Nuovo Trasporto Viaggiatori

Annual Report
2019

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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Introduction

MANAGEMENT AND SUPERVISORY BODIES

BOARD OF DIRECTORS - in office until approval of the financial statements for 2020

Chairman	Luca Cordero di Montezemolo
Executive Deputy Chairman	Flavio Cattaneo
Chief Executive Officer and General Manager	Gianbattista La Rocca
Directors	Lucy Chadwick Ines Gandini Philip Marc Iley Christoph Holzer Michael McGee Scott Allen Stanley

EXECUTIVE COMMITTEE - in office until approval of the financial statements for 2020

Chairman	Flavio Cattaneo
Members	Philip Marc Iley Gianbattista La Rocca Michael McGee Scott Allen Stanley

BOARD OF STATUTORY AUDITORS - in office until approval of the financial statements for 2020

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

INDEPENDENT AUDITORS – engaged to audit the financial statements for the period 2017-2019

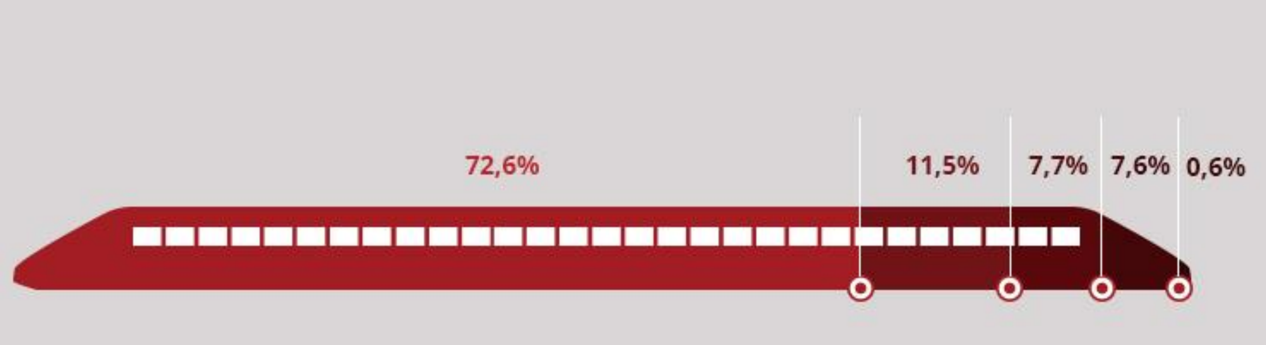
Deloitte & Touche SpA

ENVIRONMENTAL SOCIAL GOVERNANCE (ESG) STEERING COMMITTEE

Chairman	Gianbattista La Rocca
Deputy Chairman	Roberto Vitto
Members	Paolo Belforte Fabrizio Bona Federico Meda Nicoletta Montella Fabio Sgroi Alberto Valenza

SHAREHOLDER STRUCTURE

Italo's shareholder structure reflects the acquisition of a majority interest by the GIP - Global Infrastructure Partners fund. As part of the transaction, a number of former shareholders reinvested in Italo (the "Reinvesting Shareholders").



72.6%

GIP III GLOBAL INVESTMENT Sàrl

11.5%

ALLIANZ Spa

of which 10% held through Allianz Infrastructure Luxembourg II Sàrl

7.7%

REINVESTING SHAREHOLDERS:

Luca Cordero di Montezemolo
through MCG HOLDINGS Srl
Flavio Cattaneo
through PARTIND TRE Srl
Giovanni Punzo
through MDP TRE Srl
Isabella Seragnoli
through MAIS Spa
Alberto Bombassei
through NEXT INVESTMENT Srl
Peninsula Capital
through PII1 Sarl

7.6%

IP INFRA INVESTORS LP

0.6%

MOLAGERS

Company Information
Viale del Policlinico 149/b, 00161 Rome (RM)
Share capital: €60,017,725.00, fully paid-up
Rome Companies' Register: 09247981005
Business Registration Number in Rome (R.E.A.): 1150652
Tax code and VAT number: 09247981005

THE COMPANY

Italo is Italy's first and only private high-speed rail operator and the first operator in the world to use Alstom's AGV train.
Italo's current train fleet is made up of 25 AGV 575 trains and 19 EVO Pendolinos.
Thanks to its fleet, Italo offers journeys that are rich in entertainment experiences and customized services, providing the very best in comfort and designed to meet the needs of every kind of traveler.
Italo offers four travel classes or "ambiences": Smart, providing a high-quality service at affordable prices; Comfort, offering a perfect mix between the affordability of Smart and the comfort offered by Prima; Prima, designed for passengers looking for comfort and a first-rate, attentive service; and Club Executive, offering an exclusive travel experience for the most demanding customers.
Once on board, free Wi-Fi connections are available in all classes, enabling passengers to access Italo's live onboard portal, offering varied entertainment content, such as free films, newspapers, music, digital books and much more. The entertainment continues in the Cinema coach, which each month offers a different program, including a selection of the best films.

