.italo
Nuovo Trasporto Viaggiatori

Annual Report 2017

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

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CORPORATE BODIES
ITALO – NUOVO TRASPORTO VIAGGIATORI SPA

BOARD OF DIRECTORS

Elected by the General Meeting of shareholders held on October 20, 2017. In office until approval of the financial statements for the year ended December 31, 2019.

Chairman	Luca Cordero di Montezemolo
Chief Executive Officer	Flavio Cattaneo
Directors	Nicola Colavito Fabio Corsico Diego Della Valle Francesco Di Giovanni Andrea Faragalli Zenobi Paolo Maria Vittorio Grandi Romina Guglielmetti* Maurizio Petta Lucio Punzo Luigi Piergiuseppe Ferdin Roth

BOARD OF STATUTORY AUDITORS

Elected by the General Meeting of shareholders held on April 14, 2017. In office until approval of the financial statements for the year ended December 31, 2019.

Chairwoman	Rosalba Casiraghi
Standing auditors	Stefano Ciccioriccio Vincenzo Miceli
Alternate auditors	Fabrizio Bonacci Franco Piero Pozzi

(*) In office until January 17, 2018

INDEPENDENT AUDITORS

Appointed by the General Meeting of shareholders held on April 14, 2017. In office until approval of the financial statements for the year ended December 31, 2019.

Independent auditors	Deloitte & Touche SpA

SUPERVISORY BOARD

Appointed by the Board of Directors' meeting of 12 July 2016. In office until approval of the financial statements for the year ended 31 December 2018.

Chairwoman	Filomena Passeggio
External member	Stefano Ciccioriccio
Internal member	Francesco Cagnetti

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: the fleet consisting of 17 pendolino EVO trains purchase by Italo (with 4 operational from December 7, 2017 and the remaining 13 already purchased and progressively entering service between 2018 and 2019).

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

Fast track: a service enabling customers to save time at control points by using a dedicated lane.

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 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.

MEF: Ministry of the Economy and Finance.

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 signaling, 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 kilometers**: an indicator used in rail transport, representing total kilometers travelled by the total number of passengers transported in a certain period of time.

RASK (Revenue per Available Seat Km): an indicator used in rail transport, representing the ratio of revenue from ticket sales to seat kilometres.

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 kilometers**: an indicator used in rail transport, representing total kilometers travelled 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 kilometers**: an indicator used in rail transport, representing total kilometers 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 by the Ministerial Decrees of July 21, 2007 and December 28, 2012, which determined target increases in energy efficiency in Italy for the four-year period 2013-2016.

Yield: an indicator representing the ratio of revenue from ticket sales to passenger kilometers.

Report on Operations

KEY FINANCIAL AND OPERATIONAL DATA

Key financial and operational data for 2017 and 2016 is shown below.

A number of figures shown in the table constitute Alternative Performance Indicators, as defined in the section, "Alternative Performance Indicators" below.

(€m, as ratios and in %)	2017	2016
Operating performance		
Total Operating Revenue	454.94	364.42
Revenues from Transport Services	414.86	346.14
Net Revenues from White Certificates	32.83	13.81
Other Revenues	7.25	4.47
EBITDA	142.01	94.96
EBITDA margin	31.2%	26.1%
EBIT	112.55	62.43
EBT	54.41	48.02
Profit for the year	33.75	32.71
Financial position		
Net Working Capital	(165.62)	(55.23)
Non-current Assets	815.34	737.20
Net Non-current Assets	795.09	718.91
Net Invested Capital	629.47	663.68
Available funds	267.12	127.43
Current and non-current borrowings	710.09	665.62
Net Debt	442.97	538.19
Total Assets	1.137.78	932.82
Equity	186.50	125.49
Financial ratios		
ROE	21.4%	29.4%
ROI	17.4%	9.7%
ROS	24.7%	17.1%
Net Debt / Equity	2.4x	4.3x
Net Debt / EBITDA	3.1x	5.7x
Operational indicators		
Passengers (in millions)	12.8	11.1
Load Factor (LF%) = pass-km/seat-km	77.4%	76.4%
Yield (€.km) = € / pass-km	0.078	0.073
RASK (€.km) = € / seat-km	0.06	0.056
Commercial offering (millions of train-km)	14.9	13.9

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, 2017, 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, 2017.

HIGHLIGHTS FOR 2017

The performance of Italo – Nuovo Trasporto Viaggiatori SpA (the "Company") in 2017 extended the positive trend seen in 2016, as shown by the significant improvement in the main financial ratios compared to the previous year.
As a result of these positive results, during the year it was decided to begin the process of listing the Company's shares on the screen-based trading system (*Mercato Telematico Azionario*) managed by Borsa Italiana SpA.

Operating revenue is up 24.8% (€90.5 million) on the previous year. The increase in turnover, driven by growth in demand for the services offered, is only partially reflected in the rise in operating costs, which are up 16.1% (€43.5 million), a proportionately lower increase than the improvement in operating revenue. This resulted in a significant improvement in EBITDA, which at €142.01 million is up 49.5% on the previous year, despite the presence of non-recurring costs incurred in relation to the initial public offering ("IPO").

EBIT is also up, rising 80.3% to €112.55 million, compared with the €62.43 million of 2016.

Net financial expenses are strongly linked to the financial expenses incurred in relation to the refinancing of the Company's capital structure, a move taken by the Company in preparation for the IPO, and specifically in order to remove the pledge on the Company's shares providing a guarantee for the Company's lenders.
These costs are reflected in profit for the year of €33.75 million, an increase of 3.2% compared with the €32.71 million of the previous year, and thus offsetting the considerable improvement in the EBITDA and EBIT margins recorded in 2017 compared with 2016.

In terms of cash flows, operating cash flow covered both cash flows for operating activities and cash flows for investing activities.
At the end 2017, the Company's available funds amount to €267.12 million, whilst net debt is €442.97 million. This reflects cash flow generated during the year of €189.69 million which, whilst supported by the capital increase of €15.00 million, is indicative of the Company's ability to create value and to generate cash to drive medium- and long-term growth. The increase in cash is also reflected in the Company's leverage, which is down from 5.7x in 2016 to 3.1x at the end of 2017.

In keeping with the previous year, operating activities continued with completion of all the initiatives intended to achieve the objectives set out in the business plan, which has been implemented across all the strategic growth areas.

Investment proceeded in line with the previous year and in keeping with the strategic objectives. During the year, the Company exercised the option on the purchase of a further 5 EVO pendolino trains, bringing the total number of trains in the EVO fleet to 17. In line with the delivery plan, the first 4 trains entered service on December 7, 2017.

2017 also witnessed a number of significant corporate actions, as described more extensively below. These included the refinancing of the capital structure, investment from a new shareholder and a capital increase of €15.00 million.

The following pages describe a summary of the results for 2017, a review of the Company's performance, the activities performed in the period and the outlook.

FINANCIAL REVIEW

Operating results

The table below shows the main operating results for 2017, compared with the previous year.

(€m)	2017	2016	Increase/ (decrease)
Operating revenue	454.94	364.42	90.52
Operating costs	(312.95)	(269.46)	(43.49)
EBITDA	**142.01**	**94.96**	**47.05**
Amortization, depreciation, impairments, gains and losses on disposal of non-current assets	(29.46)	(32.53)	3.07
EBIT	**112.55**	**62.43**	**50.12**
Net financial income (expenses)	(58.15)	(14.41)	(43.73)
EBT	**54.41**	**48.02**	**6.39**
Income tax	(20.65)	(15.31)	(5.34)
Profit (loss) for the year	**33.75**	**32.71**	**1.04**

Profit for 2017 amounts to €33.75 million.

Operating revenue of €454.94 million is up €90.52 million (24.8%) on 2016.
The increase was driven by revenues from transport services (up 19.9%), with both higher supply and demand playing a role.
There were also increases in revenues from White Certificates, up €19.03 million thanks to the combined effect of higher selling prices and an increase in the energy efficiency certificates obtained due to the improved load factor.

Operating costs of €312.95 million are up €43.49 million (16.1%).
The increases are primarily linked to the following factors:

- an increase in train-kilometres travelled, reflected mainly in the related access and electricity costs, which are up €8.9 million, and in ticket sale commissions, which are up €2.3 million.
- an increase of €20.2 million in personnel costs, reflecting growth in the workforce to keep pace with the expanded offering and larger fleet and an increase in the cost of incentives for employees, external consultants and/or directors, linked to the Company's IPO.

EBITDA is up 49.5% to €142.01 million, compared with €94.96 million for 2016. This reflects the fact that the rise in operating costs was proportionately lower than the increase in operating revenue.

EBIT is up €50.12 million, or 80.3%, compared with the previous year to €112.55 million, after amortization and depreciation of €28.99 million and losses on the disposal of current assets of €0.47 million. The increase in EBIT in 2017 is broadly linked to the improvement in EBITDA, which accounted for €47.05 million of the increase, and an overall reduction in "Amortization, depreciation, impairments, and gains and losses on disposal of non-current assets", accounting for €3.07 million.

EBT of €54.41 million is up €6.39 million on 2016, after the impact of the financial expenses linked to the two refinancing transactions that took place during 2017. In detail, net financial expenses of €58.15 million are up €43.73 million on the previous year. This is primarily due to the cost of early repayment of the liabilities extinguished as a result of the refinancing transactions concluded during the year, as described in greater detail below and in the notes to the financial statements.

Profit for the year amounts to €33.75 million, after income tax expense of €20.65 million.

Financial position

The table below shows key financial data for 2017, compared with data for the previous year.

	(€m)	2017	2016	Increase/ (decrease)
	Intangible assets	6.42	4.23	2.19
	Property, plant and equipment	736.45	645.07	91.38
	Deferred tax assets	72.48	87.91	(15.43)
(A)	**Non-current assets**	**815.34**	**737.20**	**78.14**
	Inventories	5.58	8.79	(3.21)
	Trade receivables	4.91	4.59	0.31
	Current tax assets	-	-	-
	Other current assets	44.83	54.74	(9.90)
	Trade payables	(172.29)	(84.81)	(87.48)
	Current tax payables	(2.20)	(1.35)	(0.85)
	Other current liabilities	(46.45)	(37.18)	(9.26)
(B)	**Net working capital**	**(165.62)**	**(55.23)**	**(110.39)**
	Other non-current assets	-	0.07	(0.07)
	Employee benefits	(15.40)	(12.01)	(3.39)
	Non-current provisions	(2.34)	(2.65)	0.31
	Other non-current liabilities	(2.51)	(3.70)	1.18
(C)	**Other assets (liabilities)**	**(20.26)**	**(18.30)**	**(1.96)**
(D)	**Net invested capital (A)+(B)+(C)**	**629.47**	**663.68**	**(34.21)**
(E)	**Net debt**	**442.97**	**538.19**	**(95.22)**
(F)	**Shareholders' equity**	**186.50**	**125.49**	**61.01**
(G)	**Total sources of financing (E)+(F)**	**629.47**	**663.68**	**(34.21)**

Non-current assets, amounting to €815.34 million, are up €78.14 million compared with December 2016, primarily due to investment in the new EVO fleet.
Deferred tax assets are down €15.43 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 €165.62 million, marking an increase of €110.39 million compared with the 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.
In particular, the change in 2017 is driven by an understandable increase in trade payables in keeping with the operating performance, primarily linked to amounts payable to the supplier, Alstom, in relation to investment in the EVO fleet.

Other assets and liabilities are up €1.96 million, due to normal movements of an immaterial nature.

Net invested capital of €629.47 million is covered by equity of €186.50 million and net debt of €442.97 million, having registered an reduction of €34.21 million compared with the end of the previous year.

Net debt

An analysis of net debt as of December 31, 2017, compared with amounts for the end of the previous year, is shown below.

(€m)	2017	2016	Increase/ (decrease)
A. Cash	(2.59)	(2.40)	(0.19)
B. Other cash equivalents	(264.53)	(75.03)	(189.50)
C. Securities held for trading	-	-	-
D. Liquidity (A)+(B)+(C)	**(267.12)**	**(77.43)**	**(189.69)**
E. Current financial receivables	**-**	**(50.00)**	**50.00**
F. Current bank borrowings	-	-	-
G. Current portion of non-current borrowings	2.18	0.01	2.17
H. Other current financial payables	-	10.06	(10.06)
I. Current debt (F)+(G)(+H)	**2.18**	**10.07**	**(7.89)**
J. Net current debt (I)+(E)+(D)	**(264.94)**	**(117.36)**	**(147.58)**
K. Non-current bank borrowings	707.91	241.60	466.31
L. Notes issued	-	-	-
M. Other non-current payables	-	413.96	(413.96)
N. Non-current debt (K)+(L)+(M)	**707.91**	**655.56**	**52.35**
O. Net non-current debt (J)+(N)	**442.97**	**538.19**	**(95.22)**

Net debt of €442.97 million is down €95.22 million compared with December 31, 2016, reflecting an increase in liquidity of €139.69 million, which has more than offset the increase in borrowings of €44.47 million, resulting from the refinancing of the capital structure in 2017.

The improvement in net debt, together with other factors, is reflected in the Company's financial ratios, continuing the positive trend of the previous year.
"Net Debt /Equity" has improved to 2.4x (4.3x in 2016), reflecting both the reduction in net debt and the positive operating performance during the period, which, together with the absence of dividend payments, have led to an increase in shareholders' equity.
"Net Debt/EBITDA" has also improved to 3.1x (5.7x in 2016) as a result of the significant increase in EBITDA and the accompanying reduction in net debt.

Cash flow

The table below shows a summary of the cash flow statement for the years ended December 31, 2017 and 2016.

(€m)	2017	2016	Increase/ (decrease)
Cash flow from/(for) operating activities	179.04	67.55	111.49
Cash flow from/(for) investing activities	(4.20)	(64.09)	59.89
Cash flow from/(for) financing activities	14.85	(11.64)	26.49
Net cash generated/(used) during the year	**189.69**	**(8.18)**	**197.87**

There was a significant improvement in cash flow generation in 2017 compared with the previous year. The increase 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 2017 primarily reflected an increase in cash flow from operating activities, driven by a significant improvement in EBITDA and the positive performance of net working capital. Together with the cash generated by the capital increase of €15.00 million, the resulting cash was significantly in excess of the cash used to pay for investment and financial expenses during the period.

INVESTMENT DURING THE YEAR

Investment amounted to €123.25 million in 2017, 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 2017 are provided below (for further details, reference should be made to the notes to the financial statements).

(€m)	2017
Property, plant and equipment	
AGV fleet	0.02
EVO fleet	48.24
Onboard telecommunications - AGV fleet	1.08
Onboard telecommunications - EVO fleet	0.33
Investment assets under construction	64.30
Investment in railway stations	0.33
Land and buildings	-
Other PPE	3.99
Total investment in property, plant and equipment	**118.30**
Intangible assets	
Software	3.37
Investment in intangible assets in progress	1.58
Total investment in intangible assets	**4.95**
Total investment	**123.25**

Investment in new trains represents the main component of the Company's investment, in line with 2015 and 2016.

Investment in the EVO fleet amounted to €106.56 million in 2017, including 4 trains that entered service on December 7 and payments on account for a further 8 trains under construction (recognized in assets under construction).

With regard to the planned expansion of Italo's fleet, the Company expects to pay the remaining amount due under the contract with Alstom, amounting to €238.23 million out of €365.87 million (including €68.50 million included in trade payables as of December 31, 2017 and regarding investment in assets under construction and €169.73 million relating to contractual commitments relating to future payments based on the percentage of completion of production), as follows: €130.4 million in 2018, €91.3 million in 2019 and €16.5 million in 2020. Of these amounts, the Company paid Alstom €25.3 million in January 2018, compared with €127.7 million paid as of December 31, 2017.

Further investment during the year regarded:
- other property, plant and equipment of €3.3 million, primarily relating to internal refurbishment of the trains in the AGV fleet, amounting to €2.3 million;
- investment in assets under construction in addition to the contract with Alstom, totaling €4.9 million, primarily regarding: (i) investment in the new Venice maintenance plant, totaling €1.3 million, (ii) the cost of installing new onboard telecommunications systems, totaling €0.8 million, (iii) the installation of Food & Beverage vending machines on trains, totaling €0.6 million;

- investment in software, totaling €3.4 million, primarily relating to the upgrade of technology infrastructure;
- investment in intangible assets, totaling €1.6 million, relating primarily to development of the Customer Relationship Management (CRM).

