established that the cash contribution paid to energy users, to partially cover the costs incurred in implementing energy efficiency projects or purchasing White Certificates, may not exceed €250 per EEC. This new provision has been applied in obligatory sessions after June 1, 2018.
The new Ministerial Decree also requires the GSE to issue White Certificates not deriving from the energy implementation of energy efficiency projects to, and at the specific request of, obliged parties at a value of €260 per EEC.

Finally, in 2017, the Company started the procedure of applying to the GSE to have its EVO Pendolino trains admitted to the energy saving incentive program in which the AGV trains participate. At the end of 2018, the GSE approved the Company's application for the first 12 EVO Pendolino trains and the first request for the issue of certificates, relating to railway traffic in January 2018, was submitted. At the same time, the Company prepared two further projects, relating to another two tranches of the EVO contract (from number 13 to number 22), in compliance with the provisions of the Ministerial Decree of January 11, 2017, which has replaced the Decree of December 28, 2012 on the basis of which the earlier projects were submitted.

Internal control

The Company's Board of Directors approved the 2018 Audit Plan, which called for an assessment and review of corporate processes and procedures, as well as evaluation of the relevant internal controls, in accordance with the indications set out in the risk management process. The plan was prepared in accordance with the above-mentioned risk management process and in accordance with the applicable principles and guidelines issued by the Italian Internal Audit Association.
As of December 31, 2018, all the procedures envisaged in the 2018 Audit Plan have been completed and the process of preparing the way for drawing up the 2019 Audit Plan is in progress.

Internal Control and Organisational Model as per Legislative Decree 231/2001

The Organizational, Management and Control Model, comprising all the Company's organizational rules and procedures, is the tool established by Legislative Decree 231/2001 to prevent and combat the commission of specified categories of offence by companies.
Italo's Organizational, Management and Control Model (the "231 Model") was prepared by recording and mapping the risks the Company is exposed to in carrying out its activities, taking into account the monitoring initiatives deployed to minimize such risks.
The 231 Model, which NTV SpA adopted in 2011, is updated to incorporate organizational and regulatory requirements as they arise. At a meeting held on February 6, 2018, the Board of Directors approved the revised version of the Model taking into account the new offences relevant for the purposes of Legislative Decree 231/2001, the new legislation regarding whistleblowing (Law 179/2017) and the organizational changes that have taken place since the document had been last revised in July 2017.

The Supervisory Board – established by Board of Directors' resolution – has three members and is responsible for overseeing application of and compliance with the Organizational, Management and Control Model's content and provisions.
On May 16, 2018, the Supervisory Board approved the Supervisory Plan for 2018 and the Internal Audit function completed all the required activities, having reported periodically to the Board on the outcome of its audit procedures.

Code of Ethics

The Code of Ethics represents the set of ethical principles and values that should inspire the conduct and behaviour of all the people who operate, internally and externally, within the Company's sphere of action. Aware of the importance of the social impact of its business, the Company aims to be competitive in the marketplace via fair and functional use of its resources, while fully respecting the quality of the environment and the social system, partly with a view to growing its capacity to create value and wellbeing for the communities it serves.

The Code of Ethics, which the Company adopted in 2011, is updated to incorporate organizational and regulatory requirements as they arise. It consists of general principles and behavioural standards and forms an integral part of the Organizational, Management and Control Model. The Code is available on the Company's website and is referred to in the various agreements entered into by Italo.

ALTERNATIVE PERFORMANCE INDICATORS

This section describes the key financial and non-financial indicators used by management to monitor the Company's operating performance and financial condition (hereinafter "Alternative Performance Indicators" or "APIs"). These differ from those defined or required by the applicable accounting standards. The Company deems the information provided by APIs to be an additional important metric for evaluating performance, as it makes it possible to closely monitor its operating results and financial position, and represents tools that help management to identify operational trends and to take decisions on investment, the allocation of resources and other operational decisions.
The Company believes that:

- EBITDA is, in addition to the operating result, an indicator that is useful in assessing the Company's operating performance and provided information on its ability to service its debt;
- the EBITDA margin is a useful indicator of the Company's ability to generate a profit on revenue. In fact, the EBITDA margin represents the proportion of revenue that becomes EBITDA;
- Net Working Capital enables management to assess whether or not the Company has sufficient current assets to meet its short-term trading liabilities and, together with net non-current assets and net invested capital, to assess the balance between the structure of investments on the one hand and that of its sources of financing on the other;
- the ratio of Net Debt to EBITDA is a useful indication of the Company's ability to service its financial debt.

To correctly interpret the APIs used by the Company, it should be noted that they are derived from the financial statements and from calculations performed on the basis of data available in the accounting records. APIs are not indicators measured in accordance with the accounting standards used in preparation of the Company's financial statements and, even though they are derived from the financial statements, they are not audited. APIs should not, therefore, be regarded as a substitute for indicators calculated in accordance with the applicable accounting standards. In addition, given that they are unrelated to the applicable accounting standards, the APIs used by the Company are calculated using methods that may not be consistent and comparable with those adopted by other companies.

The alternative performance indicators used are illustrated below.

EBITDA, calculated as follows.

(€m)	2018	2017
Profit for the year	**92.9**	**33.8**
Income tax	38.2	20.7
Net financial income (expenses)	31.6	58.1
Gains (losses) on disposal of non-current assets	0.3	0.5
Depreciation, amortization and impairments	35.8	29.0
EBITDA	**198.8**	**142.0**

EBITDA margin, calculated as the ratio of EBITDA to "Total operating revenue".

Adjusted EBITDA, calculated as follows.

(€m)	2018	2017
EBITDA	**198.8**	**142.0**
Non-recurring expenses	13.2	13.7
Adjusted EBITDA	**212.0**	**155.7**

Adjusted EBITDA margin, calculated as the ratio of "Adjusted EBITDA" to "Total operating revenue".

Organic EBITDA, calculated as follows.

(€m)	2018	2017
Adjusted EBITDA	**212.0**	**155.7**
- Revenues from White Certificates	(30.4)	(32.8)
Organic EBITDA	**181.7**	**122.9**

Organic EBITDA margin, calculated as the ratio of "Organic EBITDA" to "Total operating revenue", after deducting revenues from White Certificates.

EBIT, calculated as follows.

(€m)	2018	2017
Profit for the year	**92.9**	**33.8**
Income tax	38.2	20.7
Net financial income (expenses)	31.6	58.1
EBIT	**162.7**	**112.6**

EBIT margin, calculated as the ratio of EBIT to "Total operating revenue".

EBT, calculated as follows.

(€m)	2018	2017
Profit for the year	**92.9**	**33.8**
Income tax	38.2	20.7
EBT	**131.1**	**54.4**

EBT margin, calculated as the ratio of EBT to "Total operating revenue".

Profit margin, calculated as the ratio of "Profit for the year" to "Total operating revenue".

Net Working Capital, calculated as follows.

(€m)	2018	2017
Inventories	7.4	5.6
Trade receivables	7.2	4.9
Other current assets	33.7	44.8
Trade payables	(177.9)	(172.3)
Current tax liabilities	(4.4)	(2.2)
Deferred revenues from transport services	(31.9)	(22.9)
Other current liabilities	(28.3)	(23.6)
Net Working Capital	**(194.2)**	**(165.6)**

Non-current assets, calculated as follows.

(€m)	2018	2017
Intangible assets	9.0	6.4
Property, plant and equipment	844.6	736.4
Deferred tax assets	45.8	72.5
Non-current Assets	**899.4**	**815.3**

Net Non-current Assets, calculated as follows.

(€m)	2018	2017
Intangible assets	9.0	6.4
Property, plant and equipment	844.6	736.4
Deferred tax assets	45.8	72.5
Employee benefits	(18.3)	(15.4)
Non-current provisions	(3.3)	(2.3)
Other non-current liabilities	(1.3)	(2.5)
Net Non-current Assets	**876.5**	**795.1**

Net Invested Capital, calculated as follows.

(€m)	2018	2017
Net Working Capital	(194.2)	(165.6)
Net Non-current Assets	876.5	795.1
Net Invested Capital	**682.3**	**629.5**

Available Funds, calculated as follows.

(€m)	2018	2017
Short-term bank deposits	-	-
Cash and cash equivalents	289.0	267.1
Total Available Funds	**289.0**	**267.1**

Gross Debt, calculated as follows.

(€m)	2018	2017
Current debt	4.5	2.2
Non-current debt	718.2	707.9
Gross Debt	**722.7**	**710.1**

Net Debt, calculated as follows.

(€m)	2018	2017
(A) Short-term bank deposits	-	-
(B) Cash and cash equivalents	289.0	267.1
(C) Available Funds (A+B)	**289.0**	**267.1**
(D) Current debt	(4.5)	(2.2)
(E) Short-term Debt (C+D)	**284.5**	**264.9**
(F) Non-current debt	(718.2)	(707.9)
(G) Net Debt (E+F)	**(433.7)**	**(443.0)**

Net Debt/Equity, calculated as follows.

(€m)	2018	2017
Net Debt	433.7	443.0
Equity	248.6	186.5
Net Debt / Equity	**1.7x**	**2.4x**

Net Debt /EBITDA, calculated as follows.

(€m)	2018	2017
Net Debt	433.7	443.0
EBITDA	198.8	142.0
Net Debt / EBITDA	**2.2x**	**3.1x**

PROPOSED APPROVAL OF FINANCIAL STATEMENTS AND APPROPRIATION OF PROFIT

Dear Shareholders,

Your Company's Board of Directors has convened this Ordinary General Meeting of Shareholders to recommend that you approve the financial statements of Italo – Nuovo Trasporto Viaggiatori SpA as of and for the year ended December 31, 2018.

The financial statements as of and for the year ended December 31, 2018 report a **profit for the year of €92,889,427**, which we propose to distribute in full, given that the legal reserve fully complies with the relevant statutory requirements.

Rome, February 13, 2019

For the Board of Directors

Chairman

Luca Cordero di Montezemolo

2018 Financial statements

ITALO - NUOVO TRASPORTO VIAGGIATORI SPA (ITALO SPA)
Registered Office in Viale del Policlinico 149/B – 00161 Rome - Italy
Share Capital Euro 60,017,725 fully paid-in
Tax Code/VAT Code and registration number in
Rome Companies Register 09247981005

INCOME STATEMENT

(€)	Note	Year ended December 31, 2018	2017
Revenue from transport services	7	536,502,159	414,861,961
Other operating revenues	8	35,062,305	40,081,393
Total operating revenues		**571,564,464**	**454,943,354**
Access and electricity costs	9	(134,304,590)	(116,658,098)
Train management costs	10	(71,672,385)	(53,598,123)
Personnel costs	11	(65,764,685)	(66,037,245)
Other operating costs	12	(101,013,261)	(76,644,641)
of which:			
Other non-recurring operating costs		*(13,239,490)*	-
Operating profit (loss) before depreciation, amortization, impairments and (losses) gains on disposal of non-current assets		198,809,543	142,005,247
Depreciation, amortization and impairments	13	(35,778,968)	(28,987,262)
(Losses) gains on disposal of non-current assets	14	(303,059)	(467,365)
Operating profit (loss)		**162,727,516**	**112,550,620**
Net financial income (expenses)	15	(31,644,792)	(58,145,151)
Profit (loss) before tax		**131,082,724**	**54,405,469**
Income tax	16	(38,193,297)	(20,653,115)
Profit (loss) for the year		**92,889,427**	**33,752,354**

STATEMENT OF COMPREHENSIVE INCOME

(€)	Note	Year ended December 31, 2018	2017
Profit (loss) for the year		**92,889,427**	**33,752,354**
Profit on cash flow hedges	24	(1,947,441)	1,551,687
Profit on cash flow hedges - taxation	24	467,386	(372,405)
Other components of comprehensive income that will be reclassified to profit or loss in future years		**(1,480,055)**	**1,179,282**
Actuarial (loss) / profit for employee benefits	24	1,021,309	19,187
Actuarial (loss) / profit for employee benefits - taxation	24	(245,113)	(77,685)
Other components of comprehensive income that will not be recycled to profit or loss in future years		**776,196**	**(58,498)**
Total other components of comprehensive income		**(703,859)**	**1,120,784**
Comprehensive income (loss) for the year		**92,185,568**	**34,873,138**

STATEMENT OF FINANCIAL POSITION

(€)	Note	As of December 31, 2018	As of December 31, 2017
Intangible assets	17	9,032,414	6,417,996
Property, plant and equipment	18	844,628,512	736,449,227
Deferred tax assets	19	45,761,418	72,477,168
Total non-current assets		**899,422,344**	**815,344,391**
Inventories	20	7,432,824	5,577,119
Trade receivables	21	7,205,758	4,905,161
Other current assets	22	33,667,599	44,834,887
Cash and cash equivalents	23	289,044,460	267,122,535
Total current assets		**337,350,641**	**322,439,702**
Total assets		**1,236,772,985**	**1,137,784,093**
Share capital		60,017,725	60,000,000
Share premium reserve		49,615,855	49,615,855
Other reserves		21,644,947	4,257,241
Retained earnings		117,345,065	72,627,248
Total equity	24	**248,623,592**	**186,500,344**
Non-current borrowings	25	718,201,779	707,909,562
Employee benefits	26	18,327,064	15,402,585
Non-current provisions	27	3,281,303	2,339,088
Other non-current liabilities	30	1,281,721	2,513,593
Total non-current liabilities		**741,091,867**	**728,164,828**
Current borrowings	25	4,545,071	2,183,488
Trade payables	28	177,903,173	172,288,347
Deferred revenues from transport services	29	31,898,681	-
Current tax payables		4,402,011	2,198,429
Other current liabilities	30	28,308,590	46,448,657
Total current liabilities		**247,057,526**	**223,118,921**
Total liabilities		**988,149,393**	**951,283,749**
Total equity and liabilities		**1.236.772.985**	**1.137.784.093**

STATEMENT OF CHANGES IN EQUITY

(€)	Share capital	Share premium reserve	Other reserves	Retained earnings	Total Equity
As of January 1, 2017	**57,207,884**	**48,000,000**	**(12,394,449)**	**32,675,322**	**125,488,757**
Profit for the year	-	-	-	33,752,354	33,752,354
Profit on cash flow hedge reserve (net of tax)	-	-	1,179,282	-	1,179,282
Actuarial gain (loss) on employee benefits (net of tax)	-	-	-	(58,498)	(58,498)
Comprehensive income (loss) for the year	**-**	**-**	**1,179,282**	**33,693,856**	**34,873,138**
Share capital increase	2,792,116	12,207,884	-	-	15,000,000
Ancillary costs for share capital increase	-	-	(160,226)	-	(160,226)
Settlement of losses	-	-	(7,672,766)	7,672,766	-
Formation of legal reserve	-	(10,592,029)	12,004,000	(1,411,971)	-
Share-based payments	-	-	11,283,675	-	11,283,675
Other reserves	-	-	17,725	(2,725)	15,000
As of December 31, 2017	**60,000,000**	**49,615,855**	**4,257,241**	**72,627,248**	**186,500,344**
Profit for the year	-	-	-	92,889,427	92,889,427
Profit (loss) on cash flow hedge reserve	-	-	(1,480,055)	-	(1,480,055)
Actuarial gain (loss) on employee benefits	-	-	-	776,196	776,196
Comprehensive income (loss) for the year	**-**	**-**	**(1,480,055)**	**93,665,623**	**92,185,568**
Settlement of losses (note 24)	-	-	18,885,486	(18,885,486)	-
Share capital increase	17,725	-	(17,725)	-	-
Dividends (Note 24)	-	-	-	(30,000,000)	(30,000,000)
Effects of application of IFRS 9	-	-	-	(62,320)	(62,320)
As of December 31, 2018	**60,017,725**	**49,615,855**	**21,644,947**	**117,345,065**	**248,623,592**

STATEMENT OF CASH FLOWS

(€)	Note	Year ended December 31, 2018	2017
Profit (loss) before tax		**131,082,724**	**54,405,469**
Adjustments for:			
Depreciation, amortization and impairments	13	35,778,968	28,987,262
(Releases from) / accruals for provisions for risks and charges	27	1,193,599	499,336
Net financial expenses/(income)	15	31,644,792	56,539,879
Other non-monetary items		2,952,471	15,458,525
Payment of employee benefits	27	(814,592)	(497,132)
Interest paid		(16,476,843)	(12,191,695)
Tax paid		(8,713,929)	(4,320,137)
Interest collected		647,053	-
Cash flow generated by/(used in) operating activities before changes in net working capital		**177,294,243**	**138,881,506**
Change in inventories	20	(1,855,705)	3,212,337
Change in trade receivables	21	(2,386,173)	(329,238)
Change in trade payables	28	13,735,865	18,977,824
Change in other assets/liabilities	22,29,30	19,554,777	18,301,171
Cash flow generated by/(used in) operating activities		**206,343,007**	**179,043,600**
Investment in property, plant and equipment	18	(146,328,550)	(49,841,573)
Investment in intangible assets	17	(6,168,249)	(4,910,388)
Disposals of property, plant and equipment and intangible assets	17	-	226,503
Change in short-term bank deposits		-	50,000,000
Interest collected on short-term deposits		-	322,419
Cash flow generated by/(used in) investing activities		**(152,496,799)**	**(4,203,039)**
Non-current borrowings	25	718,201,780	707,909,562
Repayments of non-current borrowings	25	(720,000,000)	(665,614,997)
Financial expenses attributable to early repayment of borrowings	25	(126,063)	(42,298,009)
Ancillary charges for share capital increase		-	(160,225)
Other reserves		-	15,000
Share capital increase		-	15,000,000
Dividends	26	(30,000,000)	-
Cash flow generated by/(used in) financing activities		**(31,924,283)**	**14,851,332**
Total change in cash and cash equivalents		**21,921,925**	**189,691,893**
Cash and cash equivalents at beginning of year		267,122,535	77,430,642
Cash and cash equivalents at end of year		**289,044,460**	**267,122,535**

NOTES TO THE FINANCIAL STATEMENTS

1. General information

ITALO - Nuovo Trasporto Viaggiatori SpA (hereinafter “ITALO” or the “Company”) is a joint-stock company, with registered office in Rome, Viale del Policlinico no. 149/B, structured in accordance with the legislation of the Italian Republic. ITALO is the first and only private Italian operator on the European high-speed rail network market.