KEY EVENTS DURING THE YEAR

Operating activities

On January 17, 2017, the new Italobus connection was established with Val di Fassa. The service, which has been active since April 2, 2017, connected the rail station of Verona Porta Nuova with the Canazei ski resort, with stops in Rovereto, Trento, Cavalese, Predazzo, Moena, Vigo di Fassa and Pozzo di Fassa. The initiative was welcomed by customers.

Starting in January, thanks to the partnership signed with John Peer Sloan, the passengers of Italo trains can now take free English lessons ("Learning English While Having Fun"), through a new section of the onboard portal. In addition, on February 2, the new onboard magazine, called *Italo. I Sensi del Viaggio* was launched. It is available in paper format, on all Italo trains and in Italo Club lounges, and in digital form on the onboard Italolive portal, as well as on the Company's website.

On February 25 and March 4, 6 daily services to Parma Fiera began operating thanks to the integrated Italobus road and rail transport system. The same 6 daily services were made available between March 23-25, in connection with the MECSPE fair, a key event for manufacturing companies that are exploring the new frontiers of technology.

Between March 8-15, at the Lounges in Rome and Milan, Italo hosted ambassadors from Action Aid and two photo exhibitions devoted to the activities of the organization to combat violence against women and uphold their rights.

From March 23, thanks to an agreement with a major partner, the Company expanded the onboard service dedicated to Club Executive travelers departing from Turin, Milan Centrale, Venice Santa Lucia, Florence SMN, Rome Termini and Naples, offering them fresh gourmet food products: a selection of croissants and other pastries for breakfast, with gourmet sandwiches for lunch and dinner.
On April 3, the cities of Trento and Rovereto – already connected by the seasonal service that runs from January 27 to April 2 and connects the ski resorts of Trentino – finally joined the Italobus network with 4 daily connections.

On April 8, the Italobus service was started with the city of Cosenza, with two stops in Lauria and Sala Consilina.

On April 11, the Italo Go services began operating. These are ancillary transport services designed to help those who choose Italo to get the most out of their journeys and stays throughout Italy. Thanks to the new functions made available on Italo's website, customers can complete their journey by booking Italo Go's services, which are provided by the Company in collaboration with specialist partners.

On June 7, the Italo Club lounge at Rome Termini hosted an event to present the new uniform for onboard and station staff. The event was an opportunity to define "the Italo style" that should form the basis for managing daily relations with passengers. A style that aims to convey a classical, refined and clean-cut image in keeping with the Company's standards. The restyling of the uniforms is part of a broader plan on the part of the Company, which has always invested time and resources in the training of its operating personnel. The aim has been to instruct staff in how to achieve a growing degree of excellence in the way they deal with customers, supplying theoretical and practical advice on how to put their professional skills to best use by paying attention to the service they provide and the image they project.

From June 12, thanks to the agreement signed with the Railway Police (Polfer), uniformed Polfer officers travel on Italo trains and are at the service of anyone on board. The officers interface also with Italo's

crew, keeping constantly in contact by telephone to coordinate all types of activity. By protecting and ensuring maximum security for travelers, the Railway Police can prevent and combat different types of offense.

On June 14, the “Fast Track” service was launched at Rome Termini station, to allow priority access to Italo travelers who hold a Club or Prima ticket and to holders of Italo Più Black, Platinum, Privilege and Gold Corporate cards.

On June 15, the Cilento Blu project was started, for the second consecutive year. Three Italobus connections reserved for travelers from Turin-Milan-Reggio Emilia HS-Bologna-Florence-Rome-Naples to help them reach tourist destinations in the Cilento area.
Cilento Blu is an integrated tourism and mobility project promoted and funded by Campania Regional Authority, thanks to the Italobus service, in agreement with the Provincial Tourist Board in Salerno.

The second edition of DigithON took place between June 22-25. DigithON’s objective is to bring together the financial community and start-ups, which often have difficulties in raising capital to launch their services. The event, which is the brainchild of Francesco Boccia, Chairman of the DigithON Association and Domenico De Bartolomeo, Chairman of Confindustria Bari-BAT, attracts Italian and international companies, as well as major investors from all over the world.
Always mindful of the needs of young companies, Italo presented the award to the company that ranked third: Marshmallow Games, a Bari-based start-up that creates apps to encourage school learning by mixing educational and gaming content. This company will be able to use Italo trains free of charge for a year.

On June 27, the Alstom plant in Savigliano delivered the first EVO pendolino train to join Italo’s fleet. The train reached the Milan San Rocco facilities and then underwent testing between Milan-Turin, Milan-Bologna and then between Rome-Florence. The tests, which were successfully completed, were carried out in order to obtain the Authorization for Placing into Service (“APIS” or *Autorizzazione di Messa in Servizio*) from ANSF.

On October 3, 2017, Italo and Alstom presented the EVO pendolino. The train was unveiled on the tracks of Expo Ferroviaria 2017 and inaugurated in the presence of the Minister of Infrastructure and Transport, Graziano Delrio, Luca Cordero di Montezemolo, the Chairman of Italo, Flavio Cattaneo, Italo’s Chief Executive Officer, and Michele Viale, CEO of Alstom Italia.

On November 9, the Company’s Board of Directors exercised the option provided for in the related contract to buy 5 additional trains, thus expanding the EVO fleet to 17 and the total Italo’s fleet to 42 trains. On the next day, the Company notified the supplier of its acceptance of the offer to supply 5 EVO pendolino trains.

On November 14, the Italobus service started operating to the city of Cremona.

On December 7, the first 4 trains in the EVO fleet become operational, after the manufacturer delivered as scheduled.

In accordance with the construction plan, the first 4 trains in the new EVO fleet entered service on December 7, enabling the Company to begin operating new rail connections with Rovigo, a new station to join the Italo network, on December 10.

In light of the positive response the previous year, December 2017 saw the activation of seasonal connections with a number of ski resorts, operated through the Italobus intermodal road and rail service. In addition to last year’s connections with Canazei and Val di Fassa from the Verona Porta Nuova train

station, new lines were introduced to Courmayeur from Torino Porta Susa and to Cortina d'Ampezzo from the Venice Mestre railway station.

Financial topics

In the first half of 2017, the Company refinanced its capital structure in order to improve operational flexibility, to diversify funding sources and to obtain full ownership of its strategic assets (i.e. the AGV fleet).

The effectiveness of the repositioning completed in the two years from 2015 to 2016 and the soundness of the Business Plan made it possible to refinance existing debt through a combination of different instruments: a €550 million notes issue, a €140 million Term Loan and a €20 million revolving line of credit.

In relation to the activities necessary for the issue of notes, the Company requested the assignment of ratings from the three main credit rating agencies, obtaining the following corporate ratings:

Rating / Agenzy	Standards & Poor's	Moody's	Fitch
Rating	B+	B1	BB-
Outlook	Positive	Positive	Stable

On June 15, the Company set the price for its Senior Secured Floating Rate Notes maturing in 2023. This was Italo's first issue of notes and was successfully completed as the placement, which was four times oversubscribed, closed early. The large demand allowed the Company to increase the amount of the issue to €550 million, compared to the originally planned €500 million.
The Senior Notes, secured by a pledge on the Company's shares, were issued with an annual interest rate indexed to 3-month Euribor, with a 0% floor, plus a spread of 3.5%, and had an issue price equal to 100% of face value.
The offering was intended solely for qualified investors.
The notes were admitted to listing on the Luxembourg Stock Exchange and for trading on the Euro MTF market managed by the Luxembourg Stock Exchange.

On June 19, a new loan agreement was signed. The total amount of €160 million consists of a €140 million term loan and a €20 million revolving line of credit. The loan agreement ranks *pari passu* with the Notes and is secured by the same collateral (i.e. a pledge on the Company's shares).
The proceeds from the placement of the Notes and the loan agreement, together with part of the cash on hand, were used to fund early repayment of the loan and to terminate the lease agreement (with the ensuing purchase of the AGV fleet), and to pay the costs and charges related to the refinancing transaction.
In keeping with the new debt structure, adjustments were made to the interest rate hedging structure. The existing derivative contract was thus unwound and new derivative contracts of a total notional amount of €370 million were entered into.

In order to release the Company's shares from the pledge, prior to their listing on the screen-based trading system ("MTA") managed by Borsa Italiana SpA, on December 6, 2017 a new loan agreement was entered into with a pool of banks. Under the terms of the agreement, the Company received a €720 million term loan and a €20 million revolving line of credit, making a total of €740 million. The term loan was used on December 7 to pay off the existing debt (i.e. the Notes and the medium-term loan) and to pay the related fees, charges and expenses. Regarding the new loan agreement, a suitable hedging strategy was put in place to hedge the related interest rate risk, while the derivatives entered into to hedge the interest rate risk associated with the previous debt were unwound. The new hedges have a total notional value of €360 million. This refinancing enabled the Company to release its shares from the pledge.

Additional information is available in the section on financial risk and the notes, to which reference should be made for further details.

Corporate actions

At the meeting of March 7, the Company's Board of Directors approved the Financial Statements as of and for the year ended December 31, 2016.

At the General Meeting held on April 14, the shareholders approved the Financial Statements as of and for the year ended December 31, 2016. At the same meeting, the shareholders confirmed Fabio Corsico as Director, after he had been co-opted by the Board of Directors on October 27, 2016, and extended the terms of office of the members of the Board of Statutory Auditors and the engagement with the auditing firm.

On May 4, Raffaello Ruggieri resigned from the Board of Directors, with immediate effect.

At the meeting held on June 9, the Board of Directors co-opted Paolo Maria Vittorio Grandi, to replace Raffaello Ruggieri. At the same meeting, the Board approved the issue of notes.

On June 29, 2017, PII1 Sà rl, a Luxembourg company operated by the private equity house Peninsula Sà rl, purchased a 13.20% equity interest in Italo from other shareholders. More specifically, Intesa Sanpaolo SpA, MDP Holding Uno Srl, MDP Holding Quattro Srl, MDP Holding Due Srl, MAiS SpA and Partind Srl reduced their equity interests, while SNCF V.D. Sas and Reset 2000 Srl sold their holdings. The founding shareholders, however, are still important shareholders of the Company.

At the General Meeting of June 29, the shareholders confirmed Paolo Maria Vittorio Grandi as a Director, after he had been co-opted by the Board of Directors on June 9, and raised to 12 the members of the Board of Directors, with the appointment of Nicola Colavito as a Director.

On September 20, 2017, the Company's Board of Directors thanked the Chairman, Andrea Faragalli Zenobi, for his work as Executive Chairman and reluctantly accepted his resignation with effect from September 30, 2017. The Board then appointed Luca Cordero di Montezemolo as Chairman of the Company and Flavio Cattaneo as Chief Executive Officer, vesting them with all the powers to manage the Company.

On October 20, 2017, at an extraordinary session of the General Meeting, the shareholders approved an all-or-none private offering of newly-issued shares - to be completed in a single tranche and with the exclusion of pre-emption rights, pursuant to article 2441, paragraph 5 of the Italian Civil Code – to Partind Srl, an existing shareholder. The issue amounted to a total of €15,000,000, of which €2,972,116 was allocated to share capital and €12,207,884 to the share premium reserve. The share issue was fully subscribed and paid in.
On the same date, at the ordinary session of the General Meeting, the shareholders extended the term of office of the existing Board of Directors until the approval of the financial statements for 2019.

On 23 October, the newly-appointed Board of Directors ratified the resolutions adopted in the previous meeting of 20 September, confirming the powers vested in Luca Cordero di Montezemolo, in his capacity as Chairman, and in Flavio Cattaneo, in his role as Chief Executive Officer.

On November 9, the Company's Board of Directors exercised the option provided for in the related contract to buy 5 additional trains from the supplier, Alstom, in addition to the 12 already bought in 2016, thus expanding the EVO fleet to be purchased from Alstom to 17 and the total ITALO fleet to 42 trains. On November 10, the Company then formally accepted the supplier's offer to supply 5 EVO pendolinos for a

total price of €109.93 million (excluding VAT), in addition to €1.25 million necessary to enable the supplier to carry out the process of restarting production.
At the meeting of November 9, the Board of Directors also decided to initiate the procedure to launch an IPO, which is currently expected to take place in 2018.

On December 20, ordinary and extraordinary sessions of the General Meeting of Shareholders, among other things, approved the following: (i) the proposal to change the Company's name to Italo – Nuovo Trasporto Viaggiatori SpA (Italo SpA in abbreviated form); (ii) the transfer to the legal reserve of funds from the distributable reserves up to the limit set by art. 2430 of the Italian Civil Code, increasing the legal reserve to €12,004,000; (iii) the start of the process of obtaining admission of the Company's shares to listing on the screen-based trading system ("MTA") managed by Borsa Italiana SpA; (iv); the issue of up to 13,562,535 new shares to service, and in execution of, the "2017 ITALO Stock Grant Plan".

Other material events

On January 20, the Company signed an agreement with the national labor unions to determine the criteria for the award of performance bonuses for 2016 and 2017 and on the mechanisms for the distribution of performance bonuses for 2014.

On February 16, 2017, the Naples Regional Tax Tribunal filed the sentence regarding the appeal lodged by the tax authorities against the ruling of the Naples Provincial Tribunal relating to the notice of payment of stamp duty for 2012. With this sentence, the Naples Regional Tax Tribunal rejected the tax authorities' appeal and ordered it to pay costs.

On October 10, the Antitrust Authority resolved to close - without finding any violation, and with acceptance of Italo's commitments - the inquiry started in November to determine the possible application of the rules on unfair business practices and certain aspects of Italo's pre- and post-sale assistance services. The Authority thought that the measures proposed are no doubt beneficial for consumers and are indicative of a renewed effort to ensure information transparency, so as to allow consumers to make informed decisions on the basis of their freedom to choose among alternative sale and assistance channels.

On October 13, the first episode of Italo's new advertising campaign went live on Italo Treno's official Facebook page and on the Youtube channel, pending the launch on the main TV channels between October 15 and November 25.

On November 23, 2017, a contract was concluded for the sale of Energy Efficiency Certificates relating to the third quarter of 2017, October 2017, November 2017 and December 2017. At the end of the reporting period, the EECs relating to the third quarter of 2017 and the month of October have been transferred to the buyer, resulting in collection of the proceeds from the sale. The transfer of the EECs for November and December 2017, and collection of the related proceeds, will take place in 2018 following their award by the *Gestore dei Servizi Energetici* (Italian Energy Services Operator).

During 2017, the Company completed the transition to International Financial Reporting Standards (IFRS). To this end, January 1, 2014 was identified as the IFRS Transition Date. With effect from the year ended December 31, 2017, the Company thus prepares its financial statements in compliance with IFRS.

THE GENERAL CONTEXT

The macroeconomic context

According to forecasts released by ISTAT at the end of November, in 2017 Italian gross domestic product (GDP) was up 1.5% in real terms, with a rate of growth higher than in 2016 (0.9%). For 2018, GDP is expected to increase at a similar pace (1.4%).

Spending in real terms by households and private social institutions serving households (cultural associations, sports clubs, foundations, political parties, trades unions and religious bodies) has been estimated to be slightly down compared to previous years, with increases of 1.4% and 1.3% in 2017 and 2018, respectively. Higher consumer spending should continue to be driven by the improved labor market conditions and higher disposable income, and should be offset only in part by limited consumer price inflation.

Investment activity is expected to pick up, benefiting both from improved expectations regarding economic growth and the positive effects on the credit markets deriving from the European Central Bank's expansionary monetary policy. Gross fixed investment is expected to increase by 3.0% in 2017 and 3.3% in 2018.

The continuing positive developments in the labor market should boost employment both in 2017 (up 1.2% in terms of new jobs) and in 2018 (up 1.1%), contributing to a progressive decrease in the rate of unemployment (11.2% and 10.9% in the two years, respectively).

Growth prospects might even be more optimistic, if capital accumulation continues at a faster pace, thanks to a further and more widespread improvement in business confidence regarding production. Risks to the downside include a more moderate pace of growth for international trade and higher interest rates.

The high-speed train market in Italy

Commercial high-speed rail services were launched in Italy in December 2008, with the start of services between Milan and Bologna. This was followed, in December 2009, by the launch of services between Turin and Milan and Rome and Naples. Development of the network was accompanied by the construction of new railway stations: in November 2011, the new Rome Tiburtina HS station was opened; in June 2013, new HS stations were opened in Bologna and Reggio Emilia; and, in 2017, the new Naples Afragola HS station was opened.

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

Since the opening of the first HS routes in Italy (2009), there has been a progressive increase in the HS market. In 2016, this resulted in a volume, in terms of passenger kilometres, significantly greater than in 2009.

High-speed trains now connect the country's major cities, serving not only business travellers, who increasingly use the train compared with other forms of transport, but also Italian and overseas tourists moving between the main tourist destinations (Rome, Venice, Florence and Milan).

The introduction of high-speed services has led to a progressive reduction in journey times, cutting the

time it takes to travel from northern to central Italy by approximately 2 hours. The new high-speed journey times over long distances, at between around 3 and 5 hours, have thus been able to compete with flight times between the same destinations.

The reduction in journey times has also resulted in a significant increase in the rail market share, compared with other forms of transport. For example, following the launch of high-speed services between Milan and Rome, the rail market share has risen from 36% to 65%, significantly cutting the share held by air transport, which was the market leader in 2008.
It is reasonable to believe that high-speed rail has not significantly eaten into the market share held by road transport.

	2008	2012	2014
Air	50%	32%	24%
Train	36%	58%	65%
Road	14%	10%	11%

Source: Second annual report to Parliament - ART (2015)

Additional demand for high-speed rail services would appear not to be linked to overall growth in demand for mobility, but to be driven by new demand generated by completion of the HS network and the resulting cuts in journey times, the increased offering in terms of quality and frequencies and a reduction in fares.

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 November 21, 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), 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 fulfill certain requirements relating to integrity, financial strength, professional competence and cover for civil liability.
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.
Licenses are subject to: (i) a review, in case of extension or significant changes of the railway activity; (ii) confirmation, in case of changes in the legal form of the railway undertaking (merger, acquisition, change of control).
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 Company holds a Safety Certificate.

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 signaling, 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 of the fleet and of maintenance services, from which it initially purchased the AGV Fleet and later ordered the EVO Fleet.
In the event that the delivery of the EVO fleet is delayed or the EVO pendolino trains fail to meet the technical and qualitative levels required by contract for their proper functioning, or should it be necessary to make changes not provided for in the original plan, the start of the service and the resulting expected cash flows might be delayed.
For this reason, the supply contract for the EVO fleet includes a system of penalties for the late delivery of trains, enabling the Company to mitigate this risk.
The manufacturer performs also routine and non-routine maintenance services for the entire Italo's fleet. If the supplier is unable, or does not wish any longer, 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.
There have never been any instances in which Alstom has failed to carry out maintenance of the trains to the required standard, having a negative impact on the Company's operating performance, its financial position and/or cash flow. 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 centers, maintenance is carried out by Alstom, under agreements concluded when the manufacturer was commissioned to supply the trains for the AGV fleet and the trains for the EVO pendolino fleet.
The ability to ensure timely and regular maintenance of Italo's fleet is a crucial factor for the Company's business. Should, for whatever reason, it not be possible to access any one of the maintenance centers, the Company might not be able to adequately maintain its rolling stock or may have to incur costs that are higher than those provided for in its existing contracts. This would have a negative impact on its business and, as a result, on its future prospects and operating performance, financial position and/or cash flow.
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, having a negative impact on the Company's operating performance, its financial position and/or cash flow.

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 (e-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. Were such systems to be damaged due to human error, a natural disaster, a power outage or should they cease to work correctly, or should the Company not be able to upgrade or upgrade in a timely manner the systems to keep pace with the increased size and complexity of its operations, this could prejudice its ability to operate, with negative consequences for its operating performance, financial position and/or cash flow.
The Company makes use of leading external service providers to maintain and develop its hardware and software, its data center, telecommunications network, etc. The provision of these services could be subject to disruption due to events beyond the Company's control, such as natural events and disruption to the network, human error, safety violations. Should the Company, or one of its external suppliers, not take rapid action to effectively remedy any disruption, or its employees not be aware that such systems are unavailable or its suppliers cease to work for the Company, Italo's operations could be negatively impacted.
In order to safeguard the continuity of its essential processes and IT systems, and avoid serious malfunctions, the Company has adopted data center architecture providing a high degree of availability and backup procedures that provide a stable environment capable of ensuring that data is protected. Should these practices and IT procedures prove insufficient, the Company does not have a data loss recovery plan in place that would protect the availability of its IT systems from a catastrophic event.
To date, there have not been any cyber-attacks on the Company's IT systems such as to have a significant negative impact on the Company and its operating performance, financial position and/or cash flow.

Risks related to industrial relations

The Company may have to deal with labor 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. Approximately 50% of the Company's employees are members of a trade union. *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. An initial meeting was held on November 20, 2017, during which the Company and the unions discussed a range of issues. On November 24, 2017, the unions, which are in disagreement with the Company, decided to activate the cooling-off period provided for in the legislation. Following the negative outcome of the cooling-off period, the unions called an 8-hour strike for January 29, 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. In addition, should it be unable to negotiate the renewal of the collective agreement on a sustainable basis, it may be faced with excessive personnel costs or unsatisfactory working hours. This may result in reduced margins, less efficient services or a less appealing commercial offering, partly in

view of the potentially attractive terms and conditions provided by the collective agreements. Each of these events could have a negative impact on the Company's operating performance, its financial position and/or cash flow.
There is no certainty that there will be no labor disputes (including disputes due to workers contesting their transfer to another place of work) and/or negative relations in the future. Disruption to the Company's operations due to strikes or similar action taken by the Company's employees or the employees of any of its key suppliers could have a negative impact on its business and on its operating performance, financial position and/or cash flow.
In this regard, the Company was affected by industrial conflict in early 2015. Out of a total of 8 strikes called in 2015, 3 were organized at national level for the railway sector as a whole (amounting to a total of 56 hours) and 5 were at Company level (a total of 88 hours). The percentage of the Company's personnel participating in the strikes varied depending on the strike and reached 90% in just one case. In 2016, a total of 129 hours of strike action were called (6 strikes organized at national level, amounting to 125 hours, and a strike organized at Company level, amounting to 4 hours) and none of the Company's personnel took part. In 2017, 5 national strikes in the railway sector were called (totaling 81 hours) and there were no strikes at Company level. The Company's personnel only took part in the last strike in December 2017, with a participation level of 11%.
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 2017 and in previous years, there were no instances of key suppliers being unable to provide contracted services to the required standard, having a negative impact on the Company's operating performance, its financial position and/or cash flow.

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, as it may not be able to pass these costs on, in total or in part, and above all with any rapidity, to its customers.
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.
Traction energy costs are calculated on the basis of the number of kilometers traveled multiplied by a unit cost of energy contained in the Network Prospectus.
In particular, until 2014, all railway undertakings benefited from reduced electricity costs, with the cost of traction energy set at €0.357/train*km. This was the result of the subsidized energy prices granted to RFI as an energy-consuming entity and as the Infrastructure Manager.
The AEEGSI: (a) in resolution no. 641 of 2013 – adopted in application of article 39 of Law Decree no. 83 of June 22, 2012 – excluded RFI from the subsidy regime for energy-consuming entities; (b) in resolution no. 654 of 2015 – adopted in application of article of art. 29 of Law Decree no. 91 of June 24, 2014 – excluded the consumption of traction energy for rail services from the special regime for consumption granted to RFI as the Infrastructure Manager, with the exception of universal and freight services.

Consequently, the cost of traction energy for the market segment in which the Company operates has risen over time, reaching €1.07/train*km in 2017, as shown in the Network Prospectus.
Given that the AEEGSI has initiated a consultation process, since the resolutions have not set a unit cost for electricity, but have established a method of calculation and application of a different method of calculation could result in an increase in the cost of traction energy – as estimated by RFI in a memo dated July 7, 2016 up to €1.581/train*km – in the financial statements for the year ended December 31, 2017, the Company has recognized traction energy costs in the amount of €1.384/train*km, which is probably the most likely outcome of the AEEGSI consultation.
In January 2017, the AEEGSI announced a potential further increase – this time on a retroactive basis – in the cost of traction energy for 2016 and 2017, up to a maximum of €1.82/train*km.
It should be noted, however, that this amount has been calculated on the basis of a particular interpretation of AEEGSI resolution no. 654 of 2015 and that, in any event, this resolution has been challenged by the Company before Lombardy Regional Administrative Court (judgement is pending). Given that the criteria for determining electricity costs reflects the regulations governing the sector, since they are implemented by the AEEGSI, the Company is subject to the risk of potential rises in such costs, including increases applicable on a retroactive basis.
In addition, the current formula for calculating the cost of electricity procurement is largely based on the number of kilometres travelled, as opposed to the effective quantity of energy consumed. This penalizes operators who, like Italo, use highly energy-efficient trains that consume less energy per kilometre than those of other operators, whose trains are less efficient from an energy viewpoint.
Finally, art. 19 of Law no. 167 of November 20, 2017, published in the Official Gazette of November 27, 2017 ("*Legge Europea 2017*"), has handed the Ministry for Economic Development responsibility for drawing up decrees – yet to be issued – that will: (a) redefine entities that consume high quantities of electricity; (b) revisit the subsidies provided for in the previously mentioned art. 39 of Law Decree no. 83 of June 22, 2012. In application of the decrees, the AEEGSI will then once more review its definition of an energy-consuming entity and the applicable subsidies.
Art. 19 has also amended art. 29 of Law Decree no. 91 of June 24, 2014, applying the special tariff regime for electricity consumption granted to RFI to include all electricity consumed for railway use on RFI's network, with the exclusion of consumption relating to passenger transport services on specially built high-speed lines with 25-kV alternating current electrification. This differs from the previous version of the above art. 29, which excluded all electricity consumed for universal and freight services from application of the special tariff regime.
On the basis of this legislation, the AEEGSI should clarify the criteria and the method for calculating the cost of electricity for railway use, potentially modifying the above regime.
The provisions of the above *Legge Europea 2017* impact on the costs incurred by RFI for traction energy, reducing them with respect to the costs that would have been incurred under the original provisions contained in art. 29 of Law Decree no. 91 of June 24, 2014.
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 at worst prevent, the Company's activities, 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 the extent of its network 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 centers 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 that the Company considers to form part of its 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 complete and exhaustive 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 accurate assessment of the Company's exposure to financial risk is provided below.

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 change of control or following the sale of all the Company's assets or in the event of the issue and placement 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, 2017, the Company's available funds amount to €267.12 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 €360 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, based on the need to limit the concentration of exposures to single counterparties or groups, 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.

OUTLOOK

The three-year Business Plan for the period 2018-2020 sets out the Company's strategy for continued growth, following the entry into service of its entire fleet of 42 trains.
It is an integrated plan which combines the increase in revenues and EBITDA with financial discipline and efficiency, with a view to maximizing returns on investment. Italo's declared goal is to become the leading private railway operator in the provision of networked intermodal services in Italy, based on a dynamic and customer-oriented approach and the provision of quality and safety at competitive prices for passengers.

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.

The expansion of Italo's fleet will also make it possible to exploit traditional lines, connecting cities not located on the HS Line and providing the basis for further growth of the market.

Expansion of the fleet will also pave the way for further growth of the Italobus intermodal service by increasing or, as the case may be, creating seasonal services to winter and summer tourist destinations.

In more general terms, the Company remains committed 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.

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 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 that all workers undergo regular mandatory medical checkups;
- 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 execution of regular fire drills;
- 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 environmental protection as a mandatory objective, to be achieved and improved constantly, the Company is also committed to:

- monitoring the energy consumption of the AGV and EVO 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 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.

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).

In the course of 2017:

- there were no significant accidents in terms of railway safety and no changes were introduced which are considered significant under Regulation (EU) 402/2013;
- 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.

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 kilometers travelled and the load factor.
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. To date, the outcome of the application is not known.

Internal control

At its meeting of March 7, 2017, the Company's Board of Directors discussed the 2017 Audit Plan, which calls 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. The plan was submitted for prior review to the Audit Committee.
As of December 31, 2017, all the procedures envisaged in the 2017 Audit Plan have been completed and the process of preparing the way for drawing up the 2018 Audit Plan is in progress. The new Plan is due to the approved by the Board of Directors by the end of the first quarter of 2018.

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 July 19, 2017, 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 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 10, 2017, the Supervisory Board approved the Supervisory Plan for 2017 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 behavior 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 behavioral 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)	2017	2016
Profit for the year	**33.75**	**32.71**
Income tax	20.65	15.31
Net financial income (expenses)	58.15	14.41
(Losses) gains on disposal of non-current assets	0.47	2.06
Depreciation, amortization and impairments	28.99	30.47
EBITDA	**142.01**	**94.96**

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

EBIT, calculated as follows:

(€m)	2017	2016
Profit for the year	**33.75**	**32.71**
Income tax	20.65	15.31
Net financial income (expenses)	58.15	14.41
EBIT	**112.55**	**62.43**

EBT, calculated as follows:

(€m)	2017	2016
Profit for the year	**33.75**	**32.71**
Income tax	20.65	15.31
EBT	**54.41**	**48.02**

Net Working Capital, calculated as follows:

(€m)	2017	2016
Inventories	5.58	8.79
Trade receivables	4.91	4.59
Current tax assets	-	-
Other current assets	44.83	54.74
Trade payables	(172.29)	(84.81)
Current tax liabilities	(2.20)	(1.35)
Other current liabilities	(46.45)	(37.18)
Net Working Capital	**(165.62)**	**(55.23)**

Non-current assets, calculated as follows:

(€m)	2017	2016
Intangible assets	6.42	4.23
Property, plant and equipment	736.45	645.07
Deferred tax assets	72.48	87.91
Non-current Assets	**815.34**	**737.20**

Net Non-current Assets, calculated as follows:

(€m)	2017	2016
Intangible assets	6.42	4.23
Property, plant and equipment	736.45	645.07
Deferred tax assets	72.48	87.91
Other non-current assets	-	0.07
Employee benefits	(15.40)	(12.01)
Non-current provisions	(2.34)	(2.65)
Other non-current liabilities	(2.51)	(3.70)
Net Non-current Assets	**795.09**	**718.91**

Net Invested Capital, calculated as follows:

(€m)	2017	2016
Net Working Capital	(165.62)	(55.23)
Net Non-current Assets	795.09	718.91
Net Invested Capital	**629.47**	**663.68**

Available Funds, calculated as follows:

(€m)	2017	2016
Short-term bank deposits	-	50.00
Cash and cash equivalents	267.12	77.43
Total Available Funds	**267.12**	**127.43**

Current and Non-current Debt, calculated as follows:

(€m)	2017	2016
Current debt	2.18	10.07
Non-current debt	707.91	655.56
Current and Non-current Debt	**710.09**	**665.62**

ROE (Return on Equity), calculated as follows:

(€m)	2017	2016
Profit for the year (A)	33.75	32.71
Shareholders' equity at the beginning of the previous year, excluding the valuation reserves	127.55	94.84
Shareholders' equity at the end of the year	186.50	125.49
of which valuation reserves	*(0.94)*	*(2.06)*
Shareholders' equity at the end of the year, excluding the valuation reserves	187.44	127.55
Average shareholders' equity (B)	157.50	111.20
ROE (A)/(B)	**21.4%**	**29.4%**

ROI (Return on Investment), calculated as follows:

(€m)	2017	2016
Operating profit (A)	112.55	62.43
Net invested capital at the end of the previous year	663.68	619.97
Net invested capital at the end of the year	629.47	663.68
Average net invested capital (B)	646.58	641.82
ROI (A)/(B)	**17.4%**	**9.7%**

ROS (Return on Sales), calculated as follows:

(€m)	2017	2016
Operating profit (A)	112.55	62.43
Total operating revenue (B)	454.94	364.42
ROS (A)/(B)	**24.7%**	**17.1%**

Net Debt /Equity, calculated as the ratio of net debt to shareholders' equity.