2. Reporting standards

These financial statements have been prepared in compliance with International Financial Reporting Standards (hereinafter “IFRS”) issued by the International Accounting Standards Board (hereinafter “IASB”) and adopted by the European Commission according to the procedure set forth in art. 6 of (EC) Regulation no. 1606/2002 of the European Parliament and Council of July 19, 2002. IFRS also cover all international accounting standards (“IAS”) and all interpretations of the International Financial Reporting Standard Interpretations Committee, previously called the “Standard Interpretations Committee” (SIC). IFRS have been applied consistently and voluntarily to all of the periods included in this document, taking account also of the view of highly qualified scholars in this field. Any future orientations and updates to interpretations will be reflected in future years, in accordance with the procedures required on each occasion by the applicable standards.

The financial statement schedules and the related classification criteria adopted by the Company are illustrated below, in accordance with the options set out in IAS 1 – Presentation of Financial Statements:

- the Statement of financial position has been prepared, classifying assets and liabilities according to the “current and non-current” criterion;
- the Income statement has been prepared, classifying operating costs by nature;
- the Statement of comprehensive income is presented separately to the income statement and includes, in addition to the profit or loss for the year resulting from the income statement, the income and the charges that by express provision of IFRS are recognized directly in equity;
- the Statement of cash flows is prepared according to the “indirect method”, by adjusting the profit or loss for the year on the basis of non-monetary components;
- the Statement of changes in equity shows the comprehensive income (loss) for the year, transactions with shareholders and other changes in equity.

This structure best reflects the elements that have led to the Company’s profit or loss as well as its financial and equity structure.
The Financial Statements have been prepared by applying the historical cost method, also considering, where appropriate, value adjustments, with the exception of financial statements items which, according to IFRS, must be recognized at fair value, as indicated in the accounting policies and without prejudice to cases in which IFRS provisions permit a different accounting policy.
The Financial Statements have been prepared on a going concern basis, insofar as the Directors have confirmed that there are no indicators - financial, operational or of any other nature - that could point to a difficulty in the Company’s ability to meet its obligations in the foreseeable future and in particular in the next twelve months
A description of the procedures adopted by the Company to manage financial risk is contained in note 5, “Financial risk management”.
All amounts in these financial statements and the accompanying notes are in euros, unless otherwise indicated.

3. Accounting policies

The most important accounting standards and policies adopted in the preparation of the financial statements are briefly illustrated below.

Non-current assets

(i) Intangible assets

Intangible assets are assets without physical substance, controlled by the Company and able to produce future economic benefits, as well as goodwill arising on an acquisition of a business. The definition of an intangible asset requires it to be identifiable to distinguish it from goodwill. This requirement is usually met when:

- the intangible assets arise from a legal or contractual right; or
- the assets are separable, or may be sold, transferred, rented or exchanged, either individually or as an integral part of other assets.

Intangible assets are recognized at purchase or production cost including directly attributable ancillary charges to bring it to working condition. No revaluations are permitted, even for the application of specific Italian laws.
Intangible assets with a defined useful life are amortized systematically over the asset's useful life, meaning the estimated period for which the assets will be used by the Company. Development costs are amortized over five years, with the exception of those in which no future benefit is envisaged, which are expensed in the income statement in the year in which they are incurred.
The estimated useful lives of our primary intangible assets are as follows:

INTANGIBLE ASSETS	Useful life in years
Software	3-5
Licenses	5

(ii) Property, plant and equipment

Property, plant and equipment are recognized at cost and recorded at the purchase price or at the cost of production including directly attributable ancillary charges to bring it to working condition, after deducting any impairments. No revaluations of property, plant and equipment are permitted, even for the application of specific laws.
Leasehold improvements, upgrades and transformations are capitalized to the applicable asset when it is likely that they will increase the future economic benefits expected from the use or sale of the asset. They are:

- recorded as an increase to the asset in question;
- depreciated over the useful life of the improvements made or the remaining term of the related lease contract, whichever is shorter.

When measuring the term of the lease contract, the possibility of renewing it must be considered, in the event that this is reasonably certain and therefore dependent on the will of the lessee.

Property, plant and equipment are depreciated on a straight-line basis over the asset's useful life, meaning the estimated period for which the asset will be used by the Company. Said period starts from the month in which the asset starts to be used or could have been used. When the item of property, plant and equipment is comprised of a number of significant components with different useful lives, depreciation is performed for each component separately. The amount to be depreciated is represented by the recognition amount less the presumed residual value at the end of its useful life. Land, even if purchased jointly with a building, fine art collections, as well as property, plant and equipment held for sale are not depreciated. Any changes to the depreciation plan resulting from a revision of the useful life of the property, plant and equipment, of the residual value or the manner in which the economic benefits of the asset are obtained, are recognized prospectively.

The estimated useful lives of the main property, plant and equipment categories are as follows:

PROPERTY, PLANT AND EQUIPMENT	Useful life in years
Rolling stock	30
Buildings	10-30
Other property, plant and equipment	5-10
Onboard telecommunications	5
Seat upholstery	6
Investments at railway stations	Contractual term

(iii) Financial expenses capitalized

The financial expenses incurred to purchase, build or produce an asset that justify capitalization are included in the cost of the same asset. Such financial expenses are capitalized as part of the cost of the asset if it is likely that they will lead to future economic benefits for the Company and if they can be reliably calculated.
The capitalization of said financial expenses starts from the moment in which the Company satisfies the following conditions:

- it has incurred the costs relating to the asset in question (costs for the purchase/production of the asset that led to the need to take out a loan);
- the activities required to prepare the asset for the use envisaged or for its sale are in progress.

The Company must suspend the capitalization of financial expenses:

- during prolonged periods in which the development/production of the asset that justifies its capitalization is suspended;
- when all of the operations required to render the asset (that justify said capitalization) in a condition to guarantee the envisaged use or the sale, have been substantially completed.

(iv) Leased assets

The definition of a contractual arrangement as a lease transaction (or containing a lease transaction) is based on the substance of the arrangement and entails assessing whether the fulfilment of said arrangement depends on the use of one or more specific assets or whether the arrangement transfers the right to use said asset. Whether an agreement contains a lease transaction or not is verified at the beginning of the agreement.
Assets leased and accounted for as finance leases, namely agreements by virtue of which all the risks and rewards incidental to ownership are substantially transferred to the Company, are initially recognized as assets at the lower of their fair value or at the present value of the minimum payments due for the lease, including any fee for the exercise of a purchase option, if it is reasonably certain, at the inception of the lease, that the option will be exercised. The corresponding liability of the lessee is reported in the financial statements as a financial liability at amortized cost.
After their initial recognition, assets held under finance leases are depreciated at the rates previously indicated, with the exception of the circumstance in which the term of the lease agreement is shorter than the useful life represented by said rates and there is no reasonable certainty that the lessee will obtain ownership at the end of the lease; in this case, the depreciation period will be represented by the term of the lease agreement.
Leases in which the lessor substantially maintains the risks and the benefits incident to the ownership of the assets are classified as operating leases. Operating lease instalments are recognized in the income statement on a straight-line basis over the term of the lease agreement.

(v) Impairment of non-financial assets

At the end of each reporting period, non-financial assets are analyzed to assess whether there is any indication that they may be impaired. If events occur that result in the presumed impairment of the non-financial assets, their recoverability is assessed by comparing the carrying amount with the related recoverable amount represented by the higher of the asset's fair value less costs of disposal and its value in use. The value in use is calculated on the basis of reasonable and demonstrable assumptions that represent the best estimate of the future cash flows that will be generated during the residual useful life of the asset, giving due importance to external indicators. When the recoverable amount of a single asset cannot be estimated, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. More specifically, the calculation is made for a single asset or for the smallest identifiable set of assets that generate autonomous incoming cash flows resulting from its use on a continuous basis (cash generating unit – "CGU"). The impairment is recognized in the income statement. If the reasons for the impairment no longer apply, the value of the assets is reinstated and the adjustment is recorded in the income statement as a write-back (reversal). The reversal is made at the lower of the recoverable amount and the carrying amount before the impairments made and reduced by the charges for amortization that would have been made if no impairment loss been recognized.

Current assets

(vi) Inventories

Final inventories of finished products are recognized at the lower of purchase cost and net realizable value represented by the amount that the Company expects to obtain from their sale during the normal course of business, net of ancillary sales costs. The cost of inventories is determined by applying the weighted average cost method, written down on the basis of market trends and the presumed lack of use of the inventories linked to obsolete or slow-moving goods.

a. White certificates

White certificates (Energy Efficiency Certificates or EECs) are awarded to the Company by the Ministry of Infrastructure and Transport, through the Gestore dei Servizi Energetici (Energy Services Operator) based on the achievement of energy savings through the application of efficient technologies and systems.
In the period between the Company acquiring the right to the certificates by providing the service and the effective issue of the EECs on completion of the certification process and their sale, revenues from EECs are recognized in the Company's financial statements on an accruals basis, based on the best estimate of the number of EECs to be issued, in proportion to the estimated saving of TOE (Tons of Oil Equivalent) recorded during the period. They are measured at the weighted average market value for the energy year (as defined by the Italian Energy Services Operator) on the reporting date for the financial statements and recognized in warehouse inventories until their sale and collection of the related proceeds. Given the timing difference between the Company acquiring the right to receive the certificates (the end of each period in which the Company provides the service) and their effective issue to the recipient (following certification by the Italian Energy Services Operator) and sale, the Company recognizes revenues in its accounts based on the estimated number of EECs it believes it has the right to receive at the end of each period, measured at the weighted average market value for the energy year available on the reporting date. When the certificates are effectively sold, the Company then recognizes any loss or gain with respect to the previously estimated amount.

(vii) Grants

Grants, including non-monetary grants measured at fair value, are recognized when there is reasonable certainty that they will be received and that the Company will meet all of the conditions required for their disbursement.

(viii) Receivables and current financial assets

Trade receivables, other receivables and current assets and current financial assets are held within the context of a business model where contractual cash flows collected represent solely of payments of principal and interest accrued thereon. Consequently, they are initially recognized at fair value adjusted by directly attributable transaction costs and subsequently recognized at amortized cost on the basis of the effective interest rate method (namely the interest rate that, at the time of initial recognition, renders the present value of future cash flows and the carrying amount equal), appropriately adjusted to take any write-downs into account, through the recognition of a provision for doubtful accounts. Receivables due from customers and other financial receivables are included in current assets, with the exception of those whose contractual expiry date is over twelve months from the reporting date, which are classified as non-current assets.

(ix) Impairment of financial assets

At the end of each reporting period, all financial assets, other than those measured at fair value through profit or loss are analyzed to assess whether there is objective evidence that they may be impaired. IFRS 9 requires the application of a model based on expected credit loss. The Company uses the simplified approach to estimate credit losses throughout the life of the receivables and takes into account its historical credit loss experience, as adjusted to reflect current conditions and estimated future economic conditions. If there is evidence of impairment, the loss is accounted for as a financial expense.

The expected credit loss model requires the immediate recognition of credit losses expected throughout the life of the financial asset, without the need to wait for the materialization of a trigger event.

For financial assets recognized at amortized cost, when an impairment loss has been identified, the value of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted on the basis of the original effective interest rate. This amount is recognized in the income statement.

(x) Derecognition of financial assets

Financial assets are derecognized when one of the following conditions is met:

- the contractual right to receive the cash flows from the asset has expired;
- the Company has substantially transferred all of the risks and rewards related to the asset, transferring its rights to receive the cash flows from the asset or assuming a contractual obligation to pass the cash flows received to one or more beneficiaries by virtue of an agreement that meets the requirements set out in IAS 39 (pass through test);
- the Company has not transferred nor substantially maintained all of the risks and rewards related to the financial asset, but has transferred control.

(xi) Offsetting financial assets and liabilities

The Company offsets financial assets and liabilities if and only if:

- there is a legally exercisable right to offset the amounts recognized in the financial statements;
- there is an intention either to offset or to dispose of the asset and settle the liability at the same time.

(xii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, together with financial assets whose maturity from the date of acquisition is equal to or less than three months, that can readily be convertible into cash, and that are subject to an insignificant risk of changes in value. The components of cash and cash equivalents are measured at fair value. Term deposits are not included in cash and cash equivalents as they do not meet the requirements of IFRS.

Short-term bank deposits whose original maturity is equal to or more than three months, which do not meet the requirements of IAS 7, are included separately in the statement of financial position as part of total current assets.

Collection transactions are recorded by date of the bank transaction, while payment operations also take into account the order date.

Current and non-current liabilities

(xiii) Financial liabilities and trade payables

Financial liabilities and trade payables are recognized when the Company becomes a party to the related contractual clauses and are initially recognized at fair value, adjusted by any directly attributable transaction costs.
They are later recognized at amortized cost using the effective interest rate method.

(xiv) Derecognition of financial liabilities

The financial liabilities are derecognized when they are extinguished, namely when the contractual obligation has been met, cancelled or prescribed. An exchange of debt instruments with substantially different contractual terms, must be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial variation of the contractual terms of an existing financial liability must be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

(xv) Provisions for risks and charges

Provisions for risks and charges regard costs and charges of a specific nature, whose existence is certain or likely, for which at the closing date of the reference period, the amount and/or date of occurrence have not been established.
Allocations to these provisions are recognized when:

- the existence of a current, legal or constructive obligation, resulting from a past event, is likely;
- it is likely that the obligation will be fulfilled against payment;
- the amount of the obligation can be reliably estimated.

Provisions are recognized at a value that represents the best estimate of the amount that the Company should reasonably pay to extinguish the obligation or to transfer it to third parties on the closing date of the period. When the financial impact of the passing of time is significant and the payment dates of the obligations can be reliably estimated, the allocation is determined by discounting the expected cash flows taking the risks associated with the obligation into account; the increase of the provision related to the passing of time is recognized in the income statement under “Net financial income (expenses)”.
The costs that the Company expects to incur to implement restructuring programs are recognized in the year in which the program is formerly defined and the interested parties have a valid expectation that the restructuring will take place.
Provisions are updated periodically to reflect changes in cost estimates, realization timing and the discounting rate; revised estimates are recorded under the same income statement item that previously covered the allocation. Provisions for risks and charges are discounted if it is possible to reasonably estimate when the monetary outflow will take place. When the liability relates to tangible assets, the changes in estimates of the provisions are recognized in a balancing entry to the asset to which they refer within the limits of the recognition amounts; any surplus is booked to the income statement.
If it is expected that all expenses (or a part of the same) required to extinguish an obligation are repaid by third parties, the indemnity, when virtually certain, is recognized as a separate asset.