(€m)	2017	2016
Net Debt	442.97	538.19
Equity	186.50	125.49
Net Debt / Equity	**2.4x**	**4.3x**

Net Debt /EBITDA, calculated as the ratio of net debt to EBITDA.

(€m)	2017	2016
Net Debt	442.97	538.19
EBITDA	142.01	94.96
Net Debt / EBITDA	**3.1x**	**5.7x**

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, 2017.

The financial statements as of and for the year ended December 31, 2017 report a **profit for the year of €33,752,354**, which we propose to appropriate as follows:

- €30,000,000 to be distributed to shareholders holding the Company's shares outstanding as of July 1, 2018, with an ex dividend date to be agreed with Borsa Italiana SpA, provided that, by this time, the shares have been admitted to trading on the screen-based trading system ("*Mercato Telematico e Azionario*") organized and managed by the above stock exchange;
- €3,752,354 to be taken to retained earnings.

In addition, we propose:

- to cover the entire amount of the "FTA reserve", totaling €18,055,796, which will thus amount to zero;
- to cover the entire amount of the "Other reserves", totaling €829,690, which will thus amount to zero;
- to cover the entire amount of the "Accumulated losses", totaling €31,963,385, which will thus amount to zero;
- to cover these negative balances by transferring a portion of "Retained earnings", which as a result will be reduced from €71,617,148 to €20,768,277.

Rome, Italy
January 18, 2018

For the Board of Directors

Chairman

Luca Cordero di Montezemolo

Financial statements 2017

INCOME STATEMENT

(€)	Note	Year ended December 31, 2017	Year ended December 31, 2016
Revenue from transport services	7	414,861,961	346,141,288
Other operating revenues	8	40,081,393	18,273,974
Total operating revenues		**454,943,354**	**364,415,262**
Access and electricity costs	9	(116,658,098)	(107,761,447)
Train management costs	10	(53,598,123)	(53,009,458)
Personnel costs	11	(66,037,245)	(45,836,085)
Other operating costs	12	(76,644,641)	(62,853,035)
Operating profit (loss) before depreciation, amortization, impairments and (losses) gains on disposal of non-current assets		142,005,247	94,955,237
Depreciation, amortization and impairments	13	(28,987,262)	(30,466,775)
(Losses) gains on disposal of non-current assets	14	(467,365)	(2,055,336)
Operating profit (loss)		**112,550,620**	**62,433,126**
Net financial income (expenses)	15	(58,145,151)	(14,413,865)
Profit (loss) before tax		**54,405,469**	**48,019,261**
Income tax	16	(20,653,115)	(15,310,547)
Profit (loss) for the year		**33,752,354**	**32,708,714**
Basic earnings per share (€)	*17*	*0.052*	*0.051*
Diluted earnings per share (€)	*17*	*0.052*	*0.051*

STATEMENT OF COMPREHENSIVE INCOME

(€)	Note	Year ended December 31, 2017	2016
Profit (loss) for the year		**33,752,354**	**32,708,714**
Profit on cash flow hedges	27	1,551,687	7,822,611
Profit on cash flow hedges - taxation	27	(372,405)	(2,213,019)
Other components of comprehensive income that will be reclassified to profit or loss in future years		**1,179,282**	**5,609,592**
Actuarial (loss) / profit for employee benefits	27, 29	19,187	(901,753)
Actuarial (loss) / profit for employee benefits - taxation	27	(77,685)	247,982
Other components of comprehensive income that will not be reclassified to profit or loss in future years		**(58,498)**	**(653,771)**
Total other components of comprehensive income		**1,120,784**	**4,955,821**
Comprehensive income (loss) for the year		**34,873,138**	**37,664,535**

STATEMENT OF FINANCIAL POSITION

(€)	Note	As of December 31, 2017	As of December 31, 2016
Intangible assets	18	6,417,996	4,226,643
Property, plant and equipment	19	736,449,227	645,070,892
Deferred tax assets	20	72,477,168	87,907,345
Other non-current assets	21	-	66,887
Total non-current assets		**815,344,391**	**737,271,767**
Inventories	22	5,577,119	8,789,456
Trade receivables	23	4,905,161	4,591,979
Other current assets	24	44,834,887	54,737,350
Short-term bank deposits	25	-	50,000,000
Cash and cash equivalents	26	267,122,535	77,430,642
Total current assets		**322,439,702**	**195,549,427**
Total assets		**1,137,784,093**	**932,821,194**
Share capital		60,000,000	57,207,884
Share premium reserve		49,615,855	48,000,000
Other reserves		4,257,241	(12,394,449)
Retained earnings		72,627,248	32,675,322
Total shareholders' equity	27	**186,500,344**	**125,488,757**
Non-current borrowings	28	707,909,562	655,555,584
Employee benefits	29	15,402,585	12,013,795
Non-current provisions	30	2,339,088	2,651,633
Other non-current liabilities	32	2,513,593	3,697,971
Total non-current liabilities		**728,164,828**	**673,918,983**
Current borrowings	28	2,183,488	10,067,930
Trade payables	31	172,288,347	84,811,666
Current tax payables		2,198,429	1,349,116
Other current liabilities	32	46,448,657	37,184,742
Total current liabilities		**223,118,921**	**133,413,454**
Total liabilities		**951,283,749**	**807,332,437**
Total shareholders' equity and liabilities		**1,137,784,093**	**932,821,194**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(€)	Share capital	Share premium reserve	Other reserves	Retained earnings	Total Shareholders' equity
As of January 1, 2016	**57,207,884**	**48,000,000**	**(18,004,041)**	**620,379**	**87,824,222**
Profit for the year	-	-	-	32,708,714	32,708,714
Profit on cash flow hedge reserve (net of tax)	-	-	5,609,592	-	5,609,592
Actuarial loss on employee benefits (net of tax)	-	-	-	(653,771)	(653,771)
Comprehensive income (loss) for the year	**-**	**-**	**5,609,592**	**32,054,943**	**37,664,535**
As of December 31, 2016	**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 (note 27)	-	-	(7,672,766)	7,672,766	-
Formation of legal reserve	-	(10,592,029)	12,004,000	(1,411,971)	-
Share-based payments (note 27)	-	-	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**

STATEMENT OF CASH FLOWS

(€)	Note	Year ended December 31, 2017	2016
Profit (loss) before tax		**54,405,469**	**48,019,261**
Adjustments for:			
Depreciation, amortization and impairments	13	28,987,262	30,466,775
(Releases from) / accruals for provisions for risks and charges	30	499,336	(291,889)
Net financial expenses/(income)	19	56,539,879	4,922,846
Other non-monetary items		15,458,525	6,362,842
Payment of employee benefits	29	(497,132)	(623,782)
Interest paid		(12,191,696)	(9,719,479)
Tax paid		(4,320,137)	(2,401,331)
Cash flow generated by/(used in) operating activities before changes in net working capital		**138,881,506**	**76,735,243**
Change in inventories	22	3,212,337	(8,789,456)
Change in trade receivables	23	(329,238)	(1,844,755)
Change in trade payables	31	18,977,824	(8,007,620)
Change in other assets/liabilities		18,301,171	9,456,413
Cash flow generated by/(used in) operating activities		**179,043,600**	**67,549,825**
Investment in property, plant and equipment	19	(49,841,573)	(71,698,525)
Investment in intangible assets	18	(4,910,388)	(3,764,813)
Disposals of property, plant and equipment and intangible assets	18,19	226,503	6,500
Change in short-term bank deposits	25	50,000,000	10,000,000
Interest collected		322,419	1,366,476
Cash flow generated by/(used in) investing activities		**(4,203,039)**	**(64,090,362)**
New issues of non-current borrowings	28	707,909,562	6,364,000
Repayments of current borrowings	28	(665,614,997)	(18,000,000)
Financial expenses attributable to early repayment of borrowings	28	(42,298,009)	-
Ancillary charges for share capital increase	27	(160,225)	-
Other reserves	27	15,000	-
Share capital increase	27	15,000,000	-
Cash flow generated by/(used in) financing activities		**14,851,332**	**(11,636,000)**
Total change in cash and cash equivalents		**189,691,893**	**(8,176,537)**
Cash and cash equivalents at beginning of year	26	77,430,642	85,607,179
Cash and cash equivalents at end of year	26	**267,122,535**	**77,430,642**

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

In the preparation of these financial statements, the Company has exercised the right provided for by Italian Legislative Decree no. 38 of February 28, 2005, as amended, to apply IFRS in the preparation of its financial statements. They have, therefore, 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, to the preparation of its financial statements. IFRS also covers all international accounting standards ("IAS") and all interpretations of the International Financial Reporting Standard Interpretations Committee, previously called the "Standard Interpretations Committee" (SIC). IFRS has been applied consistently and voluntarily to all of the periods included in this document, in addition to best legal theory 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 reference 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 shareholders' equity shows the comprehensive income (loss) for the year, transactions with shareholders and other changes in shareholders' 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 financial, operational or other nature of indicator 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".

Amounts in the financial statements and the related notes are expressed 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 the our primary intangible assets is as follows:

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

(ii) Property, plant and equipment

Property, plant and equipment are recognized according to the cost criterion 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.
Incremental costs for the improvement, modernization and transformation of third party assets are recognized under assets when it is likely that they will increase the future economic benefits expected from the use or sale of the asset. They are:

- reclassified within the item of the asset they relate to;
- depreciated for the lesser period between the useful life of the improvements made and the remaining term of the related lease contract.

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 systematically 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. Said 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 under finance leases, namely agreements by virtue of which all the risks and rewards incident to ownership are substantially transferred to the Company are initially recognized as assets at their fair value or, if less, 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 represented in the financial statements under current and non-current borrowings applying the amortized cost criterion.
After their initial recognition, assets held under finance leases are depreciated applying the criterion and 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 realisable 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.

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 (Tonnes 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) Government grants

Government 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 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 with a balancing entry in the income statement, are analyzed to assess whether there is objective evidence that they may be impaired. An impairment loss is recognized if and only if said evidence exists as a consequence of one or more events that occurred after its initial recognition, which have an impact on the expected future cash flows of the asset.

Objective evidence of an impairment loss includes observable indicators, such as:

- significant financial difficulty of the Company or of the borrower;
- a default on the contract, such as non-fulfilment or failure to pay interest or principal;
- evidence that the borrower may be subject to insolvency proceedings or any other form of financial reorganization;
- a significant fall in estimated future cash flows.

The losses that are considered to arise from future events are not recognized.

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.

If the amount of an impairment loss recognized in the past decreases and said decrease can be objectively linked to an event that occurred after the recognition of the impairment loss, the decrease is recorded in the income statement.

(x) Derecognition of financial assets and liabilities

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.

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.

(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.

Financial liabilities are derecognized when the contractual rights to the related cash flows lapse or when the financial liability is sold with the substantial transfer of all of the risks and rewards resulting from the ownership of the financial liability.

(xiv) 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 contingency date has not been established.

Allocations to these provisions are recognized when:

- the existence of a current, legal or implicit 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, realisation 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.

(xv) 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 payable over the twelve-month period from the end of the reporting period. 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.

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 recognised 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.
Disclosures regarding these plans is provided in note 27, "Shareholders' Equity", in this document.

(xvi) 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.

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.).

(xvii) Derivative financial instruments

Derivative instruments are considered as assets held for investment purposes and measured at fair value, with a balancing entry in the income statement, with the exception of cases in which they are structured as effective instruments to hedge 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 neutralizing 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 hedging transactions 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.

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 separate 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.

(xviii) 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 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 the risks and the rewards associated with the ownership of the goods sold are effectively transferred.
Costs are recognized on an accruals 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 instalments 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.

(xix) 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 disposal amount, the current exchange rate on the date the said value is determined is adopted.

(xx) 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 shareholders' equity in the year in which they are approved.

(xxi) Income tax

Current taxes on income for the year, recognized under "Current tax payables" net of any advances paid, or under "Current tax assets" when the net balance is in credit, 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 components that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. More specifically, said payables and receivables are determined by applying the tax rates that have been enacted or substantively enacted 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 shareholders' 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 using the balance sheet method, by applying the tax rate in force on the date on which the temporary difference will be paid, determined on the basis of the tax rates that have been enacted or substantively enacted on the reporting date.
Deferred tax assets for all unused deductible taxable temporary differences, tax losses or tax credit are recognized when their recovery is probable (defined as more likely than not), i.e. when it is expected that future taxable income will be sufficient to recover the tax assets. The recoverability of deferred tax assets is re-examined at the end of each period. 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 the deferred tax asset to be recovered.
Deferred taxes are booked to 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 shareholders' 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 payment.
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".

(xxii) Earnings per share

Basic earnings per share is computed by dividing profit for the period by the weighted average number of shares outstanding during the accounting period. Diluted earnings per share is computed by taking into account the effects deriving from the conversion of all potential shares that may be issued as a result of the exercise of any outstanding rights. The net result is also adjusted to take into account the after-tax impact of the conversion.

Any ordinary shares for which issuance is solely dependent on the passage of time, are included in the weighted average number of ordinary shares. Therefore, ordinary shares vested and exercised under the share-based plans and employee option plans approved in 2017 are included in the weighted average number of ordinary shares from the exercise date.

(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 not yet applicable insofar as not endorsed by the European Union

At the date of the 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:

Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	This amendment, published by the IASB on June 20, 2016, clarifies the measurement of cash-settled share-based payments and the accounting treatment for modifications to an incentive plan that changes from cash-settled to equity-settled. The document also introduces an exception to IFRS 2, which will entail that an incentive plan must be entirely accounted for as an equity-settled plan when the employer is bound to pay the tax authority a withholding tax resulting from said plan and charged to the related beneficiary employees. These changes are applicable to annual periods starting on or after January 1, 2018. Early adoption is permitted. The Company believes that the application of this standard will not have an impact on profit or loss or on the financial position.
Amendments to IAS 40 “Transfers of Investment Property”	These amendments, published by the IASB on December 8, 2016, clarify that transfers to or from investment property must be justified by a change in use of the property. To understand whether a change of use of the investment property has occurred, it must be verified whether the property meets, or ceases to meet, the definition of investment property. This change must be supported by evidence. These changes are applicable to annual periods starting on or after January 1, 2018. The Company believes that the application of this standard will not have an impact on profit or loss or on the financial position.
Annual improvements 2014-2016	The changes introduced by this document, published by the IASB on December 8, 2016, regard: • IFRS 1 “First-time Adoption of International Financial Reporting Standards”, effective for annual periods starting on or after January 1, 2018; • IFRS 28 “Investments in Associates and Joint Ventures”, effective for annual periods starting on or after January 1, 2018. The Company believes that the application of this standard will not have an impact on profit or loss or on the financial position.
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	This interpretation, published by the IASB on December 8, 2016, addresses the accounting treatment of transactions denominated in foreign currencies or parts of transactions whose payment is denominated in a foreign currency. The interpretation provides a guide for circumstances in which a single payment/collection is expected, as well as cases in which a number of payments/collections are made. The aim of the interpretation is to reduce non-compliant behaviour. The changes are applicable to annual periods starting on or after January 1, 2018. The Company believes that the application of this standard will not have an impact on profit or loss or on the financial position.
IFRIC 23 “Uncertainty	On June 7, 2017, the IASB issued IFRIC 23 “Uncertainty over Income Tax

over Income Tax Treatments"	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.
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.
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 are 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.