(xvi) Employee benefits

Short-term benefits are represented by salaries, wages, the related social security contributions, compensated holiday leave and incentives paid in the form of a bonus. These benefits are accounted for as personnel cost components for the period in which the employee works.
In defined benefit plans, which include the post-employment benefits due to employees under art. 2120 of the Italian Civil Code (“TFR”), the amount of the benefit to be paid to the employee can only be quantified when the employment ends, and is linked to one or more factors, such as age, years of service and pay; therefore, the related charge is recognized in the relevant income statement on the basis of an

actuarial calculation. The liability recognized in the financial statements for defined benefit plans corresponds to the present value of the obligation on the date of the reporting period. The obligations for defined benefit plans are determined annually by an independent actuary using the Project Unit Credit method. The present value of a defined benefit plan is determined by discounting the future cash flows at a specific interest rate. The actuarial gains and losses resulting from the above-cited adjustments and changes in actuarial assumptions are recognized in the statement of comprehensive income.
Starting from January 1, 2007, the Italian 2007 Financial Law and the related implementing decrees introduced significant changes to post-employment benefits (TFR), including giving the employee a choice as to the destination of the accruing TFR. More specifically, the employee may address the new flows of TFR to pre-established pension funds or can maintain them in the Company. If the employee opts for external pension funds, the company is only responsible for paying a defined contribution into the chosen fund and, from said date, the newly-accrued amounts are considered as defined contribution plans and are not subject to actuarial valuations.
The liabilities for obligations relating to other medium/long-term benefits to employees, such as management incentive plans, are calculated on the basis of actuarial assumptions. The impact resulting from changes in actuarial assumptions or from adjustments based on past experience are recognized in the income statement.

a. Share-based payments

The cost of services provided by directors and employees remunerated through share-based incentive plans, and settled through the award of financial instruments, is based on the fair value of the rights at the grant date. Fair value is computed with reference to all characteristics, at the grant date (vesting period, any consideration due and conditions of exercise, etc.), of the rights and the plan's underlying securities. The obligation is determined by independent actuaries. The cost of these plans is recognized in profit or loss, with a contra-entry in equity, over the vesting period, based on a best estimate of the number of options that will vest.

(xvii) Fair value measurement

Fair value measurements and disclosures are made or prepared applying IFRS 13 “Fair value measurement”. The fair value represents the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The fair value measurement is based on the assumption that the sale of the asset or transfer of the liability takes place in the principal market, namely the market with the greatest volume and level of transactions for the asset or liability. In the absence of a principal market, it is assumed that the transaction takes place in the most advantageous market to which the Company has access, namely the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability.
The fair value of an asset or a liability is determined by considering the assumptions that market participants would use to set the price of the asset or liability, on the assumption that they are acting according to their best economic interest. Market participants are informed, independent buyer or sellers, able to enter into a transaction for the asset or liability and motivated but not obliged nor induced to perform the transaction.

a. Measuring the fair value of financial instruments

The fair value of quoted financial instruments is measured by observing prices that can be directly accessed on the market, while for non-quoted financial instruments, by using specific measurement techniques that make the greatest use possible of inputs observable on the market. In the event in which this is not possible, the inputs are estimated by management, taking the characteristics of the instruments to be measured into account. Changes in the assumptions made in input data estimates

could impact the fair value recognized in the financial statements for the instruments.
The fair values of the financial instruments listed below are classified on the basis of a fair value hierarchy which reflects the significance of the inputs used to measure the fair value (IFRS 13 "Fair value measurement").

- Level 1 - Quoted prices (active markets): the data used in measurements is represented by quoted prices in markets in which assets and liabilities that are identical to those to be measured are traded;
- Level 2 - Use of parameters observable on the market (for example, for derivatives, the exchange rates recorded by the Bank of Italy, market interest rate curves, volatilities provided by Bloomberg, credit spreads calculated on the basis of Credit default swaps, etc.) other than the quoted prices of level 1;
- Level 3 - Use of parameters that cannot be observed on the market (internal assumptions, for example, cash flows, risk-adjusted spreads, etc.).

(xviii) Derivative financial instruments

Derivative instruments are considered as assets held for trading and measured at fair value through profit or loss, with the exception of cases in which they are structured as effective hedges against a specific risk relating to the underlying assets or liabilities or commitments undertaken by the Company.
More specifically, the Company uses derivative instruments in its hedging strategies with a view to offsetting the risk of changes in the fair value of financial assets and liabilities recognized in the financial statements or of contractually-defined commitments (fair value hedges) or of changes in expected cash flows relating to contractually-defined or highly likely transactions (cash flow hedges).
The effectiveness of hedges is documented and tested both at the beginning of the transaction and periodically (at least at each annual and interim financial statement reporting date) and is measured by comparing the changes in the fair value of the hedging instrument with those of the hedged element or, in the case of more complex instruments, through statistical analyses based on the change in the risk.

a. Cash flow hedges

Changes in the fair value of derivatives designated as cash flow hedges and that qualify as such, are recognized, limited to the "effective" portion only, in the statement of comprehensive income through a specific equity reserve ("Cash flow hedge reserve"), which is then reversed to the income statement at the time the underlying asset or liability impacts profit and loss. The change in the fair value relating to the ineffective portion is immediately recognized in the income statement for the period. If the occurrence of the underlying transaction is no longer considered highly likely, the portion of the "Cash flow hedge reserve" relating to the transaction is immediately reversed to the income statement. If, instead, the derivative instrument is sold, reaches maturity or no longer qualifies as an effective instrument to hedge the risk against which the transaction had been performed, the portion of the cash flow hedge reserve relating to the transaction is maintained until such time as the underlying contract materializes. The recognition of the hedge as a cash flow is terminated prospectively.

(xix) Revenues and costs

Revenues are recognized at the fair value of the amount received or to be received, net of returns, discounts, allowances and rebates, as well as any directly-related tax and to the extent to which the Company receives the economic benefits and such benefits are reliably determined.
Revenues from transport services are recognized in the income statement at the time the passenger transport takes place, taking into account the value of any commercial discounts, rewards and customer loyalty programs. Train tickets sold, but for which the trip has not taken place, are recognized as deferred revenues from transport services and recorded under current liabilities, considering the terms and conditions of the tickets, the regulations of the rail transport sector and an analysis of past trends.
Revenues from the provision of services are recognized when the service has been rendered; revenues from sales when control is effectively transferred.
Costs are recognized on an accrual basis when relating to services and goods purchased or consumed during the period or are systematically distributed, namely when the future usefulness of the same

cannot be identified.
Operating lease payments are recognized in the income statement on a straight-line basis over the term of the lease agreement.
The income and the expenses generated by the disposal or sale of non-current assets are recognized in a specific income statement item "(Losses) gains on disposal of non-current assets".
Financial income and expenses are recognized in the income statement over the course of the year in which they accrued.

a. Non-recurring expenses and revenues

Non-recurring expenses and revenues are generated from non-recurring events or transactions, namely transactions or events that do not occur frequently in the normal course of operations. These items are reported separately from recurring revenues and costs.

(xx) Foreign currency transactions

The revenues and the costs relating to transactions in currencies other than the Company's functional currency are recognized at the current exchange rate on the day on which the transaction is recorded.
Monetary assets and liabilities in currencies other than the functional currency are converted into the functional currency by applying the current exchange rate on the reporting date of the financial statements, recognizing the impact on the income statement. Non-monetary assets and liabilities expressed in currencies other than the functional currency, measured at cost, are recognized at the exchange rate at the time of initial recognition; when the measurement is made at fair value, or at the recoverable or realizable amount, the current exchange rate on the date the said value is determined is adopted.

(xxi) Dividends

Dividends are recognized on the date on which the resolution of the Shareholders' Meeting that established the right to receive the payment is approved, except when the sale of shares before the ex-dividend date is reasonably certain.
The dividends approved by the Shareholders' Meeting are represented as changes in equity in the year in which they are approved.

(xxii) Income tax

Current taxes on income for the year - recognized under "Current tax payables" net of any advances paid, or under "Current tax receivables", when the tax account shows a debit balance - are calculated on the basis of an estimate of taxable income and in accordance with tax legislation in force. Taxable income differs from net profit in the income statement because it excludes items of income and expenses that are taxable or deductible in other years or that are non-taxable or non-deductible. More specifically, said payables and receivables are determined by applying the tax rates applicable on the reporting date.
Current taxes are booked in the income statement, with the exception of those relating to items recognized outside of the income statement, which are directly booked to other comprehensive income or equity.
Deferred taxes are calculated based on the temporary differences between the carrying amount recorded in the financial statements and the corresponding amounts recognized for tax purposes, by applying the tax rate in force on the date on which the temporary difference will reverse, on the basis of the tax rates applicable on the reporting date.
Deferred tax assets arising from all temporary differences, tax losses or tax credits are recognized when their recovery is probable, that is when it is expected that future taxable income will be sufficient to recover the tax assets. Recoverability of deferred tax assets is reviewed at every year-end.
Deferred tax assets not recognized in the financial statements are re-analyzed on each reporting date and are recognized to the extent to which it is probable that future taxable income will enable their recovery.
Deferred tax assets and liabilities are recognized in the income statement, except for those related to

items that are not reported in the income statement, which are recognized directly in other comprehensive income or in equity.
Deferred tax liabilities and assets, resulting from the application of legislation relating to the same tax authority, are offset if there is a legally exercisable right to offset current tax assets against the current tax liabilities that will be generated at the time of their reversal.
Deferred tax assets are classified under non-current assets and are offset at individual tax jurisdiction level, if related to taxes that may be offset. The positive balance of offsetting is recorded under "Deferred tax assets".

(xxiii) Related parties

Related parties are considered those that share the same controlling entity as the Company, companies that directly or indirectly control it, are subsidiaries, or are subject to joint control by the Company and those in which the Company holds an investment that enables it to exercise a significant influence. Related parties also include members of the Board of Directors and key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

Recently-issued accounting standards

Accounting standards, amendments and interpretations not yet applicable and not adopted early by the Company

At the date of the annual financial statements, the competent bodies of the European Union have not yet completed the endorsement process required for adoption of the following accounting standards and amendments:

Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures"	On October 12, 2017, the IASB issued this amendment to IAS 28 to clarify application of IFRS 9 "Financial Instruments" to long-term interests in subsidiaries or joint ventures included in investments in such entities to which the equity method is not applied. The amendment to IAS 28 is effective for annual periods starting on or after January 1, 2019.
IFRS 17 "Insurance Contracts"	On May 18, 2017, the IASB issued IFRS 17 "Insurance Contracts", which establishes the criteria to be applied in the recognition, measurement, presentation and disclosure of insurance contracts included in the standard. The aim of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents such contracts, thus enabling the users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The provisions of IFRS 17 are effective for annual periods starting on or after January 1, 2021.
Annual improvements 2015-2017	The changes introduced by this document, published by the IASB on December 12, 2017, regard: • IAS 12, "Income Taxes", effective for annual periods starting on or after January 1, 2019; • IAS 23, "Borrowing Costs", effective for annual periods starting on or after January 1, 2019; • IFRS 3, "Business Combinations", effective for annual periods starting on or after January 1, 2019;

	• IFRS 11 “Joint Arrangements”, effective for annual periods starting on or after January 1, 2019.
Amendments to IAS 19: “Plan Amendment, Curtailment or Settlement”.	On February 7, 2018, the IASB issued this amendment to IAS 19 to clarify that, in the event of a plan amendment, curtailment or settlement, i) the effects must be accounted for on the basis of the asset ceiling, ii) whilst using updated actuarial assumptions to determine current service cost and net interest for the remainder of the reporting period after such a plan amendment, curtailment or settlement. The Amendments to IAS 19 are effective for annual periods starting on or after January 1, 2019.
Amendments to IFRS 3: Definition of a Business	On October 22, 2018, the IASB issued this amendment to IFRS 3 to clarify the definition of business, to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendment is effective for reporting periods starting on or after January 1, 2020.
Amendments to IAS 1 and IAS 8: Definition of Material	On October 31, 2018, the IASB issued this amendment to IAS 1 and IAS 8 to clarify the definition of “material”, to help companies decide whether information should be included in their financial statements. The amendment to IAS 1 and IAS 8 is effective for reporting periods starting on or after January 1, 2020.

Accounting Standards, amendments and interpretations not yet adopted but for which early adoption is permitted

At the date of these financial statements, the competent bodies of the European Union have approved the adoption of the following accounting standards and amendments, not adopted early by the Company

IFRS 16 “Leases”	On January 13, 2016, the IASB published IFRS 16 – Leases, which will replace IAS 17 and the related interpretations, that is IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard sets out a new definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish between lease contracts and contracts for the provision of services, based on certain key information: identification of the asset, right to replace such asset, right to obtain substantially all the economic benefits determined by the use of the asset and the right to direct use of the asset underlying the contract. The standard lays down a single model for the recognition and measurement of lease contracts by the lessee which calls for the recognition of the leased item – under both operating and finance lease arrangements - as and asset and the associated value as a financial liability, providing also for the possibility not to recognize as leases contracts covering low-value assets (i.e. contracts related to assets with a value lower than €5,000) and contracts for up to 12 months. On the other hand, the standard does not contain any significant changes for lessors. The standard takes effect as of January 1, 2019 by early adoption is permitted.

The standard will affect the accounting treatment of operating leases.

At the reporting date, the Company had operating lease arrangements related particularly to the train maintenance equipment and spaces in railway stations. Management intends to apply IFRS 16 by adopting the modified retrospective approach. Under this approach, on first-time adoption, that is January 1, 2019, the Company will recognize a liability for leases classified as operating leases under IAS 17 in an amount equal to the present value of the remaining lease payments, as discounted at the lessee’s incremental borrowing rate applicable on the date of first-time adoption. In addition, it will be necessary to recognize as an asset the right to use leases classified as operating leases under IAS 17. To this end, the Company, consistent with the standard, decided to recognize the right of use for an amount equal to the lease liability adjusted for any prepaid or accrued expenses related to the leases recognized in the statement of financial position right before the date of first-time adoption.

Operating leases

IFRS 16 changed the approach to account for leases classified as operating leases under IAS 17.
In accordance with IFRS 16, for all leases (except for contracts covering low-value assets and contracts with terms of up to 12 months), the Company:
- recognizes assets with right of use and lease liabilities, measured initially by discounting to present value future lease payments, in the statement of financial position;
- recognizes the depreciation of assets with right of use and the interest for the lease liability in the income statement; and
- separates the total amount paid in principal (shown in uses for financing activities) and interest (shown in uses for operating activities).

Pursuant to IFRS 16, assets representing rights of use are tested for impairment in accordance with IAS 36 – Impairment of Assets. This replaces the process under the previous standard, where a liability was recognized for onerous lease contracts. For short-term lease contracts (term of up to 12 months) and low-value leased assets, the Company opted for the recognition of lease payments on a straight-line basis, as permitted by IFRS 16. This cost is disclosed under operating costs in the income statement.

Finance leases
The main difference between IFRS 16 and IAS 17 in relation to finance leases is the measurement of the residual value guarantee provided by a lessee to a lessor. IFRS 16 requires that, in measuring the lease liability, the Company include the amounts that it expects to pay as residual value guarantee, in lieu of the maximum exposure under the guarantee required by IAS 17. This change did not entail any significant effect on the Company’s accounts.

Adoption of the standard by the Company
In early 2018, the Company began the process of implementing the new standard, carrying out a detailed analysis of contracts and the accounting impacts and an upgrade of its administrative processes and information systems.
The review of the contracts potentially affected by the new standard and the

ensuing assessment of the accounting impacts have been virtually completed

The Company reviewed also low-value and short-term leases, whose amounts will be reported on a straight-line basis in the income statement. Lastly, the Company considered further adjustments, such as the change of the definition of the lease term, the different treatment of variable lease payments and extension and termination options.

Based on the analysis, it appears that the adoption of the new standard will have a significant impact on the amounts and the information reported in the Company's financial reports. In particular, attention is called to the following:

The weighted average of the incremental borrowing rate is approximately 3% per annum.

The Company has currently estimated an increase in assets represented by rights of use of a total of approximately €47.6 million and a corresponding increase in lease liabilities of the same amount.

Adoption of the new standard as of January 1, 2018 would have entailed an increase in EBITDA for the year ended December 31 2018 in the amount of approximately €6.5 million, higher depreciation of approximately 5.9 €million and higher borrowing costs of approximately 1.2 million. Therefore, pre-tax profit would have decreased for about 0.6 million.
Given the significant amount of information processed, as implementation of the information system is still under way, certain amounts might change up to publication of the first financial statements showing the effects of first-time adoption.

The table below shows the differences between operating leases recognized under IAS 17 at December 31 2018 – i.e. date immediately preceding the first-time adoption of IFRS 16 – discounted to present value at the lessee's incremental borrowing rate and the liabilities arising from reported leases on the date of first-time adoption, i.e. January 1, 2019.

Reconciliation (€m)	
Commitments related to operating leases at December 31, 2018	344.2
Out of scope of IFRS 16	(282.4)
Undiscounted lease liabilities as of January 1, 2019	**61.8**
Effect of discounting lease liabilities	(14.2)
Additional lease liabilities following adoption of IFRS 16 as of January 1, 2019	**47.6**

Amendment to IFRS 9 "Prepayment Features with Negative Compensation"

On October 12, 2017, the IASB issued this amendment to IFRS 9 to deal with certain issues regarding the applicability and classification of IFRS 9 "Financial Instruments" in the case of certain financial assets with prepayment options. In addition, the IASB has clarified certain aspects of accounting for financial liabilities that have been modified.
The amendment to IFRS 9 is effective for annual periods starting on or after January 1, 2019. The Company thinks that entry into force of this amendment will not have significant impact on its operating results and financial condition.

IFRIC 23 “Uncertainty over Income Tax Treatments”	On June 7, 2017, the IASB issued IFRIC 23 “Uncertainty over Income Tax Treatments”, containing guidance on the accounting treatment of current and/or deferred tax assets and liabilities when there is uncertainty over a tax treatment. IFRIC 23 is effective for annual periods starting on or after January 1, 2019. IFRIC 23 was approved by the European Union on October 23, 2018.

Accounting Standards, amendments and interpretations adopted by the Company

At the date of the annual financial statements, the competent bodies of the European Union had approved the adoption of the following accounting standards and amendments, which were then adopted in turn by the Company in fiscal year 2018.

IFRS 15 “Revenue from Contracts with Customers”	On May 28, 2014, the IASB published IFRS 15 “Revenue from Contracts with Customers” (hereinafter IFRS 15), which regulates the timing and the amount to be recognized of revenue arising from a contract with a customer, including construction contracts, with the exception of contracts that fall within the scope of other standards. The new standard replaces IAS 18 – Revenue, IAS 11 “Construction Contracts” and the relevant interpretations. More specifically, IFRS 15 sets out that the recognition of the revenue is based on the following five steps: 1) identify the contract with the customer; 2) identify the contractual obligation to transfer goods and/or services (known as performance obligations); 3) determine the transaction price; 4) allocate the transaction price to the performance obligations identified on the basis of the stand-alone selling price of each good or service; and 5) recognize revenue when the related performance obligation is met. In addition, IFRS 15 requires the disclosure of the nature, amount, timing and uncertainty of revenues and of the related cash flows. The new standard, adopted by the European Commission with EU Regulation no. 2016/1905 of September 22, 2016, is effective from years which start on or after January 1, 2018. The Company has adopted IFRS 15 and the related amendments using the modified retrospective approach, which means that any cumulative impact of adoption will be recognized in retained earnings from January 1, 2018, the date of first-time adoption. Management has assessed the impact of application of the new standard on the Company’s financial statements and has concluded that there will be not be any material and/or significant impact given the nature of and the accounting policy adopted for the Company’s current revenues. As such, the Company’s recognition of revenue in accordance with IFRS 15 did not generate the recognition of a cumulative adjustment of retained earnings in accordance with the modified retrospective approach. As IFRS 15 requires the separate presentation of contract assets and liabilities in the statement of financial position, from January 1, 2018 the Company reclassified to “Deferred revenues from transport services” a number of contract obligations related to the sale of season tickets (services paid for which will be provided after the closing of each reporting period) and customer loyalty program.

The Company restated the comparables for fiscal year 2017. The table below shows the detailed reclassification of the balances recognized in the statement of financial position on the date of first-time adoption of IFRS 15 (January 1, 2018):

(€)	December 31, 2017	IFRS 15	January 1, 2018
Other current liabilities	46,448,657	(22,854,289)	23,594,368
Deferred revenues from transport services	-	22,854,289	22,854,289

Below, the Company's updated accounting policies are shown.

Revenue recognition

Revenue is recognized when title to the good or service passes to the customer. Revenue is measured at the transaction price, which is based on the consideration that the Company expects to receive for the transfer to the customer of the goods and services promised, net of taxes paid by the customer to the tax authority. The price of the transaction includes the estimate of the variable consideration for the portion for which a significant revenue derecognition is unlikely to occur.

The Company enters into agreements that, in general, can be distinguished and treated as separate performance obligations. Revenue is recognized to the extent of the price amount that the Company expects to receive. The Company attributes the price of the transaction to performance obligations on the basis of stand-alone selling prices (SSP) for every obligation. In the absence of an SSP, the Company estimates such price by using a market adjusted approach.

The Company generates revenue from transport services and recognizes a contract with a customer when it is legally binding between the Company and the customer, the parties' rights are identified, the contract has commercial substance and the collection of the price is probable. Payments from customers are generally due before the service is used, as tickets are purchased before the journey.

The Company does not recognize any asset that it does not expect to recover. Most revenue is recognized as the service is provided (at a point-in-time) and the Company recognize any incremental costs to obtain the contract as they are incurred, if the asset is fully depreciated in a year or less.

Revenue from transport services is recognized in the income statement as soon as passengers are transported, taking into account any commercial discounts, premiums and customer loyalty programs. Train tickets sold but not yet used for travel are recognized as Deferred revenues from transport services under current liabilities, taking into account terms and conditions of the tickets.

IFRS 9 "Financial Instruments"

On July 24, 2014, the IASB completed the project to revise the standard on financial instruments with the issue of the full version of IFRS 9 "Financial instruments". The new provisions of IFRS 9:

- change the model for the classification and measurement of financial assets;
- introduce a new procedure for writing down financial assets, which takes expected credit losses into account; and
- change the provisions on hedge accounting.

The provisions of IFRS 9, adopted by the European Commission with EU

Regulation no. 2016/2067 of November 22, 2016, are effective from years starting on or after January 1, 2018.

The Company has reviewed its financial assets and liabilities and has concluded the following with regard to the impact of adoption of the new standard from January 1, 2018.

The Company's financial assets currently classified as "held to maturity" and measured at amortized cost meet all the conditions for classification at amortized cost under IFRS 9. As a result, the Company does not expect the new approach to influence the classification and measurement of these financial assets. There will be no impact on the Company's accounts in relation to financial liabilities, as the new requirements solely regard the accounting treatment of financial liabilities at fair value through profit or loss and the Company does not have such liabilities.

The derecognition rules have been transferred from IAS 39 "Financial Instruments: Recognition and Measurement" to IFRS 9, but have not been amended.

The new hedge accounting rules will result in a greater alignment of the accounting treatment of hedges with the Company's approach to managing risk. In general, more hedge relationships could qualify for the application of hedge accounting, as the standard introduces a principle-based approach. The Company confirms that existing hedge relationships will continue to qualify as such following adoption of IFRS 9.

The new impairment model requires the recognition of expected credit losses at all times, rather than only when the losses are realized, as required by IAS 39.

The model applies to financial assets classified at amortized cost, to debt instruments measured at fair value through other comprehensive income, contract assets as defined by IFRS 15, lease receivables, loan commitments and to certain financial guarantee contracts. Based on the assessments conducted to date, the Company has adjusted for a small loss on trade receivables.

In particular, the Company has adjusted the provisions for doubtful accounts related to trade receivables in view of the expected losses, as required by IFRS 9. The table below shows the impacts as of the date of first-time adoption.

(€)	**December 31, 2017**	**IFRS 9**	**January 1, 2018**
Trade receivables	-	(82,000)	(82,000)
Deferred tax assets	-	19,680	19,680
Total	-	**(62,320)**	**(62,320)**
Retained earnings (accumulated losses)	-	-	**(62,320)**

Regarding trade receivables, the Company applied the simplified approach indicated by IFRS 9 and measured provisions for doubtful accounts as the expected loss along the life of the receivable. The Company determines the amount of the expected losses through the use of a provision matrix that considers historical credit losses based on creditors' past due amounts, as adjusted to reflect current conditions and estimated future economic conditions.

The Company applied IFRS 9 for annual periods starting after January 1, 2018, with the practical expedients permitted by the standard. Comparables for 2017 have not been restated.

The Company's updated accounting policies regarding financial instruments are illustrated in this paragraph.

4. Use of estimates

The application of IFRS to prepare the financial statements entails the use, by management, of accounting estimates, often based on complex and/or subjective assessments, based on past experience and assumptions considered reasonable and realistic with regard to the information known at the time of the estimate, also with expert support. The use of these estimates influences the carrying amount of assets and liabilities and the disclosure of potential assets and liabilities at the reporting date, as well as the amount of revenues and costs in the accounting period represented. Actual results may differ from estimated ones due to the uncertainty that characterizes the assumptions and the conditions on which the estimates are based. The estimates and assumptions are periodically reviewed and the effects of any change are reflected in the income statement. To better understand the financial statements, the most significant estimates made during the preparation process of the financial statements, because they are substantially based on subjective opinions, assumptions and estimates relating to areas which, by their very nature, are uncertain, are illustrated below. Changes to the conditions underlying the opinions and assumptions adopted could have a significant impact on the subsequent results.

Impairment of assets

Assets are analyzed to ascertain whether there is any impairment loss, recognized by means of a write-down, if there are indicators that lead to assumed difficulties in recovering the related net carrying amount through its use. Verifying the existence of the above-cited indicators requires Directors to make subjective assessments based on information available within the Company and on the market as well as past experience. Furthermore, if it is decided that a potential impairment may have been generated, the Company measures the amount of the impairment using measurement techniques that are deemed suitable. The correct identification of the elements indicating the existence of any impairment, as well as the estimates to determine the amount of impairment, depend on factors that may change over time, influencing the measurements and the estimates made by the Directors.

Recoverability of deferred tax assets

Deferred tax assets are recorded in the financial statements, mainly relating to the recognition of tax losses and financial expenses that may be used in future years and, to a lesser extent, to income components with deferred tax deductibility, for an amount whose recovery in future years is expected to be probable. The recoverability of the above-cited deferred tax assets is conditional on the generation of future taxable income that is sufficient to absorb the aforementioned tax losses or up to the amount of the deferred taxes related to other deferred tax assets. Significant management judgement is required to determine the amount of deferred tax assets that may be recognized in the financial statements on the basis of the timing and the amount of future taxable income. In particular, it is noted that that deferred tax assets have been recognized in view of the future taxable income and gross operating income reported in the Company's updated strategic plans.

Contingent liabilities

The Company recognizes a liability against legal disputes and risks resulting from lawsuits in progress when it believes that a financial disbursement is likely and when the amount of the liability may be reasonably estimated. In the event in which a financial disbursement becomes possible but the amount cannot be determined, this fact is reported in the notes to the financial statements. The Company continually monitors the status of lawsuits underway and consults experts in legal and tax-related matters.

Employee benefits

The liabilities for employee benefits are measured using an actuarial method which requires the use of estimates and assumptions to determine the net value of the obligation. The actuarial method considers financial parameters such as the discounting rate and the inflation rate curve.

5. Financial risk management

The Company's assets are exposed to the following risks: market risk (defined as interest rate risk), credit risk and liquidity risk.
The Company's risk management strategy seeks to minimize potential negative effects on the Company's financial performance. Some types of risk are mitigated through the use of derivative instruments. Risk management is centralized in the Finance department, which identifies, measures and hedges financial risk. The Company's Finance department provides indications to monitor risk management, as well as providing guidance in specific areas, regarding interest rate risk and the use of derivative and non-derivative instruments.

Foreign exchange risk

The Company operates in the Italian market and is substantially not exposed to foreign exchange risk.

Interest rate risk

In August 2018, the Company revised its capital structure through the early repayment of existing debt using the proceeds from new debt. Further details of the transactions are provided in note 25, "Current and non-current borrowings".
As the Company has floating rate liabilities, it is exposed to interest rate fluctuations. In this regard, in keeping with the existing hedging policy, the Company has entered into interest rate swaps.
As of December 31, 2018, the total notional value of the derivative portfolio was €600,000,000 (€360,000,000 as of December 31, 2017) with a negative fair value of €3,641,536 (negative fair value of €214,044 as of December 31, 2017). For accounting purposes, these transactions qualify as cash flow hedges, in line with the risk mitigation strategy adopted by the Company.

If the floating interest rate had been 0.1% higher/lower (10 basis points) than that recorded as of December 31, 2018, with all other variables equal, but considering the effect of the derivative contracts, the profit/loss for the period before tax would have been lower/higher by €320 thousand (€315 thousand in 2017), and the profit/loss for the period after tax would have been lower/higher by €243 thousand (€240 thousand in 2017).

Credit risk

Credit risk represents the Company's exposure to the risk of potential losses resulting from a counterparty's inability to discharge an obligation. The Company's exposure to credit risk is linked to i) financial investments, such as short-term bank deposits and other bank and post office deposits, where counterparties are major banks and ii) the Company's trading activities. The trade receivables accounted for in the financial statements primarily relate to the indirect sales channel, represented by agencies. The measurement of these receivables and establishment of the related credit limits are based on credit scores provided by specialist agencies. Most ticket sales take place through direct channels without the involvement of an intermediary. As a result, the related receivables are collected almost immediately. Specifically:

- payment for the services offered to customers is usually made before the service is used, as tickets are generally purchased before journeys are made;
- the sales channels and related payment methods offered to customers (electronic money, bank transfer, cash) guarantee the certainty of collection at the time of sale, except in the event of fraud linked to cloned credit cards.

Ensuring effective management of credit risk is of strategic importance for the Company and, in this sense, the type of business and the payment methods used ensure that the Company's overall exposure to credit risk is limited.

The following table provides a breakdown of trade receivables as of December 31, 2018 and 2017, grouped by due dates.

(€)	As of December 31, 2018	As of December 31, 2017
Current	6,909,711	2,942,838
Past due for 0-30 days	170,255	910,239
Past due for 31-90 days	106,389	206,070
Past due for 91 to 180 days	113,953	224,509
Past due for over 181 days	123,064	3,986,683
Total gross trade receivables	**7,423,372**	**8,270,339**
Provisions for doubtful accounts	(217,614)	(3,365,178)
Total trade receivables	**7,205,758**	**4,905,161**

The Company continuously monitors the recoverability of trade receivables through a specific department set up for this purpose. Impairments and/or provisions for doubtful accounts are made on the basis of historical experience of the creditworthiness of a counterparty and of specific evidence in relation to individual exposures, also taking into account the type of contractual relationship with the counterparty within the context of the Company's commercial policies. In this sense, provisions for doubtful accounts for each financial year are estimated primarily on the basis of receivables past due for over 180 days.

Liquidity risk

Liquidity risk is associated with the Company's ability to meet commitments originating mainly from financial liabilities. Prudent liquidity risk management as regards the Company's ordinary business activities implies maintaining an adequate level of cash and cash equivalents and the availability of funds that may be obtained through an adequate number of credit facilities.
The Company expects to be able to generate adequate operating cash flow to meet its requirements and pursue its planned objectives. As of the date of these financial statements, the Company therefore deems that it is not exposed to a significant level of liquidity risk.

The following tables show cash flow forecasts for future years (including the principal and interest) as regards financial liabilities as of December 31, 2018 and 2017:

As of December 31, 2018 (€)	Carrying amount	Within 12 months	Between 1 and 5 years	Over 5 years
Current and non-current borrowings	722,746,850	16,061,338	802,364,454	-
Trade payables	177,903,173	177,903,173	-	-
Other current and non-current liabilities	2,513,593	1,332,666	1,332,666	-
Total financial liabilities excluding derivative financial instruments	**903,163,616**	**195,297,177**	**803,697,120**	**-**
Derivative financial instruments	3,641,536	2,023,710	1,610,625	-
Total	**906,805,152**	**197,320,887**	**805,307,745**	**-**

As of December 31, 2017 (€)	Carrying amount	Within 12 months	Between 1 and 5 years	Over 5 years
Current and non-current borrowings	710,093,050	17,053,680	852,374,280	-
Trade payables	172,288,347	172,288,347	-	-
Other current and non-current liabilities	3,796,200	1,282,607	2,513,593	-
Total financial liabilities excluding derivative financial instruments	**886,177,597**	**190,624,634**	**854,887,873**	**-**
Derivative financial instruments	214,044	440,055	(226,011)	-
Total	**886,391,641**	**191,064,689**	**854,661,862**	**-**

Financial and non-financial assets and liabilities by category

Non-current financial assets and liabilities are settled or measured at market rates and therefore it is deemed that their fair value is substantially in line with their current carrying amounts.