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

At the date of these Financial Statements, the competent bodies of the European Union had approved the adoption of the following accounting standards and amendments, not yet adopted by the Company:

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 contracts relating to work in progress. 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 integrates the financial statement disclosure to be made, regarding 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. Early adoption is permitted. 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 IFRS 15 requires the separate presentation of contract assets and liabilities in the statement of financial position, from January 1, 2018 the Company will reclassify a number of contract liabilities (deferred revenues from transport services) resulting from the sale of season tickets and customer loyalty programs, which are currently included in other liabilities. The Company intends to adopt the standard using the modified retrospective approach, which means that any cumulative impact of adoption will be recognized in retained earnings from January 1, 2018 and that comparatives will not be restated.
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" (hereinafter "IFRS 9"). 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 which start 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 amortised cost meet all the conditions for classification at amortised 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 in 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 expects to apply a not material adjustment to trade receivables. The new standard also introduces increased disclosure requirements and changes to presentation. The Company expects this to alter the nature and extent of the Company's disclosures regarding its financial instruments, above

	all in the year in which the new standard is adopted. The Company will apply IFRS 9 for annual periods starting on or after January 1, 2018, with the practical expedients permitted by the standard. Comparatives for 2017 will not be restated.
Clarifications to IFRS 15 “Revenue from Contracts with Customers”	This document, published by the IASB on April 12, 2016, contains clarifications regarding certain aspects relating to the implementation of IFRS 15 “Revenue from contracts with customers” (hereinafter “IFRS 15”). The changes to IFRS 15 are effective from years which start on or after January 1, 2018. The above changes were approved by the European Union on October 31, 2017. This new standard for revenue recognition is based on the principle that revenue is recognized when control of a good or service is transferred to the customer. The outcome of the Company’s assessment is described in the note on IFRS 15 “Revenue from Contracts with Customers”.
IFRS 16 “Leases”	On January 13, 2016, the IASB published IFRS 16 “Leases” (hereinafter “IFRS 16”), which replaces IAS 17 “Leasing” and the related interpretations. IFRS 16 eliminates the distinction between operating and finance leases for the purposes of the financial statements of the lessees; for all lease contracts with a term exceeding 12 months, the recognition of an asset, representative of the obligation to make the payments envisaged by the contract is required. For the purposes of the financial statements of the lessors, instead, the distinction between operating and finance leases is maintained. IFRS 16 has extended the financial statements disclosure for both lessees and lessors. The provisions of IFRS 16 are effective from January 1, 2019. Early adoption is permitted, subject to the early adoption of IFRS 15. The provisions of IFRS 16 were approved by the European Union on October 31, 2017. The standard will primarily influence the accounting treatment of the Company’s operating leases. At the end of the reporting period, the Company was a party to operating lease commitments primarily relating to train maintenance plants and spaces in railway stations. The Company is also assessing short-term, low-value lease arrangements, which will be recognized on a straight-line basis in the income statement. However, the Company has yet to assess what other adjustments, if any, are necessary to reflect, for example, the change in the definition of lease terms and the different treatment of variable lease payments and options to extend or break options. As a result, it is not yet possible to estimate the value of right-of-use assets and the related lease liabilities, which must be recognized on adoption of the new standard and, as such, may have an impact on the Company’s profit or loss and on the classification of future cash flows.
Amendment to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	On September 12, 2016, the IASB issued an amendment to IFRS 4 with the aim of addressing certain issues relating to the application of IFRS 9 “Financial Instruments” and regarding the issuers of insurance contracts. These changes are applicable from January 1, 2018. The changes were approved by the European Union on November 4, 2017. The Company believes that the application of this standard will not have an impact on profit or loss or on the financial position.

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. Deferred tax assets have been recognized on accumulated tax losses to the extent that it is deemed probable that future taxable profits will be available against which the asset can be utilized. This is based on the Company's updated strategic plans and the fact that its tax losses may be carried forward over an unlimited period.

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.

Share-based payments

The fair value of share-based payments is calculated on the basis of the fair value of the Company's shares, which are not quoted in an active market. As a result, the Company has used valuation techniques combined with assumptions of observable and unobservable market inputs, which take into account the Company's current business. The valuation carried out by the Company is backed up by a sworn appraisal provided by an independent expert. In view of the subjective nature of the valuation and the assumptions necessary, changes in the results and parameters used, and in the conditions in which the Company operates, could have a significant impact on the estimated fair value of the Company's shares.

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 in close collaboration with the Company. 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

The Company completed a reorganization of its capital structure, involving the early repayment of existing debt using the proceeds from new debt. Further details of the transactions are provided in note 28, "Current and non-current borrowings", in this document.
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, 2017, the total notional value of the derivative portfolio was €360,000,000 (€330,000,000 as of December 31, 2016) with a negative fair value of €214,044 (negative fair value of €1,765,731 as of December 31, 2016). 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, 2017, 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 €315 thousand (€323 thousand in 2016), and the profit/loss for the period after tax would have been lower/higher by €240 thousand (€236 thousand in 2016).

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 tickets 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 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, 2017 and 2016, grouped by due dates.

	As of December 31,	As of December 31,
(€)	**2017**	**2016**
Due	2,942,838	2,428,495
Past due for 0-30 days	910,239	1,159,487
Past due for 31-90 days	206,070	533,958
Past due for 91 to 180 days	224,509	722,613
Past due for over 181 days	3,986,683	3,103,509
Total gross trade receivables	**8,270,339**	**7,948,062**
Provisions for doubtful accounts	(3,365,178)	(3,356,083)
Total trade receivables	**4,905,161**	**4,591,979**

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. Past due trade receivables at the end of the reporting period, for which the Company has not recognized any impairment as they are considered fully recoverable, amount to €1,962,323.

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, 2017 and 2016:

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**	**-**

As of December 31, 2016 (€)	Carrying amount	Within 12 months	Between 1 and 5 years	Over 5 years
Current and non-current borrowings	665,623,514	13,559,078	91,113,425	611,618,540
Trade payables	84,811,666	84,811,666	-	-
Other current and non-current liabilities	4,934,459	1,430,438	3,997,998	-
Total financial liabilities excluding derivative financial instruments	**755,369,639**	**99,801,182**	**95,111,423**	**611,618,540**
Derivative financial instruments	1,765,731	1,765,731	-	-
Total	**757,135,370**	**101,566,913**	**95,111,423**	**611,618,540**

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, 2017 and 2016.

As of December 31, 2017 (€)	Financial assets and liabilities at amortized cost	Financial assets / liabilities with fair value through profit or loss	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	**10,326,482**	**267,122,535**	**-**	**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**

As of December 31, 2016 (€)	Financial assets and liabilities at amortized cost	Financial assets / liabilities with fair value through profit or loss	Hedging derivatives	Non-financial assets / liabilities	Total
Assets					
Trade receivables	4,591,979	-	-	-	**4,591,979**
Other current and non-current assets	2,826,770	-	-	51,977,467	**54,804,237**
Cash and cash equivalents	-	77,430,642	-	-	**77,430,642**
Total assets	**7,418,749**	**77,430,642**	**-**	**51,977,467**	**136,826,858**
Liabilities					
Current and non-current borrowings	665,623,514	-	-	-	**665,623,514**
Trade payables	84,811,666	-	-	-	**84,811,666**
Other current and non-current liabilities	4,934,459	-	1,765,731	34,182,523	**40,882,713**
Total liabilities	**755,369,639**	**-**	**1,765,731**	**34,182,523**	**791,317,893**

Fair value measurement

The following table summarizes the assets and liabilities that are measured at fair value as of December 31, 2017 and 2016, based on the level that reflects the inputs used to determine the fair value.

(€)	As of December 31, 2017	As of December 31, 2016
Derivative assets	-	-
Derivative liabilities	(214,044)	(1,765,731)
Total	**(214,044)**	**(1,765,731)**

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 considered.

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:

(€)	Year ended December 31, 2017	Year ended December 31, 2016

Transportation revenues	414,861,961	346,141,288
Total	**414,861,961**	**346,141,288**

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,	
(€)	**2017**	**2016**
White certificates	32,833,751	13,805,687
Royalties and advertising space	1,458,285	1,008,625
Recharges for services to third parties	1,272,764	1,266,000
Other income	4,516,593	2,193,662
Total	**40,081,393**	**18,273,974**

"Other income" mainly consists of revenues for ancillary services to passenger transport, refunds expected by selling shareholders of non-recurring expenses incurred by the Company for certain activities relating to its stock market listing and, to a lesser extent, by capital and revenue grants from public entities.

9 Access and electricity costs

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

	Year ended December 31,	
(€)	**2017**	**2016**
Access costs	95,462,916	88,027,871
Electricity costs	21,195,182	19,733,576
Total	**116,658,098**	**107,761,447**

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. Further information on electricity costs is provided in the section of the Report on Operations dealing with "Risks related to changes in the fees for infrastructure access and in the cost of electricity".

10 Train management costs

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

	Year ended December 31,	
(€)	**2017**	**2016**
Rolling stock maintenance	33,488,947	32,772,125
Nola plant operating costs	10,620,851	10,608,166
Cleaning costs for trains	7,560,884	7,697,255
Other train costs	1,927,441	1,931,912
Total	**53,598,123**	**53,009,458**

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 thirty-year maintenance contract agreed with this supplier.

11 Personnel costs

The following table sets forth a breakdown of personnel costs:

	Year ended December 31,	
(€)	**2017**	**2016**
Wages and salaries	37,827,849	32,178,413
Social security and insurance contributions	12,290,390	10,472,950
Post-employment benefits (TFR)	1,934,034	2,253,290
Leaving incentives	75,950	525,000
Other personnel costs	13,909,022	406,432
Total	**66,037,245**	**45,836,085**

"Personnel costs" primarily consist of remuneration, salaries, wages, social security and pension contributions and non-recurring expenses for bonuses paid to employees and linked to the Company's stock market listing. In addition, this item includes amounts paid into supplementary pension funds and withholding taxes, amounting to €419,747 for the year ended December 31, 2017 (€329,456 for the year ended December 31, 2016).

"Other personnel costs" include non-recurring costs incurred as a result of share-based incentive plans for certain management personnel deemed key to the success of the stock market listing, amounting to €11,283,675 in 2017, as shown below. Details of the plan are provided in note 27, "Shareholders' Equity", in this document.

	Year Ended December 31,	
(€)	**2017**	**2016**
Shares issued under share-based plan	1,736,881	-
Options issued under share-based plan	9,546,794	-
Total	11,283,675	-

The following table shows the average number of Company employees in the years in question and the number of employees on the closing date of each year:

	Average number of employees for the year ended December 31,		Number of employees as of	
(in units)	**2017**	**2016**	**December 31, 2017**	**December 31, 2016**
Officers	17	15	19	16
Managers	56	58	55	55
Employees	815	775	831	770
Others	48	25	69	52
Total	**936**	**873**	**974**	**893**

12 Other operating costs

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

	Year ended December 31,	
(€)	2017	2016
Ticket sale commissions	15,547,991	13,302,685
Third party services	16,562,178	10,534,384
Consultants' fees	10,763,003	7,787,219
Rental and lease instalments	7,884,607	7,050,415
Other maintenance	2,140,264	2,598,159
Credit card fees	4,092,127	3,850,761
Travel expenses	3,037,761	1,992,033
Insurance services	3,493,121	3,606,159
Promotional expenses	4,279,052	6,655,752
Connectivity	2,912,812	2,732,933
Net accruals for provisions	483,280	(2,582,921)
Write-down of receivables	16,056	2,291,032
Other operating costs	5,432,389	3,034,424
Total	**76,644,641**	**62,853,035**

"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, security and surveillance services.

"Consultants' fees" include the cost of certain activities linked to the Company's listing process, which are to be refunded to the selling shareholders.

"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,	
(€)	2017	2016
Depreciation of rolling stock	21,470,064	21,253,973
Depreciation of other property, plant and equipment	5,085,663	6,428,182
Amortization of intangible assets	2,431,535	2,784,620
Total	**28,987,262**	**30,466,775**

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

The following table shows a breakdown of this:

(€)	Year ended December 31, 2017	2016
Gains on non-current assets	31,713	-
Losses on non-current assets	(499,078)	(2,055,336)
Total	**(467,365)**	**(2,055,336)**

This item primarily consists of the loss generated by the replacement of seat upholstery in Club and Smart class in the AGV fleet.

15 Net financial income (expenses)

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

(€)	Year ended December 31, 2017	2016
Other interest income	58,350	1,445,730
Interest on bank deposits	854,138	927,022
Total financial income	**912,488**	**2,372,752**
Financial expenses on derivative instruments	1,531,467	13,066,564
Interest expense on borrowings	4,156,224	1,628,782
Interest on finance leases	674,896	3,635,348
Interest expense on notes issued	8,175,097	-
Financial expenses on early repayment of borrowings	42,298,009	-
Bank commissions	1,244,646	847,282
Interest on post-employment benefits (TFR)	143,351	123,989
Net foreign exchange losses	78	-
Other financial expenses	833,870	572,554
Changes to the fair value of derivative instruments	-	(9,004,498)
Recycling from equity	-	5,916,596
Total financial expenses	**59,057,639**	**16,786,617**
Total net financial income (expenses)	**(58,145,151)**	**(14,413,865)**

"Net financial expenses" for the year ended December 31, 2017 increased €43,731,286 compared with the year ended December 31, 2016. The increase primarily reflects the combined effect of the increase in "Total financial expenses", amounting to €42,271,022, and the reduction in "Total financial income", amounting to €1,460,264.

The increase in "Total financial expenses" is primarily linked to increases in "Financial expenses on early repayment of borrowings" (€42,298,009), "Interest expense on notes issued" (€8,175,097) and "Interest expense on borrowings" (€2,527,442), together with a reduction of €2,960,452 in "Financial expenses on leases".
This performance broadly reflects the impact of the restructuring of the Company's debt in June 2017 and December 2017.
In particular:

- in June 2017, the Company fully refinanced its debt by issuing notes with a value of €550,000,000 and by obtaining a new bank loan consisting of a term loan of €140,000,000 and a revolving line of credit of €20,000,000, and
- in December 2017, the Company fully refinanced its existing debt by entering into a new loan agreement consisting of a term loan of €720,000,000 and a revolving line of credit of €20,000,000.

As a result of these transactions, the Company extinguished its existing financial liabilities, with the consequent recognition of the costs relating to repayment of its bank borrowings and the notes issued, both repaid early compared with their respective terms to maturity as a result of the above refinancing. "Financial expenses on early repayment of borrowings", totaling €42,298,009, reflect the impact of these transactions on profit or loss, which can be summarized as follows.

	Year ended December 31,	
(€)	**2017**	**2016**
Financial expenses on early repayment of borrowings	11,207,983	-
Early redemption of notes issued	26,819,509	-
Cost of early termination of derivative instruments	4,123,287	-
Cost of early termination of leases	147,230	-
Total	**42,298,009**	**-**

Further details of the transactions are provided in note 28, "Current and non-current borrowings", in this document.

"Other financial expenses" primarily include the fees charged by factoring companies on the non-recourse factoring of refundable VAT. Further details are provided in note 24, "Other current assets", in this document.

"Financial expenses on derivative instruments", "Changes to the fair value of derivative instruments" and "Recycling of cash flow hedge reserve from equity" 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, and iii) the costs resulting from recycling of the cash flow hedge reserve to reflect the impact on profit or loss of the originally hedged underlying contract.

16 Income tax

The following table sets forth a breakdown of income tax:

	Year ended December 31,	
(€)	**2017**	**2016**
Current income taxes	5,673,028	3,114,325
Deferred income taxes	14,980,087	12,196,222
Total	**20,653,115**	**15,310,547**

The following table shows the reconciliation of the tax charge at the statutory rate and the effective charge for the years ended December 31, 2017 and 2016:

	Year ended December 31,	
(€)	**2017**	**2016**
Profit (loss) before tax	54,405,469	48,019,261
Theoretical tax charge	13,057,313	13,205,297
Statutory tax rate	*24.0%*	*27.5%*

IRAP (Italian regional business tax)	6,194,681	3,114,325
Other differences	1,401,121	(1,009,075)
Effective tax charge	**20,653,115**	**15,310,547**

Further details of movements in deferred taxes are provided below in note 20, “Deferred tax assets”.

17 Earnings per share

The following table shows profit for the year and information on the number of shares used in calculating basic and diluted earnings per share.