The table below shows the classification of financial assets and liabilities by category as of December 31, 2018 and 2017.

As of December 31, 2018 (€)	Financial assets and liabilities at amortized cost	Hedging derivatives	Non-financial assets / liabilities	Total
Assets				
Trade receivables	7,205,758	-	-	**7,205,758**
Other current and non-current assets	4,180,011	-	29,487,588	**33,667,599**
Cash and cash equivalents	289,044,460	-	-	**289,044,460**
Total assets	**300,430,229**	**-**	**29,487,588**	**329,917,817**
Liabilities				
Current and non-current borrowings	722,746,850	-	-	**722,746,850**
Trade payables	177,903,173	-	-	**177,903,173**
Deferred revenues from transport services	-	-	31,898,681	**31,898,681**
Other current and non-current liabilities	2,892,694	3,641,536	23,056,080	**29,590,310**
Total liabilities	**903,542,717**	**3,641,536**	**54,954,761**	**962,139,014**

As of December 31, 2017 (€)	Financial assets and liabilities at amortized cost	Hedging derivatives	Non-financial assets / liabilities	Total
Assets				
Trade receivables	4,905,161	-	-	**4,905,161**
Other current and non-current assets	5,421,321	-	39,413,566	**44,834,887**
Cash and cash equivalents	267,122,535	-	-	**267,122,535**
Total assets	**277,449,017**	**-**	**39,413,566**	**316,862,583**
Liabilities				
Current and non-current borrowings	710,093,050	-	-	**710,093,050**
Trade payables	172,288,347	-	-	**172,288,347**
Other current and non-current liabilities	3,796,200	214,044	44,952,006	**48,962,250**
Total liabilities	**886,177,597**	**214,044**	**44,952,006**	**931,343,647**

Moreover, the table below provides an overview of the financial assets and liabilities outstanding at December 31, 2018, indicating the accounting treatment applied pursuant to the previous IAS 39 and the new IFRS 9. The table shows that the introduction of IFRS 9 did not have in any significant impact in relation to the previous accounting treatment.

	IFRS 9		IAS 39	
Assets	**Portfolio**	**Accounting treatment**	**Portfolio**	**Accounting treatment**
Trade receivables	Held to Collect	Amortized cost	Loans &Receivables	Amortized cost
Other current and non-current assets	Held to Collect	Amortized cost	Loans &Receivables	Amortized cost
Cash and cash equivalents	Held to Collect	Amortized cost	Loans &Receivables	Amortized cost
Liabilities	**Portfolio**	**Accounting treatment**	**Portfolio**	**Accounting treatment**
Current and non-current borrowings	Held to Collect	Amortized cost	Loans &Receivables	Amortized cost
Trade payables	Held to Collect	Amortized cost	Loans &Receivables	Amortized cost
Deferred revenues from transport services	Held to Collect	Amortized cost	Loans &Receivables	Amortized cost
Other current and non-current liabilities	Held to Collect	Amortized cost	Loans &Receivables	Amortized cost

Fair value measurement

The following table summarizes the assets and liabilities that are measured at fair value as of December 31, 2018 and 2017, based on the level that reflects the inputs used to determine the fair value.

(€)	**As of December 31, 2018**	**As of December 31, 2017**
Derivative liabilities	3,641,536	214,044
Total	**3,641,536**	**214,044**

The fair value measurement of these instruments is made according to methods that are classified as level 2. For the purpose of measurement, the Company uses internal measurement models, generally used in financial practice, and external models (interest rate curves, volatility indexes provided by Bloomberg, credit spreads based on credit default swaps, etc.).

No transfers between different levels of the fair value hierarchy were made during the periods.

6. Segment reporting

IFRS 8 defines an operating segment as a component (i) that engages in business activities from which it may earn revenues and incur expenses, (ii) whose operating results are reviewed regularly by the entity's chief operating decision maker and (iii) for which separate financial information is available.
The Company's operating segments are identified based on the information provided to and analyzed by the Board of Directors, which represents the chief operating decision maker, making decisions regarding the allocation of resources and assessing performance. For the purposes of IFRS 8, the activities performed by the Company are identified as belonging to a single operating segment, given that the Company's business consists of the provision of rail transport services in Italy.

7. Revenue from transport services

The following table sets forth a breakdown of revenue from transport services:

(in Euro)	Year ended December 31 2018	2017
Transportation revenues	536,502,159	414,861,961
Total	**536,502,159**	**414,861,961**

This item refers to revenue originating from rail transport services, such as the sale of tickets for travel on the AGV/EVO fleet and the intermodal ItaloBus train-bus service, after commercial discounts, returns, rebates, adjustments for fraud and customer loyalty programs.

8. Other operating revenues

The following table sets forth a breakdown of other operating revenues:

(€)	Year ended December 31, 2018	2017
White certificates	30,366,708	32,833,751
Royalties and advertising space	1,525,529	1,458,285
Recharges for services to third parties	1,278,324	1,272,764
Other income	1,891,744	4,516,593
Total	**35,062,305**	**40,081,393**

"Other income" mainly consists of revenues for ancillary services to passenger transport, insurance payments for claims submitted and, to a lesser extent, capital and revenue grants.

9. Access and electricity costs

The following table sets forth a breakdown of access and electricity costs:

(€)	Year ended December 31, 2018	2017
Access costs	116,348,235	95,462,916
Electricity costs	17,956,355	21,195,182
Total	**134,304,590**	**116,658,098**

This item refers to fees paid to the railway infrastructure operator for access costs and electricity costs for the AGV/EVO fleet. The increase in access costs primarily reflects the increased commercial offering.

Regarding electricity, it id noted that in July the infrastructure operator notified a change in rates in relation to the energy grid component for the 2015-2017 period. This change was due to a revision of electricity rates for that period, entailing a refund, with a positive impact for €10,283,137. This is why "Electricity costs" declined even though the cost to use the infrastructure rose.

10. Train management costs

The following table sets forth a breakdown of train management costs:

(€)	Year ended December 31, 2018	2017
Rolling stock maintenance	60,121,400	44,109,798
Cleaning costs for trains	9,926,901	7,560,884
Other train costs	1,624,084	1,927,441
Total	**71,672,385**	**53,598,123**

This item primarily regards the costs incurred by the Company for maintenance and operation of the AGV and EVO fleets, carried out by Alstom under the existing thirty-year maintenance contract. The rise in "Rolling stock maintenance" was due to the increase of the EVO fleet.

11. Personnel costs

The following table sets forth a breakdown of personnel costs:

	Year ended December 31,	
(€)	**2018**	**2017**
Wages and salaries	46,160,101	37,827,849
Social security and insurance contributions	10,757,582	12,290,390
Post-employment benefits (TFR)	2,130,237	1,934,034
Other personnel costs	6,716,765	13,984,972
Total	**65,764,685**	**66,037,245**

"Personnel costs" primarily consist of remuneration, salaries, wages, social security and pension contributions. In addition, this item includes amounts paid into supplementary pension funds and flat taxes, totaling €476,680 for 2018 (€419,747 in 2017).

"Other personnel costs" decreased due to the conclusion of the Stock Grant Plan in 2017.

Not including the above effect, personnel costs for the period rose on 2017, reflecting the expansion of the workforce, in keeping with the growth plan adopted by the Company.

The following table shows figures for the Company's workforce:

	Average number of employees for the year ended December 31,		Number of employees as of December 31,	
(number)	**2018**	**2017**	**2018**	**2017**
Officers	18	17	17	19
Managers	58	56	64	55
Employees	856	815	889	831
Others	263	48	280	69
Total	**1,195**	**936**	**1,250**	**974**

12. Other operating costs

The following table sets forth a breakdown of other operating costs:

	Year ended December 31,	
(€)	**2018**	**2017**
Ticket sale commissions	21,690,176	15,547,991
Third party services	18,431,504	16,562,178
Other non-recurring operating costs	13,239,490	-
Consultants' fees	9,750,711	10,763,003
Rental and lease instalments	8,369,654	7,884,607
Credit card fees	5,532,479	4,092,127
Insurance services	5,006,964	3,493,121
Promotional expenses	4,781,038	4,279,052
Connectivity	3,539,722	2,912,812
Travel expenses	3,415,867	3,037,761

Other operating costs	3,184,257	5,432,389
Other maintenance	2,888,827	2,140,264
Net provisions for risks	1,178,996	483,280
Write-down of receivables	3,576	16,056
Total	**101,013,261**	**76,644,641**

The change for the period was due to the increase in the commercial offering and non-recurring operating costs.

"Third party services" mainly includes the costs for the on-board caring service, for the cash management service for the automatic vending machines, for third party transport and for cleaning in plants and railway stations, security and surveillance services.

"Other non-recurring operating costs" reflects the expenses incurred for the IPO on the Italian Stock Exchange, which started in 2017 but was not completed.

"Connectivity" includes the costs for on board connectivity services and those at operating units.

"Other operating costs" mainly includes costs for staff catering, indirect taxes and duties, utility costs, telephone expenses and other miscellaneous costs.

13. Depreciation, amortization and impairments

The following table sets forth a breakdown of depreciation, amortization and impairments:

	Year ended December 31,	
(€)	**2018**	**2017**
Depreciation of rolling stock	28,510,611	21,470,064
Depreciation of other property, plant and equipment	3,714,526	5,085,663
Amortization of intangible assets	3,553,831	2,431,535
Total	**35,778,968**	**28,987,262**

14. Gains (losses) on disposal of non-current assets

The following table shows a breakdown of this item:

	Year ended December 31,	
(€)	**2018**	**2017**
Losses on non-current assets	(303,059)	(499,078)
Gains on non-current assets	-	31,713
Total	**(303,059)**	**(467,365)**

This item primarily consists of the loss generated by the replacement of seat upholstery in Club Executive and Prima and the replacement of the food vending machines of the AGV fleet.

15. Net financial income (expenses)

The following table sets forth a breakdown of net financial income (expenses):

	Year ended December 31,	
(€)	2018	2017
Interest on bank deposits	89,540	854,138
Other interest income	275,820	58,350
Total financial income	**365,360**	**912,488**
Interest expense on borrowings	(24,447,143)	(4,156,224)
Commitment fees	(2,205,367)	(1,244,646)
Financial expenses on derivative instruments	(976,896)	(1,531,467)
Interest on post-employment benefits (TFR)	(157,684)	(143,351)
Net foreign exchange losses	(926)	(78)
Interest on finance leases	-	(674,896)
Interest expense on notes issued	-	(8,175,097)
Financial expenses on early repayment of borrowings	(2,301,182)	(42,298,009)
Other financial expenses	(493,488)	(833,870)
Changes to the fair value of derivative instruments	(1,427,466)	-
Total financial expenses	**(32,010,152)**	**(59,057,639)**
Total financial income (expenses), net	**(31,644,792)**	**(58,145,151)**

"Net financial expenses" for the year ended December 31, 2018 fell by €26,500,359, compared to the previous fiscal year.
The decrease in "Total financial expenses" is mainly due to the reduction of "Financial expenses on early repayment of borrowings" and "Interest expense on notes issued".

"Interest expense on borrowings" rose by €20,290,919 compared to the previous period. In particular, this item, amounting to €24,447,143 for 2018, reflects interest accrued on the previous loan in the amount of €18,152,964.
It is worthy of note that in August 2018, the company revised the existing financial structure. More details on the transactions are available in section 25, "Current and non-current borrowings".

Details on "Financial expenses on early repayment of borrowings", amounting to €2,301,182, are as follows:

	Year ended December 31,	
(€)	2018	2017
Financial expenses on early repayment of borrowings	(2,184,336)	(11,207,983)
Early redemption of notes issued	-	(26,819,509)
Cost of early termination of derivative instruments	(116,846)	(4,123,287)
Cost of early termination of leases	-	(147,230)
Total	**(2,301,182)**	**(42,298,009)**

Lastly, "Financial expenses on derivative instruments" and "Changes to the fair value of derivative instruments" refer to recognition of the derivative instruments entered into by the Company in order to hedge interest rate risk on existing borrowings, using hedge accounting. Specifically, these items include i) the cost of negative differentials on outstanding derivatives ii) charges and/or income recognized in profit or loss and representing the ineffective portion of hedges.

16. Income tax

The following table sets forth a breakdown of income tax:

(€)	Year ended December 31, 2018	2017
Current income taxes	11,235,596	5,673,028
Deferred income taxes	26,957,701	14,980,087
Total	**38,193,297**	**20,653,115**

The following table shows the reconciliation of the tax charge at the statutory rate and the effective charge for the years ended December 31, 2018 and 2017:

(€)	Year ended December 31, 2018	2017
Profit (loss) before tax	131,082,724	54,405,469
Theoretical tax charge[5]	31,459,854	13,057,313
Other differences	(1,527,726)	1,401,121
Effective charge for IRES	**29,932,128**	**14,458,434**
Effective charge for IRAP (Italian regional business tax)	**8,261,169**	**6,194,681**
Effective tax charge	**38,193,297**	**20,653,115**

Further details of movements in deferred taxes are provided below in note 19, "Deferred tax assets".

17. Intangible assets

The following table sets forth a breakdown of intangible assets and the related movements:

(€)	Licenses	Software	Intangible assets in progress	Total
As of January 1, 2017	**44,368**	**3,299,706**	**882,569**	**4,226,643**
of which:				-
- historical cost	153,814	31,138,808	882,569	**32,175,191**
- accumulated amortization	(109,446)	(27,839,102)	-	**(27,948,548)**
Reclassifications	-	719,879	(764,715)	**(44,836)**
Additions	-	3,365,364	1,589,860	**4,955,224**
Disposals	-	(287,500)	-	**(287,500)**
Amortization	(16,267)	(2,415,268)	-	**(2,431,535)**
As of December 31, 2017	**28,101**	**4,682,181**	**1,707,714**	**6,417,996**
of which:				
- historical cost	153,813	34,936,549	1,707,714	**36,798,076**
- accumulated amortization	(125,712)	(30,254,368)	-	**(30,380,080)**
Reclassifications	-	1,585,420	(1,658,832)	**(73,412)**
Additions	30,032	3,907,951	2,303,678	**6,241,661**
Disposals	-	-	-	**-**
Amortization	(22,273)	(3,531,558)	-	**(3,553,831)**
As of December 31, 2018	**35,860**	**6,643,995**	**2,352,560**	**9,032,414**
of which:				
- historical cost	183,845	40,429,920	2,352,560	**42,966,325**
- accumulated amortization	(147,985)	(33,785,925)	-	**(33,933,911)**

[5] To help the reader better understand the above reconciliation, the impact of IRAP is shown separately to avoid any distortive impact, given that the tax base for this tax is different from pre-tax profit.

As of December 31, 2018, intangible assets amount to €9,032,414, an increase of €2,614,418 compared with December 31, 2017.
Such increase reflects the combined effect of investments and reclassifications for €6,168,249 and amortization for €3,533,831.

The increase in "Licenses" refers to the costs incurred to renew the safety certificate for five years.

Increases in "Software" and "Intangible assets in progress" primarily regard investment in the upgrade of the Company's IT systems to expand the data management capabilities of the production systems necessary to ensure the Company's full operational efficiency as a result of the increased commercial offering and the growth of the business.

18. Property, plant and equipment

The following table sets forth a breakdown and the related movements:

(€)	AGV fleet	EVO fleet	Onboard telecomm-unications AGV fleet	Onboard telecomm-unications EVO fleet	Assets under construction	Investments at plants and railway stations	Land and buildings	Other PPE	Total
As of January 1, 2017	**542,142,083**	**-**	**2,827,539**	**-**	**92,567,360**	**2,288,083**	**78,296**	**5,167,531**	**645,070,892**
of which:									
- historical cost	635,896,539	-	11,370,078	-	92,567,360	7,587,246	132,465	14,126,558	**761,680,246**
- accumulated depreciation	(93,754,456)	-	(8,542,539)	-	-	(5,299,163)	(54,169)	(8,959,027)	**(116,609,354)**
Reclassifications	-	38,122,292	-	-	(38,949,558)	325,884	-	546,218	**44,836**
Additions	19,800	48,238,227	1,084,000	325,510	64,302,717	334,341	-	3,991,000	**118,295,595**
Disposals	-	-	(194,790)	-	-	(25,000)	-	(186,579)	**(406,369)**
Depreciation	(21,230,174)	(239,890)	(1,875,581)	(5,425)	-	(845,412)	(24,756)	(2,334,489)	**(26,555,727)**
As of December 31, 2017	**520,931,709**	**86,120,629**	**1,841,168**	**320,085**	**117,920,519**	**2,077,896**	**53,540**	**7,183,681**	**736,449,227**
of which:									
- historical cost	635,916,339	86,360,519	12,182,278	325,510	117,920,519	8,221,939	132,465	17,312,258	**878,371,827**
- accumulated depreciation	(114,984,630)	(239,890)	(10,341,110)	(5,425)	-	(6,144,043)	(78,925)	(10,128,577)	**(141,922,600)**
Reclassifications	460,600	111,781,063	85,785	606,241	(117,704,733)	3,203,809	-	1,640,648	**73,412**
Additions	1,496,880	61,113,234	129,878	107,551	73,964,721	1,195,780	-	2,713,700	**140,721,745**
Disposals	-	-	(87,674)	-	-	-	-	(303,060)	**(390,734)**
Depreciation	(21,269,945)	(7,240,665)	(665,021)	(174,941)	-	(504,909)	(8,314)	(2,361,340)	**(32,225,137)**
As of December 31, 2018	**501,619,244**	**251,774,260**	**1,304,135**	**858,935**	**74,180,507**	**5,972,577**	**45,227**	**8,873,629**	**844,628,512**
of which:									
- historical cost	637,873,819	259,254,816	12,310,267	1,039,301	74,180,507	12,621,528	132,465	19,814,517	**1,017,227,221**
- accumulated depreciation	(136,254,576)	(7,480,556)	(11,006,132)	(180,366)	-	(6,648,951)	(87,239)	(10,940,888)	**(172,598,708)**

As of December 31, 2018, property, plant and equipment amount to €844,628,512, an increase of €108,179,285 compared with December 31, 2017. The increase reflects the combined effect of investment and reclassifications of €140,795,157, after depreciation of €32,225,137 and disposals with a net carrying amount of €390,734.

As part of its business growth and market repositioning strategies, on October 28, 2015 the Company signed an agreement with the supplier Alstom for the purchase and maintenance of 22 EVO pendolino trains, of which 12 had already been delivered at the end of the reporting period and 10 are still under construction, with delivery expected in the period 2019-2020. As of December 31, 2018, the Company has invested a total of €326,299,820 in the EVO fleet, of which €130,103,092 in 2018.

The onboard telecommunications systems for the EVO fleet rose by €713,791 (of which €606,241 reflected in assets under construction), due to the purchase and commencement of operations in 2018 of 8 new Pendolino trains.

In 2018, further investment was made to upgrade the onboard telecommunications systems for the AGV fleet, totaling €705,600, and in new food vending machines, totaling €791,280.Improvements were made to onboard telecommunications systems for the AGV fleet, totaling €129,878, relating to further development of the technology installed.

Investment at the train stations of Venezia Santa Lucia and Mestre totaled €409,594, with the opening of the lounge for the Santa Lucia station and ticket offices in both cities, as well as further improvements at the maintenance plant in Nola, totaling €634,200.

The item “Assets under construction” reflects mainly the down-payments made in relation to 10 Pendolino EVO trains under construction.

The item “Other PPE” rose on the previous year due to new investments in seat upholstery for the AGV and EVO fleets (€1,470,066 and €846,102, respectively).

Lastly, disposals during 2018 primarily regarded:

- the replacement of seat upholstery in the Club Executive and Prima classes in the AGV fleet, resulting in a loss equal to the net carrying amount of €50,514;
- the replacement of the food vending machines on board the AGV trains, resulting in a loss equal to the net carrying amount of €252,546;
- the sale of repeater antennas installed on trains for use in onboard telecommunications, totaling €87,674, equal to the net carrying amount as of the date of sale.

19. Deferred tax assets

The following table sets forth a breakdown of movements in deferred tax assets:

	As of December 31,	
(€)	**2018**	**2017**
As of January 1	**72,477,168**	**87,907,345**
Of which:		
- deferred tax assets	72,477,168	91,558,652
- deferred tax liabilities	-	(3,651,307)
Differences from 2018 Income Tax Return	1,666,615	-
Recognized in the income statement	(28,624,316)	(14,980,087)
Recognized in the statement of comprehensive income	241,952	(450,090)
As of December 31	**45,761,418**	**72,477,168**
Of which:		
- deferred tax assets	45,761,418	72,477,168

As of December 31, 2018, “Deferred tax assets” amount to €45,761,418, compared with €72,477,168 as of December 31, 2017. These regard temporary differences primarily relating to (i) tax losses that may be carried forward over an unlimited period, (ii) non-deducted financial expenses, (iii) provisions not deducted during the period, (iv) mismatches between book and tax amortization and depreciation, and (v) impairments of receivables.

The following tables set forth a breakdown of movements in deferred tax assets and deferred tax liabilities.

(€)	Tax losses	Financial expenses	ACE tax relief	Derivatives	Other temporary differences	Total
As of December 31, 2016	**49,031,748**	**31,794,387**	**2,735,997**	**423,775**	**7,572,745**	**91,558,652**
Recognized in the income statement	(16,064,118)	4,252,866	(1,361,717)	-	(5,458,425)	(18,631,394)
Recognized in the statement of comprehensive income	-	-	-	(372,405)	(77,685)	(450,090)
As of December 31, 2017	**32,967,630**	**36,047,253**	**1,374,280**	**51,370**	**2,036,635**	**72,477,168**
Differences from 2018 Income Tax Return	-	-	29,984	-	1,636,808	1,666,792
Recognized in the income statement	(20,380,524)	(7,027,545)	(1,404,264)	-	187,841	(28,624,493)
Recognized in the statement of comprehensive income	-	-	-	467,386	(225,434)	241,952
As of December 31, 2018	**12,587,105**	**29,019,708**	**-**	**518,756**	**3,635,850**	**45,761,419**

20. Inventories

The following table sets forth a breakdown of inventories:

	As of December 31,	**As of December 31,**
(€)	**2018**	**2017**
White certificates (EEC)	7,432,824	5,577,119
Total	**7,432,824**	**5,577,119**

As of December 31, 2018, “Inventories” amount to €7,432,824 and include White Certificates (EECs) accrued in October, November and December and not yet sold. The EECs accrued in October are measured at their selling price, as collected following their sale in January, while the EECs accrued in November and December are measured at the weighted average price for the energy year (as defined by the Italian Energy Services Operator) at the end of the reporting period.

21. Trade receivables

The following table sets forth a breakdown of trade receivables:

	As of December 31,	**As of December 31,**
(€)	**2018**	**2017**
Receivables due from customers	7,423,372	8,270,339
Provisions for doubtful accounts	(217,614)	(3,365,178)
Total	**7,205,758**	**4,905,161**

As of December 31, 2018, trade receivables amount to €7,205,758, an increase of €2,300,597 compared with December 31, 2017.

Trade receivables primarily regard the indirect sales channel, consisting of travel agencies. Most ticket sales take place through direct channels without the involvement of an intermediary. As a result, the related receivables are collected almost immediately. Specifically:

- payment for the services offered to customers is usually made before the service is used, as tickets are generally purchased before journeys are made;
- the sales channels and related payment methods offered to customers (electronic money, bank transfer, cash) guarantee the certainty of collection at the time of sale, except in the event of credit and debit card fraud.

Given the type of business and the structure of sales operations, as well as the payment methods used, the Company’s overall exposure to credit risk is limited.

The following table shows changes in provisions for doubtful accounts:

(€)	Provisions for doubtful accounts
As of January 1, 2017	**3,356,083**
Provisions	16,056
Uses/Releases	(6,961)
As of December 31, 2017	**3,365,178**
Effects of application of IFRS 9	82,000
Provisions	64,496
Uses/Releases	(3,294,060)
As of December 31, 2018	**217,614**

22. Other current assets

The following table sets forth a breakdown of other current assets:

(€)	As of December 31, 2018	As of December 31, 2017
VAT tax receivables	10,948,332	17,229,715
Advances to vendors	11,859,219	12,451,605
Receivables resulting from credit cards	2,397,641	4,562,490
Deposits and guarantee deposits	1,782,370	858,831
Social security contribution receivables	589,231	249,115
Amounts due from employees	290,613	5,079,156
Other assets	5,800,193	4,403,975
Total	**33,667,599**	**44,834,887**

As of December 31, 2018, this item primarily refers to “VAT tax receivables” of €10,948,332, and “Advances to vendors” for €11,859,219.

The decrease in “VAT tax receivables” is due to collection, in 2018, of refundable VAT for 2017 and to the fact that sales volumes rose at a faster rate than operating costs, reducing the overall amount for refundable VAT.

The decrease in “Amounts due from employees” relates primarily to the repayment by employees that qualified for share-based payments of the withholding taxes paid in advance by the Company in 2017.

“Other assets” primarily consist of prepaid expenses related to commissions on sureties, insurance policies, payments to be recognized as cost in future fiscal years as well as transaction costs related to the Facility B. With reference to this last aspect, reference should be made to note 25, “Current and non-current borrowings” below.

23. Cash and cash equivalents

The following table sets forth a breakdown of cash and cash equivalents:

(€)	As of December 31, 2018	As of December 31, 2017
Bank and post office deposits	286,100,479	264,533,829
Cash at bank and in hand	2,943,981	2,588,706
Total	**289,044,460**	**267,122,535**

As of December 31, 2018, “Cash and cash equivalents” amounts to €289,044,460, up €21,921,925 compared with December 31, 2017, and consists of cash held in current accounts and investments readily convertible into cash. The increase primarily reflects the increase in cash generated by operating activities. More detailed information on movements in this item is provided in the statement of cash flows.

24. Equity

Share capital

As of December 31, 2018, the Company's share capital amounts to €60,017,725 and consists of 676,583,735 no par ordinary shares. The shares that make up the share capital do not entail any rights, constraints or obligations to distribute preference dividends or to make other preferential distributions. The shares have been pledged to lenders, pursuant to the loan agreement signed on August 3, 2018. For additional information reference should be made to note 25, "Current and non-current borrowings".

The share capital increase resolved in December 2017 showed its effects in January 2018. As such, share capital rose by €17,725.

Pursuant to the agreement signed on February 11, 2018, GIP (Global Infrastructure Partners) purchase of the majority holding in the Company was completed on April 26, 2018. The acquisition of control took place through a newly created special purpose vehicle incorporated under Italian law, GIP III Neptune SpA. As part of the transaction, a number of former shareholders reinvested in Italo, again through GIP III Neptune SpA, by subscribing to a share capital increase.

In September 2018, Italo's ownership structure underwent further change, as a number of new Italian and international institutional investors purchased shares in the Parent Company, Italo, from GIP.

For more details on activities during the year, reference should be made to the report on operations.

Share premium reserve

The share premium reserve reflects the share premium paid by Shareholders at the time of the share capital increases subscribed in 2015 and 2017.
The share premium reserve may be distributed as legal reserve has reached one-fifth of the share capital provided by civil code.

Other reserves and retained earnings

Movements in "Other reserves and retained earnings" are as follows. The General Meeting of shareholders held on January 19, 2018 voted to appropriate profit for the year ended December 31, 2017, totaling €33,752,354, as follows:

- €30,000,000 to pay a dividend to the holders of the Company's shares on March 27, 2018;
- €3,752,354 to retained earnings.

The same General Meeting also voted: i) to cover the "FTA reserve" of €18,055,796, the "Other reserves" of €829,690 (making a total amount of €18,885,486), "Accumulated losses" of €31,963,385, which have thus been reduced to zero, and ii) to cover these amounts from "Retailed earnings".

The breakdown of "Other reserves" is as follows:

(€)	As of December 31, 2018	As of December 31, 2017
Legal reserve	12,004,000	12,004,000
Cash flow hedge reserve	(1,642,728)	(162,673)
Reserve for capital contributions	-	17,725
Reserve for share-based payments	11,283,675	11,283,675
Other reserves	-	(18,885,486)
Total	**21,644,947**	**4,257,241**

Movements in the actuarial reserve for employee benefits and the cash flow hedge reserve are as follows:

(€)	Actuarial reserve	Cash flow hedge reserve
As of December 31, 2017	**(778,869)**	**(162,673)**
Gain/(Loss) on cash flow hedges	-	(1,947,441)
Gain/(Loss) on cash flow hedges - tax effect	-	467,386
Actuarial gains/(losses) on employee benefits	1,021,309	-
Actuarial gains/(losses) on employee benefits - tax effect	(245,113)	-
Other comprehensive income/(loss)	**776,196**	**(1,480,055)**
As of December 31, 2018	**(2,672)**	**(1,642,728)**

The item "Accumulated retained earnings” includes the reserve set up in 2017 to implement the NTV Stock Grant Plan. As of December 31, 2018, the obligation that determined its formation is fully fulfilled.

Lastly, the table below shows the equity components at December 31, 2018, with indications for each of origin, possible use and distributability.

(€)	As of December 31, 2018	Possible use	Amount available as of December 31, 2018
Share capital	60,017,725		-
Share premium reserve	49,615,855	A, B, C	49,615,855
Legal reserve[6]	12,004,000	A, B	455
Cash flow hedge reserve	(1,642,728)		-
Share-based payment reserve	11,283,675	A, B, C	11,283,675
Actuarial reserve[7]	(2,672)		-
Retained earnings	117,347,738	A, B, C	117,345,065
Total	**248,623,592**		**178,245,050**

Legend:

A: for share capital increase

B: to cover losses

C: for distribution to shareholders

25. Current and non-current borrowings

The following table provides a breakdown of current and non-current borrowings:

(€)	As of December 31, 2018	As of December 31, 2017
Non-current portion of bank borrowings	718,201,780	707,909,562
Current portion of bank borrowings	4,545,071	2,183,488
Total current and non-current borrowings	**722,746,851**	**710,093,050**

Movements in current and non-current borrowings in the year ended December 31, 2018 are shown below.

[6] The amount of the legal reserve that exceeds the limit set by article 2430 of the Italian civil code can be used for share capital increases.

[7] The actuarial reserve is covered by retained earnings and cannot be used for distributions to shareholders.

(€)	Non-current borrowings	Current borrowings	Total
As of January 1, 2018	**707,909,562**	**2,183,488**	**710,093,050**
New issues /increase in borrowings	718,201,780	2,709,171	720,910,951
Repayments/reductions	(720,000,000)	-	(720,000,000)
Non-monetary effects	12,090,438	751,565	12,842,003
Interest paid	-	(1,099,153)	(1,099,153)
As of December 31, 2018	**718,201,780**	**4,545,071**	**722,746,851**

The breakdown of the current and non-current portions of borrowings as of December 31, 2018 and 2017 is as follows:

As of December 31, 2018 (€)	**Within 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Bank borrowings	4,545,071	718,201,780	-	722,746,851
Total	**4,545,071**	**718,201,780**	**-**	**722,746,851**

As of December 31, 2017 (€)	**Within 12 months**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Bank borrowings	2,183,488	707,909,562	-	710,093,050
Total	**2,183,488**	**707,909,562**	**-**	**710,093,050**

The following table shows the breakdown of bank borrowings by bank as of December 31, 2018 and 2017:

(€)			**As of December 31,**		**As of December 31,**	
Bank	**Nominal value**	**Interest rate***	*of which current*	**2018**	*of which current*	**2017**
Banca IMI,Goldman Sachs Int., Credit Suisse AG, Unicredit, Barclays, BPM	720,000,000	2.5%+Euribor 3m	-	-	2,183,488	710,093,050
Banca IMI, Unicredit, Barclays, BPM, Mediobanca, Natixis, Santander, Caixa, NatWest, MUFG, ING, BNL; BPER, Société Générale	730,000,000	2.5%+Euribor 3m	4,545,071	722,746,851	-	-
Banca IMI, Unicredit, Barclays, BPM, Mediobanca, Natixis, Santander, Caixa, NatWest, MUFG, ING, BNL; B PER, Société Générale	150,000,000	2.5%+Euribor 3m[8]	-	-	-	-
Banca IMI, Unicredit, Barclays, BPM, Mediobanca, Natixis, Santander, Caixa, NatWest, MUFG, ING, BNL; B PER, Société Générale	20,000,000	2.5%+Euribor 3m[8]	-	-	-	-
Total			4,545,071	**722,746,851**	2,183,488	**710,093,050**
of which at a fixed interest rate				-		-
of which at a floating interest rate				722,746,851		710,093,050

On August 3, 2018, the Company entered into a loan agreement with the aim of improving on the previous financial terms and achieving greater flexibility in order to support future investment. The proceeds from this new borrowing was used to make early repayment of the previous loan agreed on December 6, 2017.