	Year ended December 31,	
(€, unless otherwise indicated)	**2017**	**2016**
Profit (loss) for the year	33,752,354	32,708,714
Weighted average number of shares outstanding	649,355,405	645,207,884
Weighted average number of potentially dilutive shares	-	-
Weighted average number of diluted shares	649,355,405	645,207,884
Basic earnings per share	**0.052**	**0.051**
Diluted earnings per share	**0.052**	**0.051**

18 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, 2016	**65,877**	**2,737,093**	**443,480**	**3,246,450**
of which:				-
- historical cost	*153,814*	*27,813,084*	*443,480*	***28,410,378***
- accumulated amortization	*(87,937)*	*(25,075,991)*	*-*	***(25,163,928)***
Reclassifications	-	19,480	(19,480)	**-**
Additions	-	3,306,244	458,569	**3,764,813**
Disposals	-	-	-	**-**
Amortization	(21,509)	(2,763,111)	-	**(2,784,620)**
As of December 31, 2016	**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)***

As of December 31, 2017, intangible assets amount to €6,417,996, a decrease of €2,191,353 compared with December 31, 2016. The reduction as of December 31, 2017 reflects the combined effect of investment and reclassifications of €4,910,388 and amortization of €2,431,535, after disposals with a net carrying amount of €287,500.

Increases in "Software" and "Intangible assets in progress" primarily regard investment in the development of the Customer Relationship Management (CRM) system, in the upgrade of the Company's IT systems in line with the development of the business and the expansion of the fleet, and, to a minor extent, investment in operating software for use in the operations room and by operating staff and in innovation of the data center.

The reductions regard investment in software in progress, which was subsequently not completed.

19 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 railway stations	Land and buildings	Other PPE	Total
As of January 1, 2016	**562,721,698**	**-**	**4,047,011**	**-**	**25,738,865**	**2,356,271**	**103,052**	**8,149,460**	**603,116,357**
of which:									
- historical cost	*635,374,860*	*-*	*10,474,076*	*-*	*25,738,865*	*8,316,282*	*132,465*	*17,645,858*	*697,682,406*
- accumulated depreciation	*(72,653,162)*	*-*	*(6,427,065)*	*-*	*-*	*(5,960,011)*	*(29,413)*	*(9,496,398)*	*(94,566,049)*
Reclassifications	-	-	-	-	(501,828)	478,635	-	23,193	-
Additions	1,054,600	-	896,002	-	67,330,323	1,483,714	-	933,886	71,698,525
Disposals	(380,242)	-	-	-	-	(675,960)	-	(1,005,633)	(2,061,835)
Depreciation	(21,253,973)	-	(2,115,474)	-	-	(1,354,577)	(24,756)	(2,933,375)	(27,682,155)
As of December 31, 2016	**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)*

As of December 31, 2017, property, plant and equipment amounts to €736,449,227, an increase of €91,378,335 compared with December 31, 2016. The increase as of December 31, 2017 reflects the combined effect of investment and reclassifications of €118,340,431, after depreciation of €26,555,727 and disposals with a net carrying amount of €406,369.

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 8 EVO pendolino trains.
On September 7, 2016, the Company exercised the option provided for in the contract for the purchase of a further four trains, together with the related maintenance services. On November 10, 2017 a further option for the purchase of five more trains was also exercised. The total number of new EVO pendolino trains to be purchased from Alstom thus amounts to to 17, with as total contractual value of €365,875,395. As of December 31, 2017, the Company has invested a total of €196,196,728 in the EVO fleet under construction, including €106,556,199 in 2017.
4 EVO pendolino trains with a carrying amount of €84,500,468 were delivered on November 30 and December 6, 2017 and entered service on December 7, 2017. After taking into account ancillary costs of €1,860,051, the total investment amounts to €86,360,519. This amount only refers to the train component, accounted for in the item, "EVO fleet". The other components regard seat upholstery,

recognized in “Other PPE” (€1,213,818 as of December 31, 2017), and telecommunications equipment accounted for in “Onboard telecommunications EVO fleet” (€325,510 as of December 31, 2017).
Delivery of the remaining 13 EVO pendolinos is expected in February 2018 and October 2019.

There was also further investment in onboard telecommunications for the AGV fleet, primarily relating to the replacement of screens in the Cinema car and of monitors in Club class.
In addition, “Other PPE” includes the purchase of hardware components to expand the Company’s data center.

Disposals during 2017 primarily regarded:
- the replacement of seat upholstery for Club and Smart class in the AGV fleet, resulting in a loss equal to the net carrying amount of €186,579;
- the sale of repeater antennas installed on trains with a net carrying amount of €194,790, resulting in a gain of €31,713.

20 Deferred tax assets

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

	As of December 31,	
(€)	**2017**	**2016**
As of January 1	**87,907,345**	**102,068,604**
Of which:		
- deferred tax assets	91,558,652	106,130,143
- deferred tax liabilities	(3,651,307)	(4,061,539)
Recognized in the income statement	(14,980,087)	(12,196,222)
Recognized in the statement of comprehensive income	(450,090)	(1,965,037)
As of December 31	**72,477,168**	**87,907,345**
Of which:		
- deferred tax assets	72,477,168	91,558,652
- deferred tax liabilities	-	(3,651,307)

As of December 31, 2017, “Deferred tax assets” amount to €72,477,168, compared with €87,907,345 as of December 31, 2016. These regard temporary differences primarily relating to (i) tax losses that may be carried forward over an unlimited period, (ii) undeducted financial expenses, (iii) provisions not deducted during the period, (iv) mismatches between book and tax amortization and depreciation, and (v) impairments of receivables. This item also includes the tax benefit linked to the *ACE* (*Aiuto alla Crescita Economica*) tax relief.

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

Deferred tax assets

(€)	Tax losses	Financial expenses	ACE tax relief	Derivatives	Other temporary differences	Total
As of January 1, 2016	**56,472,892**	**34,340,238**	**1,641,070**	**3,485,967**	**10,189,976**	**106,130,143**
Recognized in the income statement	(7,441,144)	(2,545,851)	1,094,927	(849,173)	(2,865,213)	(12,606,454)
Recognized in the statement of comprehensive income	-	-	-	(2,213,019)	247,982	(1,965,037)

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**

Deferred tax liabilities

(€)	Financial liabilities	Total
As of January 1, 2016	**4,061,539**	**4,061,539**
Recognized in the income statement	(410,232)	(410,232)
Recognized in the statement of comprehensive income	-	-
As of December 31, 2016	**3,651,307**	**3,651,307**
Recognized in the income statement	(3,651,307)	(3,651,307)
Recognized in the statement of comprehensive income	-	-
As of December 31, 2017	-	-

21 Other non-current assets

As of December 31, 2017, this item amounts to zero after closure of a term deposit held with BNL-BNP Paribas.

22 Inventories

The following table sets forth a breakdown of inventories:

(€)	As of December 31, 2017	As of December 31, 2016
White certificates (EEC)	5,577,119	8,789,456
Total	**5,577,119**	**8,789,456**

As of December 31, 2017, “Inventories” amount to €5,577,119 and include White Certificates (EECs) accrued in November and December and not yet sold. These 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.

23 Trade receivables

The following table sets forth a breakdown of trade receivables:

(€)	As of December 31, 2017	As of December 31, 2016
Receivables due from customers	8,270,339	7,948,062
Provisions for doubtful accounts	(3,365,178)	(3,356,083)
Total	**4,905,161**	**4,591,979**

As of December 31, 2017, trade receivables amount to €4,905,161, an increase of €313,182 compared with December 31, 2016.

Trade receivables primarily regard the indirect sales channel, consisting of travel agencies. Most tickets 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, 2016	**1,301,370**
Additions	2,291,032
Utilizations	(236,319)
As of December 31, 2016	**3,356,083**
Additions	16,056
Utilizations	(6,961)
Balance as of December 31, 2017	**3,365,178**

24 Other current assets

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

(€)	As of December 31, 2017	As of December 31, 2016
VAT tax receivables	17,229,715	32,459,056
Advances to vendors	12,451,605	13,777,476
Amounts due from employees	5,079,156	235,361
Social security contribution receivables	249,115	759,776
Deposits and guarantee deposits	858,831	690,218
Receivables resulting from credit cards	4,562,490	2,069,665
Other assets	4,403,975	4,745,798
Total	**44,834,887**	**54,737,350**

As of December 31, 2017, this item primarily refers to "VAT tax receivables" of €17,229,715 and "Amounts due from employees", amounting to €5,079,156, primarily relating to withholding tax paid by the Company on behalf of employees who are beneficiaries of share-based incentive plans. This receivable will be collected from employees by January 16, 2018.
VAT tax receivables claimed for the second quarter of 2017 (amounting to €48,000,000) and for the third quarter of 2017 (€5,131,107) has been factored without recourse.

"Other assets" primarily consist of refunds expected by selling shareholders of non-recurring expenses incurred by the Company for certain activities relating to its stock market listing. This item also includes prepayments relating to commission on sureties, insurance policies and other rental payments made in advance for future periods.

25 Short-term bank deposits

Short-term bank deposits relate to the short-term use of the Company's cash. As of December 31, 2017, the Company does not have any short-term bank deposits (€50,000,000 as of December 31, 2016).

26 Cash and cash equivalents

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

(€)	As of December 31, 2017	As of December 31, 2016
Bank deposits	264,533,829	75,032,335
Cash at bank and in hand	2,588,706	2,398,307
Total	**267,122,535**	**77,430,642**

As of December 31, 2017, "Cash and cash equivalents" amounts to €267,122,535, up €189,691,893 compared with December 31, 2016, 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.

27 Shareholders' equity

Share capital

As of December 31, 2017, the Company's share capital amounts to €60,000,000 and consists of 664,564,121 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.
On December 20, 2017, an extraordinary session of the General Meeting of Shareholders approved the following: (i) a capital increase amounting to €15,000, to be subscribed for by December 31, 2019 and to be allocated entirely to share capital, via the issue of 10,171,901 new ordinary shares; (ii) a capital increase of up to €5,000 to be allocated entirely to share capital, via the issue of up to 3,390,634 new ordinary shares, transferring to share capital a matching maximum amount from earnings and/or revenue reserves pursuant to art. 2349 of the Italian Civil Code. As of December 31, 2017, 12,019,614 shares have been subscribed for, corresponding to a capital increase of €17,725. The impact of this increase are not reflected in the financial statements for the year ended December 31, 2017, as the statutory reporting requirements have not been met at this date.
The first increase, completed on June 29, 2017, resulted in the acquisition of equity in the Company by a new shareholder, Peninsula Capital Partners LLC, while SCNF V.D. s.a.s. and Reset 2000 S.r.l. divested their interests.
The second was completed on October 20, 2017 when, at an extraordinary session of the General Meeting, the Shareholders approved an all-or-none private offering of newly-issued shares - to be completed in a single tranche and with the exclusion of pre-emption rights, pursuant to article 2441, paragraph 5 of the Italian Civil Code – to Partind Srl, an existing Shareholder. The issue amounted to a total of €15,000,000, of which €2,792,116 was allocated to share capital and €12,207,884 to the share premium reserve. The share issue was fully subscribed and paid in.

Share premium reserve

The share premium reserve reflects the share premium paid by Shareholders at the time of the share capital increase subscribed in 2015. Specifically, the General Meeting of Shareholders held on July 17, 2015 approved a share capital increase of €60,000,000, fully subscribed and paid by the Shareholders between September and December 2015, €12,000,000 of which was allocated to share capital and €48,000,000 to the share premium reserve. Then, on October 20, 2017, the Shareholder, Partind Srl, subscribed for further new shares with the exclusion of pre-emption rights, amounting to €15,000,000. This was fully paid, with €2,792,116 allocated to share capital and €12,207,884 to the share premium

reserve. The share premium reserve may only be distributed if the legal reserve has reached one-fifth of the share capital.
On December 20, 2017, an ordinary session of the General Meeting of Shareholders approved an increase in the legal reserve, previously established at the time of approval of the financial statements for the year ended December 31, 2016. The increase was from €1,411,971 in April 2017 to €12,004,000 by transferring the sum of €10,592,029 from the share premium reserve, which has thus declined from €60,207,884 to €49,615,885.

Other reserves and retained earnings

The breakdown of "Other reserves" is as follows:

(€)	As of December 31, 2017	As of December 31, 2016
Legal reserve	12,004,000	-
Cash flow hedge reserve	(162,673)	(1,341,955)
Reserve for capital contributions	17,725	-
Reserve for share-based payments	11,283,675	-
Other reserves	(18,885,486)	(11,052,495)
Total	**4,257,241**	**(12,394,449)**

The legal reserve, established in 2017, amounts to €12,004,000 and meets all the requirements set by law.
As of December 31, 2017, movements in the cash flow hedge reserve and the actuarial reserve for employee benefits included in "Retained earnings" are as follows:

(€)	Actuarial reserve	Cash flow hedge reserve
As of January 1, 2017	**(720,371)**	**(1,341,955)**
Profit on cash flow hedges	-	1,551,687
Profit on cash flow hedges – taxation	-	(372,405)
Actuarial gains on employee benefits	19,187	-
Actuarial gains on employee benefits - taxation	(77,685)	-
Other components of comprehensive income	**(58,498)**	**1,179,282**
As of December 31, 2017	**(778,869)**	**(162,673)**

Share-based incentive plan

On September 20, 2017, the Company's Board of Directors and, on December 20, 2017, its Shareholders approved a plan to issue ordinary shares free of charge to employees, with the shares to be issued amounting to up to 0.5% of the Company's share capital or 3,390,634 ordinary shares.
All the Company's employees, deemed to have a key role to play in the process of listing the Company's shares on the regulated market organized and managed by Borsa Italiana SpA, were able to take part in

the plan at the Company's discretion.
On December 20, 2017, the Company granted qualifying employees 1,847,713 units, which on vesting were convertible into ordinary shares. The shares had a fair value at the grant date of €0.94 each. On December 21, 2017, when the registration document was first filed with Borsa Italiana SpA, the units were deemed to have vested and the right to convert them into shares to have been acquired and exercised.
The plan is accounted for, on the basis of the estimated fair value at the grant date, in a specific equity reserve and expensed as part of personnel costs in the period in which the units vest. The fair value of the shares granted is based on the best possible estimate, using market and non-market assumptions and taking into account the Company's current business plan. The resulting fair value is backed up by a sworn appraisal provided by an independent expert. The valuation method used is based, among other things, on the Company's discounted future cash flows resulting from its business plan, using a discount rate that reflects, among other things, the rate of return on investment and its cost of capital (WACC). For periods not covered by the above business plan, cash flows have estimated on the basis of the latest period covered by the business plan, taking into account a perpetual growth rate (g).
90% of the shares issued under the plan may be sold on completion of the Company's initial public offering, whilst the remaining 10% may be sold three years after issue or on termination of employment, whichever is sooner. The shares rank equally with other fully paid ordinary shares in issue.
In accordance with Italian tax law, the Company has withheld an amount for each employee benefitting from the plan in order to transfer it to the tax authorities on the employee's behalf. The shares have been issued to employees.

Employee option plan

On September 20, 2017, the Company's Board of Directors and, on December 20, 2017, its Shareholders approved an option plan designed to provide incentives for the Company's Chairman and Chief Executive Officer to deliver long-term shareholder returns. Under the option plan, participants are granted 10,171,901 options with a value of €15,000, which only vest if certain conditions are met, and carry no dividend or voting rights. The options granted on December 20, 2017 vested on December 21, 2017, as the vesting conditions attached were deemed to have been satisfied when the registration document was first filed with Borsa Italiana SpA.
When exercisable, each option is convertible into one ordinary share. Once converted, 90% of the shares issued under the plan may not be sold until completion of the Company's initial public offering, whilst the remaining 10% may not be sold until termination of employment by the Company. In all other respects the shares rank equally with other fully paid ordinary shares in issue.
In accordance with Italian tax law, the Company has withheld an amount for each employee benefitting from the plan in order to transfer it to the tax authorities on the employee's behalf. The shares have been issued to employees.
The fair value of the options is based on the fair value of shares to be issued and reflects the best possible estimate, using market and non-market assumptions and taking into account the Company's current business plan. The resulting fair value is backed up by a sworn appraisal provided by an independent expert.
The valuation method used is based, among other things, on the Company's discounted future cash flows resulting from its business plan, using a discount rate that reflects, among other things, the rate of return on investment and its cost of capital (WACC). For periods not covered by the above business plan, cash flows have estimated on the basis of the latest period covered by the business plan, taking into account a perpetual growth rate (g).
The fair value of options granted on December 20, 2017 is €0.94 per option. The fair value at the grant date is independently determined and based on the following inputs for options granted on December 20, 2017:

- options are granted for €0.001 each and vested on December 21, 2017;
- vested options are exercisable.
- exercise price: €0.001

- grant date: December 20, 2017
- share price at grant date: €0.94

None of the following assumptions were necessary: i) expected price volatility of the Company's shares, ii) if and in what manner expected dividends were incorporated, as the options vested on December 21, 2017.
A summary of the options granted under the plan is provided below:

	As of December 31, 2017		As of December 31, 2016	
(€, unless otherwise indicated)	**Average exercise price per share option**	**Number of options**	**Average exercise price per share option**	**Number of options**
As of January 1, 2017	-	-	-	-
Granted during the year	0.001	10,171,901	-	-
Exercised during the year	0.001	(10,171,901)	-	-
As of December 31, 2017	-	-	-	-
Vested and exercisable as of December, 2017	-	-	-	-

No options lapsed during the period covered by the above table.