The new loan agreement consists of three facilities, in the form of cash disbursements, structured as follows:

- Facility A, amounting to €730,000,000, with a term to maturity of 5 years and drawn down on August 3, 2018 to repay existing borrowings and to pay the fees, costs and expenses related to the financing;
- Facility B, amounting to €150,000,000, which is to be used to fund the purchase of trains or other capital expenditures in relation to trains;
- a Revolving Facility of €20,000,000 to meet working capital requirements and for general cash requirements.

[8] The interest rate refers to the rate set out in the loan agreement. Unused facilities at the reporting date are subject to a commitment fee of 0.875%.

Facility A and Facility B are bullet loans for repayment at maturity (in August 2023), while the Revolving Facility will expire on the last day of the relevant interest period.

At December 31, 2018, both Facility B and the Revolving Facility are unused.

The interest rate applied is given by a spread plus Euribor, it being understood that the total of both can never be lower than zero. The spread applied to all facilities is 2.5%, rising periodically to up to a maximum of 3.5%. A commitment fee is due on unused amounts.

The loan agreement calls for several general obligations, as well as positive and negative covenants, in line with market practice for loans of a similar nature and amount.

Moreover, by way of example, the loan agreement calls for, among other things:

- early repayment of the loan upon occurrence of certain events, including among others: (i) change of control; (ii) acts of disposition of all or substantially all of the Company's assets; (iii) use of proceeds from any listing (within the limits indicated therein); (iv) use of proceeds from acts of disposition of company assets, the issue of financial instruments, listing and insurance proceeds, excess cash flow within the timing and the limits indicated in the agreement;
- a prohibition on the payment of management, consulting or other fees to a shareholder of the Company;
- specific limitations on dividend distributions.

The loan agreement also contains cross-default provisions in the event that:

- any borrowing, within the meaning of the loan agreement, is not repaid at maturity or by the end of the original grace period, if any;
- repayment of any borrowing is accelerated following a default;
- the total of the borrowings, as referred to above, should exceed €5,000,000.

In addition, there are other events of default, such as:

- missed or late payment of any sum due and payable pursuant to the loan agreement (except for cases where such missed or late payment is due to technical errors and/or to errors related to a failure of payment systems and the relevant payment is made within the following 5 business days;
- failure to comply with the additional obligations provided for in the loan agreement that is not remedied within 15 days from the time the Company is made aware of the issue;
- untrue and incorrect representations and warranties in relation to substantial aspects that are not remedied within 15 days from the time the Company is made aware of the issue;
- the start of pre-bankruptcy or bankruptcy proceedings and other insolvency events; and/or
- occurrence of a Material Adverse Effect that is not remedied within 15 days from the time the Company is made aware of it.

At the same time as the loan agreement was signed on August 3, 2018, the Company entered into a Deed of Pledge by which the shareholders have pledged 100% of the Company's shares.

The table below compares the thresholds for the financial covenants indicated in the loan agreement with the ratios applicable to the Company at December 31, 2018 and December 31, 2017.

	Covenants[9]	As of December 31, 2018		As of December 31, 2017	
		Contractual threshold	Ratio	Contractual threshold	Ratio
Senior Facilities Agreement (December 2017)					
1	Consolidated Net Leverage Ratio (Net Debt/EBITDA)	n/a	n/a	< 5,3x	3,1x
2	Fixed Charge Coverage Ratio (EBITDA/interest expense)	n/a	n/a	> 3,5x	8,7x
Senior Facilities Agreement (August 2018)					
3	Consolidated Net Leverage Ratio (Net Debt/Adjusted EBITDA)	< 5.5x	2.0x	n/a	n/a
4	Fixed Charge Coverage Ratio (Adjusted EBITDA/interest expense)	> 3.5x	11.4x	n/a	n/a

The table below shows details of the Company's net debt as of December 31, 2018 and 2017.

	As of December 31, 2018	As of December 31, 2017
A. Cash	2,943,981	2,588,706
B. Other cash equivalents	286,100,479	264,533,829
C. Securities held for trading	-	-
D. Liquidity (A)+(B)+(C)	**289,044,460**	**267,122,535**
E. Current financial receivables	**-**	**-**
F. Current bank borrowings	-	-
G. Current portion of non-current borrowings	4,545,071	2,183,488
H. Other current financial payables	-	-
I. Current debt (F)+(G)(+H)	**4,545,071**	**2,183,488**
J. Net current debt (I)+(E)+(D)	**(284,499,389)**	**(264,939,047)**
K. Non-current bank borrowings	718,201,780	707,909,562
L. Notes issued	-	-
M. Other non-current payables	-	-
N. Non-current debt (K)+(L)+(M)	**718,201,780**	**707,909,562**
O. Net debt (J)+(N)	**433,702,391**	**442,970,515**

26. Employee benefits

Employee benefits includes the provisions relating to post-employment benefits (TFR) for Company employees and the liabilities relating to medium/long-term incentive plans awarded to several of the Company's employees. The following table sets forth a breakdown of employee benefits:

(€)	As of December 31, 2018	As of December 31, 2017
Post-employment benefits (TFR)	11,584,054	11,167,553
Medium-long term incentive plan	6,743,009	4,235,032
Total	**18,327,063**	**15,402,585**

As of December 31, 2018, "Employee benefits" amount to €18,327,063 (€15,402,585 as of December 31, 2017) and include the liabilities relating to:

[9] The basis for determining the financial covenants is set out in the loan agreement.

- post-employment benefits (*TFR*) for Company employees, determined on the basis of actuarial techniques;
- the three-year incentive plan, launched in 2016, for a number of the Company's key management personnel and based on the achievement of certain targets relating to the future performance of the Company.

Post-employment benefits (*TFR*)

Movements in post-employment benefits (*TFR*) break down as follows:

(€)	**Post-employment benefits (*TFR*)**
As of December 31, 2017	**11,167,553**
Interest on the obligation	157,684
Service costs	2,130,239
Utilizations and prepayments	(850,113)
Actuarial loss/(gain)	(1,021,309)
As of December 31, 2018	**11,584,054**

The actuarial assumptions used to calculate the post-employment benefits (TFR) are shown in the following table:

	As of December 31,	
	2018	**2017**
Economic assumptions		
Annual discounting rate	1.57%	1.29%
Annual inflation rate	1.50%	1.50%
Annual increase in post-employment benefits	2.63%	2.63%
Annual salary increase	Managers 2.50%	Managers 2.50%
	Non-managers 1.00%	Non-managers 1.00%
Demographic assumptions		
Frequency of advance payments	1.20%	1.20%
Employee turnover rate	2.00%	2.00%

With regard to the discount rate, for all of the periods in question, the Iboxx Corporate AA with a duration of 10+ on the valuation date was used as the reference rate.
The table below provides a sensitivity analysis of the liability for post-employment benefits (*TFR*) in terms of changes in the main actuarial assumptions for the year ended December 31, 2018:

(€)	**As of December 31, 2018**
Employee turnover rate + 1%	11,368,206
Employee turnover rate - 1%	11,843,808
Inflation rate + 0.25%	12,019,813
Inflation rate – 0.25%	11,169,463
Discount rate + 0.25%	11,064,115
Discount rate – 0.25%	12,139,492

Medium-long term incentive plan

In 2016, the Company launched a three-year incentive plan, which involves several key management personnel whose positions are considered to contribute to the achievement of strategic results. The incentive is assigned when certain targets based on the future performance of the Company are achieved.

As of December 31, 2018, the liability has been calculated on the basis of the results of the Company for the three-year period 2016-2018, and the benefit linked to the incentive plan, to be paid at the end of the period (first quarter 2019), is determined on the basis of the expected cash flows, calculated at a discounting rate of 1.57%.

Movements in the provision relating to the medium/long-term incentive plan (also long-term incentive plan or "LTI") for the year ended December 31, 2018 break down as follows.

(€)	Medium/long-term incentive plan
As of December 31, 2017	**4.235.032**
Interest on the obligation	105.865
Provisions	2.402.112
As of December 31, 2018	**6.743.009**

27. Non-current provisions

The following table shows movements in non-current provisions:

(€)	Disputes with third parties	Disputes with personnel	Other provisions	Total
As of December 31, 2017	**1,794,086**	**191,936**	**353,066**	**2,339,088**
Additions	1,222,285	79,147	-	1,301,432
Releases	(96,037)	(15,372)	(11,026)	(122,435)
Utilizations	(68,412)	(167,833)	(537)	(236,782)
As of December 31, 2018	**2,851,922**	**87,877**	**341,503**	**3,281,302**

As of December 31, 2018, "Non-current provisions" amount to €3,281,302 (€2,339,088 as of December 31, 2017) and primarily include provisions for pending legal proceedings.
"Other provisions" primarily include provisions made in previous years for operating costs that the Company may be requested to pay.

The following paragraphs provide a brief description of the main pending legal proceedings that the Company is involved in, for which the Company has recognized allocations to non-current provisions as of December 31, 2018, for amounts that the Company believes to be reasonably certain, as shown in the above table.

Lawsuits brought before the Civil Court of Rome – On February 28, 2013, a supplier lodged a claim pursuant to art. 702-bis of the Code of Civil Procedure, requesting that the Company be ordered to pay the sum of €226,200 for failure to pay an invoice. In a ruling issued on May 14, 2014, this lawsuit was combined with a case brought by the same supplier (claim pursuant to art. 702-bis of the Code of Civil Procedure, lodged on October 17, 2014), requesting that the Company be ordered to pay the sum of €145,384 plus interest and legal costs for alleged modifications made to a contract awarded to the supplier and compensation for damages of €898,030. The Company appeared before the Court, disputing all the information submitted by the counterparty, as well as filing a counterclaim of €377,000. The judgment was postponed until February 28, 2019 for clarification of the pleadings.

Lawsuits brought before the Civil Court of Rome - On July 29, 2014, a supplier notified the Company of a court order to pay an amount of €166,104 plus interest and legal costs, which the Company has challenged before the court. At the first hearing, the court rejected the claimant's request for provisional enforcement of the above court order. The same supplier also notified the Company of the following: (i) another provisionally enforceable court order to pay an amount of €197,640 plus interest and legal costs and a corresponding writ of execution, which the Company has challenged; (ii) on January 28, 2016, a further court order for the amount of €244,000 plus interest and legal costs, which the Company has challenged.
All the above challenges of the court orders have been combined with a previous lawsuit brought by the Company against this supplier - regarding termination for breach of the procurement contract awarded to the latter and consequent compensation for damages. The judgment was postponed until March 6, 2019 for clarification of the pleadings.

Lawsuits brought before the Civil Court of Rome - On December 29, 2017, a supplier notified the Company of a court order to pay an amount of €12,519 plus interest, costs, VAT, legal fees and any other expenses. The Company has made provision for the amount claimed. The Company has appealed. The application for grant of provisional enforceability of the injunction was rejected and the judgment was postponed until February 19, 2019 for the admission of preliminary evidence.

Proceedings brought by the Prosecutor's Office for violation of Law 633/1941 - On April 18, 2018, the tax authority notified an employee of the Company and the Company itself of an assessment report and a finding, pursuant to Law 689/1981, that there had been a violation of Law 633/1941. The Company and the employee presented defense briefs contesting the finding.
On January 9, 2019, as a result of pre-trial investigations, in relation to the alleged violations, the Company and the employee were notified of a payment order regarding an administrative fine of €68,112, which the Company has already paid. In relation to the alleged violations, pre-trial investigations are also in progress against the Company and the employee, respectively regarding (i) the administrative offense referred to in articles 5 and 25 novies of Legislative Decree 231/2001 in relation to art. 171 ter, paragraph 2, letter b) of Law 633/1941 and (ii) to the offense referred to in articles 81 para. and 171 ter, paragraph 2, letter b) of Law 633/1941.

Lawsuits brought before the Civil Court of Rome - On December 14, 2018 a network of travel agencies notified the Company of an action requesting the court to rule on: i) the Company's non-fulfillment of the obligations referred to in the train ticket sale agreement; and ii) Italo's non-contractual liability. As a result, the plaintiff requested total damages of €721,689 plus legal expenses. The first hearing is scheduled for March 19, 2019.

Lawsuits brought before the Labor Court – The Company is the defendant in actions concerning the following matters: request for payment of fees alleged to be due and compensation for damages, appeal against dismissal and demotion. Where quantifiable and if the risk of losing the case is deemed to be likely, specific provisions have been allocated for risks and charges.

Lawsuits brought before Justices of the Peace - The Company is the defendant in lawsuits brought by certain passengers complaining about alleged damage, to property and otherwise, caused by delays to the train in which they were travelling or by accidents affecting them on board trains. Where quantifiable and if the risk of losing the case is deemed to be likely, specific provisions have been allocated for risks and charges.

28. Trade payables

The following table sets forth a breakdown of trade payables:

(€)	As of December 31, 2018	As of December 31, 2017
Trade payables	127,121,546	132,728,262
Invoices to be received	50,781,627	39,560,085
Total	**177,903,173**	**172,288,347**

As of December 31, 2018, "Trade payables" amount to €177,903,173, up €5,614,826 compared with December 31, 2017.

During the reporting period, the supplier of the AGV/EVO fleet sold trade receivables due from Italo and related to the purchase of Evo pendolinos to a factoring company. This transaction:

- does not involve any modification of payment terms for the Company, although it can allow the deferment of payments due to the use, by the factoring company, of more favorable interest rates than those specified in the original contract with Alstom;
- does not entail any additional commission expenses for the Company.

Since there have been no changes in the nature of the debt that has been factored (no significant amendments to payment terms or additional commission expenses), it continues to be classified as a trade payable and not as a financial liability. As of December 31, 2018, trade payables due to the factoring company amount to €56,741,622 and are not yet due.

29. Deferred revenues from transport services

The following table shows a breakdown of this item:

(€)	As of December 31, 2018	As of December 31, 2017
Deferred revenues from transport services	31,898,681	-
Total	**31,898,681**	**-**

This item primarily includes revenues collected for train tickets sold and reimbursements due to passengers as a result of delays or disruptions to services, but for which the trip has not yet taken place at the end of each period under review.

The comparable data have not been restated to take into account the reclassifications deriving from the application of IFRS 15. For more information, reference should be made to *New accounting standards, amendments and interpretations adopted by the Company*, in this report. Had comparables been restated, this item would have been equal to €22,854,289 as of December 31, 2017 and would have been €9,044,392 higher as of December 31, 2018. The positive change was due in essence to the increased commercial offering.

30. Other current and non-current liabilities

The following table sets forth a breakdown of other current and non-current liabilities:

(€)	As of December 31, 2018	As of December 31, 2017
Non-current liabilities for amounts settled	1,281,721	2,513,593
Other non-current liabilities	**1,281,721**	**2,513,593**
Deferred revenues from transport services	-	21,637,129
Payables to employees	14,169,095	10,680,574
Tax liabilities and social security payables	5,548,051	10,249,432

Current liabilities for amounts settled	1,282,269	1,258,522
Derivative liabilities	3,641,536	214,044
Payables for derivative financial expenses	328,704	24,085
Other liabilities	3,338,934	2,384,871
Other current liabilities	**28,308,589**	**46,448,657**

As of December 31, 2018, "Other non-current liabilities" amount to €1,281,721, down €1,231,872 compared with December 31, 2017. "Other current liabilities" amount to €28,308,589, down €18,140,068 compared with December 31, 2017.

The comparable data have not been restated to take into account the reclassifications deriving from the application of IFRS 15. For more information, reference should be made to *New accounting standards, amendments and interpretations adopted by the Company*, in this report. Had comparables been restated, "Other current liabilities" would have been equal to €24,811,528 as of December 31, 2017 and €3,497,061 higher as of December 31, 2018.

"Payables to employees" include accrued salaries that have not been paid at the end of the reporting period.

The decrease in "Tax liabilities and social security payables" is due to the payment of withholding taxes related to the 2017 Stock Grant Plan, related to the previous year and paid in 2018 by the Company as withholding agent.

The item "Derivative liabilities" indicates the fair value of derivative instruments held by the Company as of December 31, 2018. The fair value of the derivative financial instruments has been measured using valuation techniques widely used in the financial markets and market data at the date of preparation of the financial statements. The fair value measurement of these instruments is made according to methods that are classified in level 2, where level refers to the fair value hierarchy that reflects the significance of the inputs used to measure the fair value (IFRS 13 "Fair value measurements")

As of December 31, 2018, the Company has entered into derivative instruments with a notional value of €600,000,000. These instruments involve the recurring exchange of cash flows (outflows at a market fixed rate and inflows at a variable Euribor rate) with a notional value hedging a portion of the underlying debt. The above derivative instruments qualify for the application of hedge accounting and as cash flow hedges of existing debt.

Other liabilities primarily include guarantee deposits received from travel agencies related to ticket sales activity.

31. Other information

Remuneration of directors and statutory auditors

Pursuant to article 2427, paragraph one, no. 16 of the Italian civil code, the table below shows the annual compensation approved for Directors and members of the Board of Statutory Auditors is shown below.

	As of December 31,	
(€)	**2018**	**2017**
Directors	5,029,166	2,800,000
Board of Statutory Auditors	140,000	101,000
Total	**5,169,166**	**2,901,000**

Auditors' fees

Pursuant to article 37, paragraph 16, of Legislative Decree no. 39/2010 and sub-paragraph 16-bis of article 2427 of the Italian civil code, it is noted that fees payable to the audit firm for the year ended December 31, 2018 amount to €104,200 (net of VAT and expenses incurred) and include, among other things:

- the reviews audits of financial statements for the year ended December 31, 2018;
- the services performed in relation to completion of the quarterly and annual tax returns;
- specific agreed-upon procedures (e.g. agreed-upon procedures on financial covenants).

	As of December 31,
(€)	**2018**
Audits	74,700
Tax attestation services	9,500
Other audit services	20,000
Total	**104,200**

Guarantees

The guarantees issued by banks to third parties on the Company's behalf break down as follows:

	As of December 31,	
(€)	**2018**	**2017**
Sureties to guarantee performance of lease contracts	1,219,910	1,322,871
Sureties to guarantee repayment of surplus VAT	44,307,981	55,865,976
Sureties in favor of RFI SpA for use of infrastructure	14,197,923	23,033,182
Other	491,215	174,353
Total	**60,217,028**	**80,396,382**

During the periods in question, the Company did not directly grant any guarantees to third parties.

Commitments

The main commitments made by the Company relate to purchases of new EVO pendolino trains, maintenance contracts for the fleet of EVO/AGV trains and operating leases of maintenance plants.
Expected payments for non-cancellable contracts as of December 31, 2018 and 2017 are as follows.

	As of December 31, 2018			As of December 31, 2017		
(€)	Purchase of EVO pendolino trains	Train maintenance	Operating leases	Purchase of EVO pendolino trains	Train maintenance	Operating leases
Within 12 months	109,930,775	53,788,197	11,891,193	111,415,356	43,290,857	11,333,389
Between 1 and 5 years	39,575,079	315,625,926	63,070,866	58,263,311	227,776,482	46,675,671
Over 5 years	-	1,505,701,035	269,261,713	-	1,495,781,403	306,438,867
Total	**149,505,854**	**1,875,115,158**	**344,223,773**	**169,678,667**	**1,766,848,742**	**364,447,927**

Contingent liabilities

The Company is a party to civil, administrative, labor and social security proceedings relating to its ordinary course of business operations. Based on information currently available, and considering risk provisions in place, the Company believes that the outcomes of said proceedings can be reasonably expected not to have a significant negative impact on the financial statements. Therefore, contingent liabilities resulting from pending legal actions brought against the Company, where an adverse outcome is not deemed likely, have not been recognized in the financial statements for the periods under review. The following paragraphs provide a brief description of the pending legal proceedings.

Lawsuit brought before Lazio Regional Administrative Court – On February 11, 2014, a consumers' association notified the Company of an appeal requesting annulment of (i) measures to authorize the installation of “Train Repeater” systems and “Wi-Fi access points” on board Italo trains, and (ii) any other related, connected or consequential action. A date for the hearing to discuss the appeal has yet to be fixed.

Lawsuit brought before the Council of State by RFI SpA, appealing Piedmont Regional Administrative Court judgement 541/2017 – On July 26, 2017, Rete Ferroviaria Italiana SpA notified the Company of its intention to appeal judgement 541 of April 21, 2017, by which Piedmont Regional Administrative Court had partially rejected RFI’s request for annulment of the Transport Regulator’s determination 70/2014 of October 31, 2014 and any other related, connected or consequential action, and in part ruled RFI’s appeal to be inadmissible. Italo is to appear before the court. At the outcome of the hearing of February 7, 2019, the appeal was retained in decision.

Lawsuit brought before the Council of State by Grandi Stazioni Rail SpA, appealing Piedmont Regional Administrative Court judgement 1025/2017 - On November 30, 2017, Grandi Stazioni Rail SpA notified the Company of its intention to appeal judgement 1025 of August 24, 2017, by which Piedmont Regional Administrative Court rejected Grandi Stazioni SpA’s challenge to the Transport Regulator’s determination 70/2014 of October 31, 2014 and any other related, connected or consequential action, ruling it in part procedurally inadmissible due to a lack of interest and in part without grounds. At the outcome of the hearing of February 7, 2019, the appeal was retained in decision.

Lawsuit brought before the Council of State by Grandi Stazioni Retail SpA, appealing Piedmont Regional Administrative Court judgement 1025/2017 - On November 30, 2017, Grandi Stazioni Retail SpA notified the Company of its intention to appeal judgement 1025 of August 24, 2017, by which Piedmont Regional Administrative Court rejected Grandi Stazioni SpA’s challenge to the Transport Regulator’s determination 70/2014 of October 31, 2014 and any other related, connected or consequential action, ruling it in part procedurally inadmissible due to a lack of interest and in part without grounds. At the outcome of the hearing of February 7, 2019, the appeal was retained in decision.

Lawsuit brought before the Council of State by a consumers’ association against Piedmont Regional Administrative Court judgement 1181/2017- On February 9, 2018, a consumers’ association notified Italo SpA of an appeal against sentence no. 1181 of 9 November 2017, with which the Piemonte Regional Administrative Court rejected the appeal brought by the same association for the cancellation (i) of art. 3, paragraphs 1, 2, 4 and 5 of the Transport Regulator’s determination 54/2016 of May 11, 2016, regarding "*Measures concerning the minimum content of the specific rights of passengers in possession of season tickets in respect of the operators of high-speed rail services*" and (ii) of any other related, connected and/or consequential action. On March 16, 2018, Trenitalia SpA has notified a cross-appeal against the aforementioned Piedmont Regional Administrative Court sentence 1181 of November 9, 2017. A date for the appeal is awaited.

Lawsuit brought before the Council of State by Trenitalia SpA against Piedmont Regional Administrative Court judgement 1240/2017 - On February 20, 2018, Trenitalia SpA appealed against sentence 1240 of November 20, 2017 with which the Piemonte Regional Administrative Court rejected the appeal brought by Trenitalia SpA against the Transport Regulator’s determination 80/2016 and any other related, connected and/or consequential action. A date for the appeal is awaited.

Lawsuit brought before Lazio Regional Administrative Court by Trenitalia SpA against the Transport Regulator’s determination 152/2017, the Network Prospectus for 2019 and the Transport Regulator’s determination 33/2018 - On February 20,2018, Trenitalia SpA notified the Company of an appeal with which it has requested the annulment - subject to precautionary relief - of the Transport Regulator’s determination 152/2017 of December 22,2017, concerning "*Conclusion of the proceeding initiated with determination 77/2017. Additions to the principles and criteria applied in regulation of the national railway system ...* ", as well as of the January 2018 edition of the Network Prospectus for 2019, limited to

certain paragraphs, and of any other related, connected and/or consequential action. On March 22, 2018, Italo SpA declared that it would appear before the court, challenging the territorial jurisdiction of Lazio Regional Administrative Court. On June 22, 2018, in order 6977, Lazio Regional Administrative Court declared that it did not have jurisdiction, indicating Piedmont Regional Administrative Court as the competent court.
Following the appeal under article 16 of the code for administrative proceedings lodged by Trenitalia SpA against the above order 6977/2018, the Council of State upheld the jurisdiction of Piedmont Regional Administrative Court over the challenge to the measures adopted by the Transport Regulator. As notified on January 14, 2019, Trenitalia SpA thus resumed its action before Piedmont Regional Administrative Court, subsequently declaring that it was no longer interested in precautionary relief. A date for the hearing is awaited.

Lawsuit brought before the Council of State by Trenitalia SpA against Piedmont Regional Administrative Court judgement 57/2018 - On April 11, 2018, Trenitalia SpA appealed against sentence 57 of January 11, 2018, with which Piedmont Regional Administrative Court rejected the appeal brought by Trenitalia SpA against the Transport Regulator's determination 96/2015 and any other related, connected and/or consequential action. A date for the appeal is awaited.

Italian Antitrust Authority ("AGCM") Investigation PS/9894 – On October 5, 2018, the AGCM announced that it had opened an investigation in order to determine whether certain promotional campaigns by the Company between December 2014 and September 2018 were misleading. The Company provided the AGCM with all the documentation required and filed, by the assigned deadline, a defense brief. In addition, in a spirit of cooperation, whilst confirming the lawfulness of its conduct, the Company formally submitted certain commitments which, if accepted, might lead to closure of the investigation without any adverse finding. The investigation is under way.

Lawsuit brought before Piedmont Regional Administrative Court by RIFI SpA against the Transport Regulator's determination 78/18 – On October 30, 2018, Rete Ferroviaria Italiana SpA served notice to the Company of a legal action to request annulment of (i) determination 78/2018 of August 2, 2018, the Transport Regulator determined "*RFI's breach of articles 12, paragraphs 2 and 4, and 14, paragraph 2, of Legislative Decree 112 of July 15, 2015, with reference to improvements in the performance of railway infrastructure above 300 km/h*" and of any other related, connected and/or consequential action. The hearing is scheduled for February 13, 2019.

Legal action before the Civil Court of Rome - On 5 February 2019, Trenitalia S.p.A. has notified the Company of a precautionary appeal pursuant to art. 700 c.p.c. with which he asked to (i) order Italo-Nuovo Trasporto Viaggiatori S.p.A., to immediately cease the alleged activity of disturbing on Trenitalia clients placed within the main Italian railway stations; (ii) order the Company to pay Trenitalia a penalty pursuant to art. 614 bis c.p.c .. The discussion hearing is scheduled for 27 February 2019.

Transactions with related parties

The following paragraphs show the details of transactions performed by the Company with Related Parties, identified according to the criteria defined by IAS 24 "Related Party Disclosures", for the years ended December 31, 2018 and December 31, 2017.

In the following tables, related party transactions include transactions with the following in the years shown:

- Shareholders: Allianz SpA (related party at the reporting date), Generali Financial Holding Fcp-Fis Sub-Fund 2 and Intesa Sanpaolo SpA (a related party until April 26, 2018)

- Subsidiaries of shareholders: Essecieffe Investment Srl (a related party at the reporting date); Generali Italia SpA, Mediocredito Italiano SpA, Mercury Payment Services SpA (all related parties until April 26, 2018).
- Senior managers: members of the Board of Directors, the Chairman of the Board of Directors, the Chief Executive Officer and key management personnel.

The following tables summarize the impact of related party transactions on the income statement and on the statement of financial position as of December 31, 2018 and December 31, 2017 and for the years ended December 31, 2018 and 2017.

(€)	Shareholders	Subsidiaries of shareholders	Members of the Board of Directors	Key management personnel	Total related parties	Financial statement item	Impact on financial statement item
Impact of transactions on the income statement							
Other operating income							
Year ended December 31, 2018	-	-	-	-	-	**35,062,305**	**0.00%**
Year ended December 31, 2017	2,479,986	-	-	-	2,479,986	**40,081,393**	**6.19%**
Personnel costs							
Year ended December 31, 2018	-	-	(5,220,436)	(2,106,900)	(7,327,336)	**(65,764,685)**	**11.14%**
Year ended December 31, 2017	-	-	(11,821,606)	(3,312,051)	(15,133,657)	**(66,037,245)**	**22.92%**
Other operating costs							
Year ended December 31, 2018	(1,408,196)	(1,037,263)	(1,145)	(42,218)	(2,446,603)	**(101,013,261)**	**2.46%**
Year ended December 31, 2017	(2,782,963)	(2,976,315)	-	(39,209)	(5,759,278)	**(76,644,641)**	**7.57%**
Financial income (expenses), net							
Year ended December 31, 2018	(2,216,407)	(64,569)	-	-	(2,280,976)	**(31,644,792)**	**7.21%**
Year ended December 31, 2017	(12,797,517)	(104,903)	-	-	(12,902,420)	**(58,145,151)**	**22.19%**

(€)	Shareholders	Subsidiaries of shareholders	Members of the Board of Directors	Key management personnel	Total related parties	Financial statement item	Impact on financial statement item
Impact of transactions on the statement of financial position							
Non-current borrowings							
As of December 31, 2018	-	-	-	-	-	**718,201,779**	**0.00%**
As of December 31, 2017	138,777,081	-	-	-	138,777,081	**707,909,562**	**19.60%**
Employee benefits							
As of December 31, 2018	-	-	899,650	3,637,169	4,536,819	**18,327,064**	**24.75%**
As of December 31, 2017	-	-	-	2,571,027	2,571,027	**15,402,585**	**16.69%**
Current borrowings							
As of December 31, 2018	-	-	-	-	-	**4,545,071**	**0.00%**
As of December 31, 2017	418,516	-	-	-	418,516	**2,183,488**	**19.17%**
Trade payables							
As of December 31, 2018	-	100,826	-	-	100,826	**177,903,173**	**0.06%**

As of December 31, 2017	-	1,775,791	-	-	1,775,791	**172,288,347**	**1.03%**
Other current assets							
As of December 31, 2018	-	-	-	-	-	**33,667,599**	**0.00%**
As of December 31, 2017	2,479,986	-	4,524,906	-	7,004,892	**44,834,887**	**15.62%**
Other current liabilities							
As of December 31, 2018			2,723,733	154,083	2,877,816	**28,308,590**	**10.17%**
As of December 31, 2017	63,260	-		185,119	248,379	**46,448,657**	**0.53%**

Personnel costs refer to salaries, remuneration, bonuses and incentives (including share-based payments), inclusive of social security payables, paid to members of the board of directors and key management personnel.

Other operating costs mainly refer to:

- premiums payable on insurance policies stipulated by the Company with Generali Italia SpA and Allianz SpA;
- fees charged by Mercury Payment Services SpA relating to transactions made through credit cards.

Net financial income (expenses) mainly refers to:
- interest expense on bank borrowings, fees and spreads on derivative contracts charged by Intesa SanPaolo SpA;
- financial expenses on leases, represented by the amount payable through to the acquisition of ownership and fees payable to factoring companies following the non-recourse factoring of refundable VAT, charged by Mediocredito Italiano SpA.

Current and non-current borrowings mainly refer to the portion of the bank loans with Intesa Sanpaolo S.p.A, as well as the related accrued expenses for amounts accrued and not yet debited at the reporting date.

Employee benefits refer to post-employment benefits (*TFR*), amounts payable under medium/long-term incentive plans and other accrued and unpaid benefits due to members of the Board of Directors and key management personnel at the reporting date.

Trade payables refer to consulting services rendered but not billed at the reporting date by Essecieffe Investment Srl.

Other current assets refer to withholding tax paid by the Company on behalf of members of the board of directors and key management personnel who are beneficiaries of the share-based incentive plan. In addition, this item includes expenses relating to the Company's stock market listing which were supposed to be repaid by the selling shareholders.

Other current liabilities refer to accrued but unpaid compensation to members of the board of directors and key management personnel.

The following table shows sureties issued by related parties on the Company's behalf.

	As of December 31,	
(€)	**2018**	**2017**
Sureties issued by Intesa SanPaolo SpA in favor of RFI SpA	-	10,300,800
Other sureties issued by Intesa SanPaolo SpA to guarantee performance of lease contracts	-	1,205,059

Other sureties issued by Intesa SanPaolo SpA	-	92,753
Sureties issued by Generali Italia to guarantee repayment of excess VAT payments	-	55,865,976
Total	**-**	**89,284,969**

32. Events after December 31, 2018

There were no material events after the end of the year ended December 31, 2018.

* * * * *

These financial statements, consisting of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes provide a true and fair view of the Company's financial position, the profit (loss) for the period and cash flows, in compliance with the IFRS adopted by the European Union.

For the Board of Directors

The Chairman

Luca Cordero di Montezemolo