As of December 31, 2017, a reserve for share-based payments, amounting to €11,283,675, has been established.
The item, "Other reserves", primarily includes the "First-time adoption reserve" ("FTA reserve") established following the first-time adoption of IFRS and having a negative balance of €18,055,796. In addition, on April 14, 2017, the General Meeting of Shareholders approved the decision to make up accumulated losses of €7,672,766 by using a matching amount from "Other reserves".
Finally, the following table shows the components of Shareholders' equity as of December 31, 2017, showing their origin, permitted use and distributable amount.

(€)	**As of December 31, 2017**	**Permitted use (A, B, C) ***	**Distributable portion as of December 31, 2017**
Share capital	60,000,000		-
Share premium reserve	49,615,855	A, B, C	49,615,855
Legal reserve (1)	12,004,000	A, B	4,000
Cash flow hedge reserve	(162,673)		-
Reserve for capital contributions	17,725	A, B	-
Reserve for share-based payments (2)	11,283,675	B	-
FTA reserve (3)	(18,055,796)		-
Other reserves (3)	(829,690)		-
Actuarial reserve (3)	(778,869)		-
Retained earnings (3)	73,406,117	A, B, C	53,741,762
Total	**186,500,344**		**103,361,617**

** Key:*

A: for capital increases
B: to cover losses
C: for distributions to Shareholders

(1) The legal reserve may be used for capital increases to the extent in which it exceeds the legal limit set by art. 2430 of the Italian Civil Code.
(2) As required by art.6, paragraph 5 of Law Decree no. 38 of 2005, these reserves are only available to cover losses following prior use of retained earnings and the legal reserve. In this case, the above reserves must be restored through the appropriation of profit for future years.
(3) The FTA reserve, the other reserves (which include ancillary costs for capital increases carried out), and the actuarial reserve are: (i) to be covered with retained earnings and (ii) not to be considered for the purpose of distributing dividends.

28 Current and non-current borrowings

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

(i€)	As of December 31, 2017	As of December 31, 2016
Non-current portion of bank borrowings	707,909,562	241,598,713
Non-current portion of finance lease liabilities	-	413,956,871
Non-current borrowings	**707,909,562**	**655,555,584**
Current portion of bank borrowings	2,183,488	8,522
Current portion of finance lease liabilities	-	10,059,408
Current borrowings	**2,183,488**	**10,067,930**

The following table shows movements in current and non-current borrowings in the year ended December 31, 2017.

(€)	Non-current borrowings	Current borrowings	Total
As of January 1, 2017	**655,555,584**	**10,067,930**	**665,623,514**
New issues /increase in borrowings	707,909,562	-	707,909,562
Repayments/reductions	(655,555,585)	(10,059,412)	(665,614,997)
Non-monetary effects	-	2,183,488	2,183,488
Interest paid	-	(8,518)	(8,518)
As of December 31, 2017	**707,909,562**	**2,183,488**	**710,093,049**

The breakdown of the current and non-current portions of borrowings as of December 31, 2017 and 2016 is as follows:

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
Notes issued	-	-	-	-
Finance lease liabilities	-	-	-	-
Total	**2,183,488**	**707,909,562**	**-**	**710,093,050**

As of December 31, 2016 (€)	Within 12 months	Between 1 and 5 years	Over 5 years	Total
Bank borrowings	8,522	-	241,598,713	241,607,235
Finance lease liabilities	10,059,408	77,615,900	336,340,971	424,016,279
Revolving facilities	-	-	-	-
Total	**10,067,930**	**77,615,900**	**577,939,684**	**665,623,514**

The following table shows the breakdown of bank borrowings and revolving facilities by bank as of December 31, 2017 and 2016:

(€)			As of December 31,		As of December 31,	
Bank	Notional value	Interest rate	*of which current*	2017	*of which current*	2016
Banca IMI, MPS, BNL and Banco popolare	203,336,902	1%+6m Euribor	-	-	8,522	241,607,235
Banca IMI, MPS and Banco BPM	160,000,000	3%+6m Euribor	-	-	-	-
Banca IMI, Goldman Sachs Int., Credit Suisse AG, Unicredit	720,000,000	2.5%+3m Euribor	*2,183,488*	710,093,050	-	-
Banca IMI, Goldman Sachs Int., Credit Suisse AG, Unicredit	20,000,000	2.5%+3m Euribor	-	-	-	-
Total			*2,183,488*	**710,093,050**	*8,522*	**241,607,235**
of which at a fixed interest rate				-		-
of which at a floating interest rate				*710,093,050*		*241,607,235*

In the first half of 2017 the Company reorganized its capital structure by completing early repayment of its existing debt with the proceeds from new debt and in part out of its own cash and cash equivalents. This transaction resulted in extinguishment of the previous liabilities and the subsequent recognition of the new financial liability by which the Company was able to bring forward its exercise of the option to acquire ownership of the AGV fleet.

On June 19, 2017 the Company entered into a floating-rate syndicated medium/long-term loan agreement – Senior Facilities Agreement (the “SFA 2022”). The agreement called for a “Facility A”, which was partly amortizing in six-monthly instalments and partly repayable with a bullet payment on June 23, 2022, and an unused revolving line of credit. The total nominal value of this agreement was equal to €140,000,000 plus the €20,000,000 of the unused Revolving line. Interest on Facility A was payable every six months at the rate of 6-month Euribor plus a spread determined on the basis of the ratio of debt to EBITDA. The improvement in the ratio resulted in a reduction in the spread applied. In case of drawdowns, the same spread applicable to Facility A was applied to borrowings under the revolving line of credit. Otherwise, a commitment fee applied if the line was unutilized.

On June 23, 2017 the Company issued floating-rate “Senior Secured Floating Rate Notes” (the “Notes”) maturing June 1, 2023. The total nominal value of the Notes was €550,000,000, while interest was payable quarterly at a rate indexed to 3-month Euribor plus a spread of 3.5%. The Notes also had a zero floor for the applicable Euribor.

Both borrowings were secured by a pledge on the Company’s shares

In order to release the Company’s shares from the pledge, prior to their listing on the screen-based trading system (“MTA”) managed by Borsa Italiana SpA, on December 6, 2017 the Company entered into a New Loan Agreement with, among others, Banca IMI SpA, Goldman Sachs International, Credit Suisse AG, Milan Branch, Unicredit SpA, Barclays Bank PLC and Banco BPM SpA, as Mandated Lead Arrangers and Original Lenders, and Banca IMI SpA, as Agent and Security Agent (the “New Loan Agreement”). The New Loan Agreement calls for two facilities, both to be used through cash disbursements, structured as follows:

- a Term facility of a total amount of €720,000,000 and with a term of 5 years, which was used on December 7, 2017 to repay the Existing Borrowings (the SFA 2022 and the Notes) and for the payment of fees, costs and expenses incurred by the Company in relation to the financial documents indicated in the New Loan Agreement;
- a Revolving facility of a total amount of €20,000,000, to meet working capital requirements and for general cash requirements, though not for the early repayment of the Term facility, for dividend distributions or other forms of payment to group companies or its Shareholders.

The Term facility calls for a bullet repayment at maturity (December 2022) while the Revolving facility will expire on the last day of the relevant interest period. As of December 31, 2017 the Revolving facility is unused.

This transaction resulted in extinguishment of the previous liabilities and the subsequent recognition of the new financial liability.
The applicable interest rate is given by a spread (as defined below) plus Euribor, it being understood that the total of both can never be lower than zero.

The spread for the Term facility is 2.50%, rising to up to 5% starting April 1, 2020. The spread for the Revolving facility is 2.5%, with a commitment fee equal to 35% of the spread applicable to the Revolving facility.
Moreover, in connection with the refinancing process, the derivatives hedging the interest rate risk associated with the SFA 2022 and the Notes issued in June 2017 were terminated early. New derivative instruments were also entered into with a total value of €360,000,000.
For more details on the effects of this transaction on the Company's income statement, reference should be made to note 15, "Net financial income (expenses)".

The New 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 New 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 any proceeds from the 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 reimbursements;
- a prohibition on the payment of management, consulting or other fees to a Shareholder of the Company;
- an obligation to obtain a rating at the earlier of (i) the Company's listing and (ii) June 30, 2018;
- specific limitations on dividend distributions.

The New Loan Agreement also contains cross-default provisions in the event that:

- any Borrowing, within the meaning of the New 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;

and the total of the above Borrowings 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 New 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 it;
- 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 it;
- 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.

Moreover, pursuant to the special lien agreement dated December 7, 2017, the Company, pursuant to article 46 of Legislative Decree no. 385/1993, established as security for its monetary obligations under the New Loan Agreement, a special lien on:

- 25 AGV trains and 4 EVO pendolino trains;

- any additional trains purchased for any reason as replacements or in addition to the trains indicated in (a) above;
- all receivables, including future ones, deriving from the sale or the transfer of assets as described in the loan agreement.

The special lien has been established for a guaranteed maximum amount of €740,000,000 in principal and €148,000,000 in interest, including late payment interest, expenses, ancillaries, collection expenses and reimbursements of taxes and levies. Furthermore, the New Loan Agreement provides for a floating charge to be established on the assets of the Company and of any future Group company qualifying as significant under the New Loan Agreement within 45 business days of enactment of the implementing measures in Law Decree no. 59/2016, as converted into Law no. 119/2016. To this end, it is noted that the obligations arising from the Notes and the SFA 2022 had been secured by pledges on all of the Company's shares outstanding. These pledges were fully released with a release of pledge signed on December 18, 2017, following refinancing of the Notes and the SFA 2022 through the New Loan Agreement.

The table below shows a comparison between the thresholds of the financial covenants contained in the New Loan Agreement with the Company's ratios at December 31, 2017.

	Covenants	As of December 31, 2017		As of December 31, 2016	
		Contractual threshold	**Ratio as of this date**	**Contractual threshold**	**Ratio as of this date**
Debt Restructuring Agreement - DRA (August2015) *					
1	Leverage Ratio (Net Debt/EBITDA)	n/a	n/a	<15.50x	5.70x
2	ADSCR (Annual Debt Service Cover Ratio)	n/a	n/a	>1.05x	2.9x
3	FDSCR (Forecast Debt Service Cover Ratio)	n/a	n/a	>1.05x	4.7x
Senior Facility Agreement (December 2017)					
4	Consolidated Net Leverage Ratio (Net Debt/EBITDA) **	<5.3x	3.12x	n/a	n/a
5	Fixed Charge Coverage Ratio (EBITDA/interest expenses) ***	>3.5x	8.71x	n/a	n/a

** No measurement provided for until December 31, 2016*
*** Net Debt/EBITDA as indicated in the Report on Operations*
**** EBITDA as indicated in the Report on Operations divided by accrued financial income and expenses in accordance with the definition indicated in the New Loan Agreement*

The following table shows the contractual cash flows relating to finance lease contracts and the implicit interest considered, as of December 31, 2017 and 2016.

(€)	As of December 31, 2017	As of December 31, 2016
Contractual cash flows		
Within 12 months	-	12,309,920
Between 1 and 5 years	-	85,809,248
Over 5 years	-	346,663,305
Sub-total	**-**	**444,782,473**
Implicit interest expense	-	(20,766,194)

Payables for finance leases	-	424,016,279
of which current		*10,059,408*
of which non-current		*413,956,871*

As mentioned, following the refinancing of its capital structure, the Company used the proceeds from the placement of the Notes issued in June 2017 to repay its finance lease debt and to exercise the option to purchase the leased AGV fleet which, accordingly, is now owned by the Company.

Details of the Company's net borrowings (cash) as of December 31, 2017 and 2016, as determined in accordance with CONSOB Communication DEM/6064293 of July 28, 2006, in compliance with the recommendations contained in the document prepared by the European Securities and Markets Authority (ESMA), no. 319 of 2013, implementing Regulation 2004/809/EC.

	As of December 31, 2017	As of December 31, 2016
A. Cash	(2,588,706)	(2,398,307)
B. Other cash and cash equivalents	(264,533,829)	(75,032,335)
C. Securities held for trading	-	-
D. Liquidity (A) +(B)+ (C)	**(267,122,535)**	**(77,430,642)**
E. Current financial receivables	**-**	**(50,000,000)**
F. Current bank borrowings	-	-
G. Current portion of non-current indebtedness	2,183,488	8,522
H. Other current borrowings	-	10,059,408
I Current financial indebtedness (F)+(G)+(H)	**2,183,488**	**10,067,930**
J. Net current financial indebtedness (I)+(E)+(D)	**(264,939,047)**	**(117,362,712)**
K. Non-current bank borrowings	707,909,562	241,598,713
L. Notes issued	-	-
M. Other non-current borrowings	-	413.956.871
N. Non-current financial indebtedness (K)+(L)+(M)	**707,909,562**	**655,555,584**
O. Net financial indebtedness (J)+(N)	**442,970,515**	**538,192,872**

29 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, 2017	As of December 31, 2016
Post-employment benefits (TFR)	11,167,553	9,606,487
Medium-long term incentive plan	4,235,032	2,407,308
Total	**15,402,585**	**12,013,795**

As of December 31, 2017, "Employee benefits" amount to €15,402,585 (€12,013,795 as of December 31, 2016) and include the liabilities relating to: (i) post-employment benefits (*TFR*) for Company employees, determined on the basis of actuarial techniques; and (ii) 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 January 1, 2017	**9,606,487**
Interest on the obligation	143,351
Service costs	1,934,034
Utilizations and prepayments	(497,132)
Actuarial loss/(gain)	(19,187)
As of December 31, 2017	**11,167,553**

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

	As of December 31,	
	2017	**2016**
Economic assumptions		
Annual discounting rate	1.29%	1.31%
Annual inflation rate	1.50%	1.50%
Annual increase in post-employment benefits	2.63%	2.63%
Annual salary increase	Managers 2.50% Non-managers 1.00%	Managers 2.50% 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, 2017:

(€)	**As of December 31, 2017**
Employee turnover rate + 1%	10,871,282
Employee turnover rate - 1%	11,525,265
Inflation rate + 0.25%	11,605,261
Inflation rate – 0.25%	10,751,703
Discount rate + 0.25%	10,647,437
Discount rate – 0.25%	11,724,175
Mortality rate -10%	11,171,487
Mortality rate +10%	11,163,633

Medium-long term incentive plan

On 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, 2017, the liability has been calculated on the basis of the best estimate of the Company's results for the period and the benefit linked to the incentive plan, to be paid at the end of the period, has been determined on the basis of the expected cash flows, calculated at a discounting rate of 1.29%. The estimate of the liability is revised in subsequent years based on the results recorded and updated forecasts of the future results, regardless of whether they are higher or lower than the original target.

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, 2017 break down as follows:

(€)	**Medium/long-term incentive plan**
As of January 1, 2017	**2,407,308**
Interest on the obligation	54,272
Provisions	1,773,452
As of December 31, 2017	**4,235,032**

30 Non-current provisions

The following table shows movements in non-current provisions:

(€)	**Disputes with third parties**	**Disputes with personnel**	**Other provisions**	**Total**
As of January 1, 2017	**1,475,983**	**820,100**	**355,550**	**2,651,633**
Additions	345,304	183,205	-	528,509
Reclassifications	-	(608,828)	-	(608,828)
Releases	-	(45,229)	-	(45,229)
Utilizations	(27,201)	(157,312)	(2,484)	(186,997)
As of December 31, 2017	**1,794,086**	**191,936**	**353,066**	**2,339,088**

As of December 31, 2017, "Non-current provisions" amount to €2,339,088 (€2,651,633 as of December 31, 2016) 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. "Reclassifications" include amounts due to employees reclassified to "Other current liabilities" as the liabilities have become certain.

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, 2017, as shown in the table below.

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. At the hearing of January 11, 2018, the court gave the parties until February 1, 2018 to respond to the report prepared by the court-appointed expert, reserving the right to call on the expert to provide clarification once the responses have been filed with the court. The Company has proceeded to pay the amount due for the invoice relating to the first action (€226,000) and has made a provision for the remaining amounts claimed.

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) on April 9, 2015, 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 case has been adjourned until April 5, 2018 to allow for the evidence allowed by the court to be gathered. The Company has proceeded to pay the amount due for the invoice relating to the first action and has made a provision for the remaining amounts claimed.

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.

Lawsuits brought before the Labour Court – The Company is the defendant in actions regarding 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.

31 Trade payables

The following table sets forth a breakdown of trade payables:

(€)	As of December 31, 2017	As of December 31, 2016
Trade payables	132,728,262	41,558,726
Invoices to be received	39,560,085	43,252,940
Total	**172,288,347**	**84,811,666**

As of December 31, 2017,“Trade payables” amount to €172,288,347, up €87,476,681 compared with December 31, 2016.

32 Other current and non-current liabilities

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

	As of December 31,	
(€)	**2017**	**2016**
Non-current derivative liabilities	-	-
Non-current liabilities for amounts settled	2,513,593	3,697,971
Other non-current liabilities	**2,513,593**	**3,697,971**
Deferred revenues from transport services	21,637,129	24,549,925
Payables to employees	10,680,574	6,746,643
Current derivative liabilities	214,044	1,765,731
Current liabilities for amounts settled	1,258,522	1,236,488
Tax liabilities and social security payables	10,249,432	2,490,369
Payables for derivative financial expenses	24,085	-
Other liabilities	2,384,871	395,586
Other current liabilities	**46,448,657**	**37,184,742**

As of December 31, 2017, “Other non-current liabilities” amount to €2,513,593, down €1,184,378 compared with December 31, 2016.
“Other current liabilities” amount to €46,448,657, up €9,263,915 compared with December 31, 2016.

“Deferred revenues from transport services” include revenues collected for train tickets sold, but for which the trip has not yet taken place at the end of each period under review.
“Payables to employees” include accrued salaries that have not been paid at the end of the reporting period and non-recurring bonuses for employees and linked to the listing process.
“Tax liabilities and social security payables” primarily include withholdings to be paid on behalf of employees who are beneficiaries of share-based payments.

33 Other information

(i) Remuneration of directors and statutory auditors

The annual compensation approved for Directors and members of the Board of Statutory Auditors is shown below:

	As of December 31,	
(€)	**2017**	**2016**
Directors	2,800,000	720,000
Board of Statutory Auditors	101,000	101,000
Total	**2,901,000**	**821,000**

(ii) Auditors’ fees

Fees payable to the audit firm for the year ended December 31, 2017 amount to €857,500 (net of VAT and expenses incurred) and include, among other things, (i) the reviews of interim reports and the audits of financial statements for the year ended December 31, 2017, (ii) the services performed in relation to completion of the quarterly tax returns; and (iii) specific agreed-upon procedures (e.g. the preparation of

comfort letters in connection with the issue of the Notes).

(€)	As of December 31, 2017
Audits	247,500
Tax attestation services	15,000
Other audit services	595,000
Total	**857,500**

(iii) Guarantees

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

	As of December 31,	
(€)	2017	2016
Sureties to guarantee performance of lease contracts	1,322,871	1,348,475
Sureties to guarantee repayment of surplus VAT	55,865,976	67,946,392
Sureties in favour of RFI SpA for use of infrastructure	23,033,182	20,000,000
Other	174,353	100,653
Total	**80,396,382**	**89,395,520**

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

(iv) 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 relating to the same.
Expected payments for non-cancellable contracts as of December 31, 2017 and 2016 are as follows:

	As of December 31, 2017			As of December 31, 2016		
(€)	Purchase of EVO pendolino trains	Train maintenance	Operating leases	Purchase of EVO pendolino trains	Train maintenance	Operating leases
Within 12 months	111,415,356	43,290,857	11,333,389	82,800,000	30,016,316	10,654,236
Between 1 and 5 years	58,263,311	227,776,482	46,675,671	83,500,000	192,711,131	44,072,118
Over 5 years	-	1,495,781,403	306,438,867	-	1,343,643,092	278,522,603
Total	**169,678,667**	**1,766,848,742**	**364,447,927**	**166,300,000**	**1,566,370,538**	**333,248,957**

(v) Contingent liabilities

The Company is a party to civil, administrative, labour 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 Lazio Regional Administrative Court – On May 28, 2015, a labor union notified the Company of a legal challenge aimed at obtaining annulment of (i) the Guarantee Authority's notification of April 1, 2015 regarding implementation of the law on strikes relating to essential public services, and (ii) any other preparatory, related, consequential and connected action. A date for the hearing has yet to be fixed.

Lawsuit brought before Piedmont Regional Administrative Court – On March 17, 2016, Trenitalia SpA notified the Company of a special appeal to the President of the Republic challenging and consequently requesting annulment of the Transport Regulator's determination 96/2015 of November 13, 2015 and the related annex, and any other related, connected and/or consequential action. Following the challenge lodged by the Company and the Transport Regulator pursuant to art. 10, paragraph 1 of Presidential Decree 1199/1971, Trenitalia SpA transferred its appeal to a different jurisdiction, namely Piedmont Regional Administrative Court, with case number 435/16. On September 28, 2016, Trenitalia SpA notified - within this case - of an appeal for additional reasons, with which it requested the annulment of resolution no. 72/2016 of June 27, 2016 of the Transport Regulator, regarding the "Implementation of resolution no. 96/2015 - application procedure and deferment of terms" and (ii) resolution no. 75/2016 of July 1, 2016 of the Transport Regulator, regarding the "Tariff system 2016 – 2021 relating to the Minimum Track Access Package for national railway infrastructure. Compliance with the regulatory model approved with determination 96/2015, as amended" and any other related, connected or consequential action. In connection with the same appeal, on February 2, 2017, Trenitalia SpA notified additional grounds, requesting annulment of the Transport Regulator's determination 140/2016 of November 30, 2016, relating to "Indications and requirements in respect of the "2018 Network Statement", presented by the rail network operator, RFI SpA, and the "2017 Network Statement" in effect. Indications in respect of the preparation of the "2019 Network Statement" and any other related, connected and/or consequential action, including – insofar as necessary – point 4.4.1.2 of the "2018 Network Statement", in the version approved on December 7, 2016. On January 11, 2018, Piedmont Regional Administrative Court issued judgement 57, rejecting Trenitalia's appeal.

Lawsuit brought before Piedmont Regional Administrative Court – On March 21, 2016, Grandi Stazioni SpA notified the Company of a special appeal to the President of the Republic challenging and consequently requesting annulment of the Transport Regulator's determination 96/2015 of November 13, 2015 and the related annex, and any other related, connected and/or consequential action. Following the challenge lodged by Italo and the Transport Regulator pursuant to art. 10, paragraph 1 of Presidential Decree 1199/1971, Grandi Stazioni SpA transferred its appeal to a different jurisdiction, namely Piedmont Regional Administrative Court. Following the outcome of the hearing of November 7, 2017, the court is considering its verdict.

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 resolution no. 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. A date for the appeal hearing is awaited.

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 resolution no. 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. A date for the appeal hearing is awaited.

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 resolution no. 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. A date for the appeal hearing is awaited.

(vi) 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, 2017 and December 31, 2016.

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

- Shareholders: Generali Financial Holdings Fcp-Fis Sub-Fund 2, Intesa Sanpaolo SpA, Partind Srl;
- Subsidiaries of Shareholders: Generali Italia SpA, Mediocredito Italiano SpA, Mercury Payment Services SpA (formerly Setefi SpA) and Essecieffe Services Srl;
- Senior Managers: members of the Board of Directors, the Chairman of the Board of Directors, the Chief Executive Officer and the Company's strategic management personnel.

The following tables summarise the impact of related party transactions on the income statement and on the statement of financial position as of December 31, 2017 and December 31, 2016 and for the years ended December 31, 2017 and 2016.

(€)	Shareholders	Subsidiaries of shareholders	Senior Managers	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, 2017	2,479,986	-	-	2,479,986	**40,081,393**	**6.19%**
Year ended December 31, 2016	-	-	-	-	**18,273,974**	**0.00%**
Personnel costs						
Year ended December 31, 2017	-	-	(14,015,248)	(14,015,248)	**(66,037,245)**	**21.22%**
Year ended December 31, 2016	-	-	(3,045,861)	(3,045,861)	**(45,836,085)**	**6.65%**
Other operating costs						
Year ended December 31, 2017	(2,782,963)	(2,976,315)	(31,156)	(5,790,434)	**(76,644,641)**	**7.55%**
Year ended December 31, 2016	-	(7,102,688)	(25,200)	(7,127,888)	**(62,853,035)**	**11.34%**
Net financial income (expenses)						
Year ended December 31, 2017	(12,797,517)	(104,903)	-	(12,902,420)	**(58,145,151)**	**22.19%**
Year ended December 31, 2016	(4,313,709)	(2,336,571)	-	(6,650,280)	**(14,413,865)**	**46.14%**

(€)	Shareholders	Subsidiaries of shareholders	Senior Managers	Total related parties	Financial statement item	Impact on financial statement item
Impact of transactions on the statement of financial position						
Property, plant and equipment						
As of December 31, 2017	-	-	-	-	**736,449,227**	**0.00%**
As of December 31, 2016	-	542,059,504	-	542,059,504	**645,070,892**	**84.03%**
Non-current borrowings						
As of December 31, 2017	138,777,081	-	-	138,777,081	**707,909,562**	**19.60%**
As of December 31, 2016	139,544,218	413,956,870	-	553,501,088	**655,555,584**	**84.43%**
Employee benefits						
As of December 31, 2017	-	-	1,342,188	1,342,188	**15,402,585**	**8.71%**
As of December 31, 2016	-	-	1,380,971	1,380,971	**12,013,795**	**11.49%**
Current borrowings						
As of December 31, 2017	418,516	-	-	418,516	**2,183,488**	**19.17%**
As of December 31, 2016	4,928	10,059,408	-	10,064,336	**10,067,930**	**99.96%**
Trade payables						
As of December 31, 2017	-	1,775,791	-	1,775,791	**172,288,347**	**1.03%**
As of December 31, 2016	-	317,381	32,600	349,981	**84,811,666**	**0.41%**
Other current assets						
As of December 31, 2017	2,479,986	-	4,524,906	7,004,892	**44,834,887**	**15.62%**
As of December 31, 2016	-	-	-	-	**54,737,350**	**0.00%**
Other current liabilities						
As of December 31, 2017	63,260	-	175,119	238,379	**46,448,656**	**0.51%**
As of December 31, 2016	1,069,426	-	159,676	1,229,102	**37,184,742**	**3.31%**

Other operating income refers to refunds expected by selling shareholders of non-recurring expenses incurred by the Company for certain activities relating to its stock market listing.

Personnel costs refer to salaries, remuneration, bonuses and incentives (including share-based payments), inclusive of social security payables, paid to senior management.

Other operating costs mainly refer to:

- premiums payable on insurance policies stipulated by the Company with Generali Italia SpA and relating to the AGV/EVO fleet;
- 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.

Property, plant and equipment mainly refers to the AGV fleet relating to the lease contract signed with Mediocredito Italiano SpA, terminated in June 2017 with the early acquisition of ownership of the assets.

Current and non-current borrowings mainly refer to the portion of the bank loans with Intesa Sanpaolo SpA, 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 senior managers at the reporting date.
Trade payables mainly refer to adjusting balances on insurance premiums to be paid to Generali Italia SpA.

Other current assets refer to withholding tax paid by the Company on behalf of senior managers who are beneficiaries of the share-based incentive plan. These assets also include refunds non-recurring expenses relating to the Company's stock market listing repayable to the selling shareholders.
Other current liabilities refer to the current value of derivative contracts entered into by the Company with Intesa SanPaolo SpA.

The following table shows sureties issued by related parties on the Company's behalf in favour of third parties as of December 31, 2017 and December 31, 2016.

	As of December 31,	
(€)	**2017**	**2016**
Sureties issued by Intesa SanPaolo SpA in favour of RFI SpA	10,300,800	20,000,000
Other sureties issued by Intesa SanPaolo SpA to guarantee performance of lease contracts	1,205,059	1,237,924
Other sureties issued by Intesa SanPaolo SpA	92,753	100,653
Sureties issued by Generali Italia to guarantee repayment of excess VAT payments	55,865,976	67,946,392
Total	**67,464,588**	**89,284,969**

34 Events after the end of the year

There were no material events after the end of the year ended December 31, 2017.

* * * * *

These financial statements, consisting of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' 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

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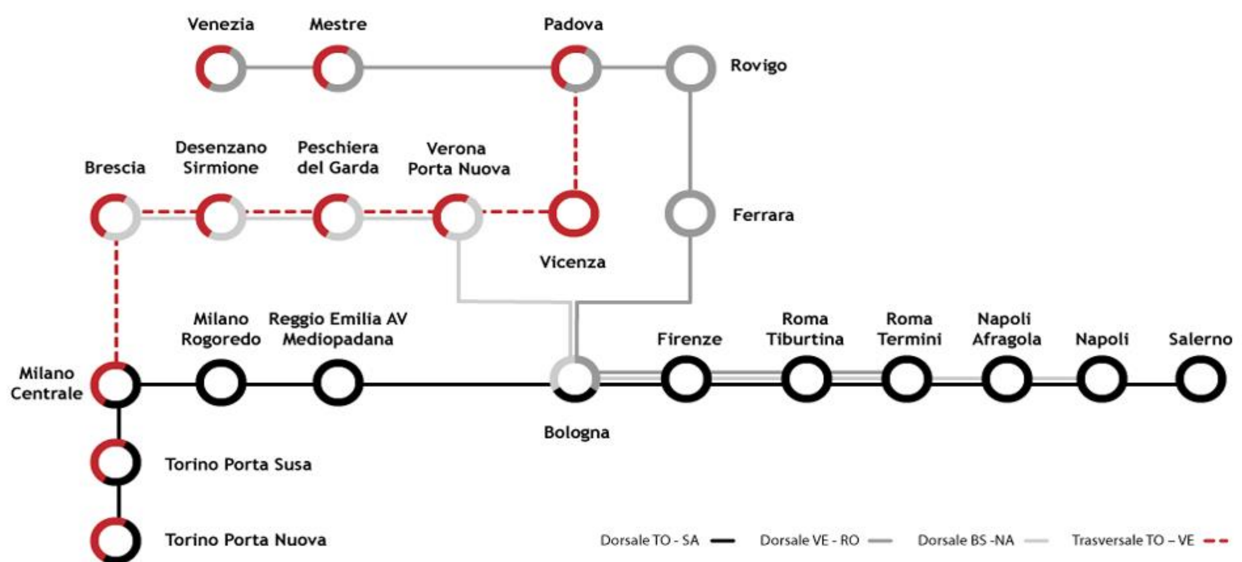
The Italo Network



ITALO - NUOVO TRASPORTO VIAGGIATORI SpA (ITALO SPA)

Registered office at Viale del Policlinico 149/B – 00161 Rome

Fully paid-up share capital: €60,000,000

Tax code /VAT number and Rome Companies' Register no. 09247981005