Our mission

Italo's mission is to offer passengers safe, reliable and technologically advanced high-speed rail passenger services. Demand for transportation in Italy is growing and Italo aims to meet that demand by providing high-quality services.
Italo's value-for-money offering aims to enable everyone to satisfy their right to travel for work, study, business or for leisure purposes.
Italo provides comfortable and relaxing travel options, allowing passengers to avoid the stress of having to take their cars, especially over longer distances and in the most congested areas.
With our station and onboard staff, we have introduced a new approach to rail passengers. At all stages of the customer experience, from when a passenger decides to travel with Italo to when they get to their departure station, and while on the train, they can contact us, tell us their needs and obtain the right solution.
Italo's mission is not immutable, but envisages an ongoing improvement in the service in order to continuously ensure that we can provide what our customers are looking for.

The network

Italo connects 31 stations in 26 towns and cities: Salerno, Naples Centrale, Naples Afragola, Rome Termini, Rome Tiburtina, Florence SMN, Bologna, Verona, Rovereto, Trento, Bolzano, Brescia, Desenzano, Peschiera, Vicenza, Ferrara, Rovigo, Padua, Venice Mestre, Venice Santa Lucia, Treviso, Conegliano, Pordenone, Udine, Reggio Emilia AV, Milan Rogoredo, Milan Centrale, Rho Fiera, Bergamo, Turin Porta Susa and Turin Porta Nuova.

31	26	116
stations connected by Italo	towns and cities served by Italo	trips a day in early 2020

In addition to its high-speed rail services, Italo also offers Italobus road transport services, an Italo-branded bus service provided by private operators in various regions of Italy.

Italo is in fact not just rail transport, but also believes strongly in the value of intermodal rail-road transport. For this reason, at the end of 2015, it launched a service designed to connect high-speed rail services to the cities not included in the network.
Italobus thus connects the following towns and cities to stations along the high-speed rail network: Mantua, Parma, Cremona, Modena, Longarone, Tai di Cadore, Valle di Cadore, Venas, Peaio, Vodo, Borca di Cadore, San Vito di Cadore, Cortina, Picerno, Potenza, Ferrandina, Matera, Sala Consilina, Lauria, Frascineto (Castrovillari), Cosenza, Caserta, Benevento, Pompei, Ercolano and Sorrento.

Italo's fleet

Italo uses Alstom's AGV (Automotrice Grande Vitesse) trains that use the same traction system as the train that, on 3 April 2007, set the world rail speed record of 574.8 km an hour.

The trains, built at the Savigliano (near Cuneo) and La Rochelle plants, first took to the rails of the Italian railway network in April 2012.
The trains have capacity for 462 seats, distributed over 11 carriages (the trains are 200 meters long).

Italo's fleet is currently made up of 25 of these trains, in addition to 19 EVO trains (also manufactured by Alstom) acquired from 2015, bringing the total number of trains in the fleet to 44.

44	**25**	**19**
trains in total in Italo's fleet	high-speed trains in the AGV fleet	Pendolino trains in the EVO fleet

The Italo EVO trains consist of 7 carriages, making a total length of 187 meters. They can accommodate 472 passengers and are the latest version of the "Pendolino" range, of which more than 500 trainsets are in circulation around the world, attesting their proven track record of extraordinary performance and reliability. This "evolution" of the fleet aims to improve the comfort for passengers. In addition, this particular train is fully compatible with the latest 2014 Technical Specifications for Interoperability (TSI-2014), as well as complying with all European and Italian safety and environmental regulations.

ITALO AND SUSTAINABILITY

Italo is strongly committed to respecting and protecting the environment, which forms part of our DNA and has, since the Company's foundation, led us take a keen interest in all the related issues: from the use of "green" electric trains, built using recyclable materials, to our approach to environmental protection, involving our participation in initiatives designed in part to increase awareness of the best ways to save energy.
Italo's focus on the environment is indeed not only a question of adding value, but also a necessary condition for ensuring a sustainable future and fair development.

Italo Green

Italo is a "green" train that, in terms of consumption, always travels in "First Class". Electric-powered and built using materials that are 98% recyclable, Italo uses cutting-edge technology to in order to use less energy than other trains and significantly reduce CO2 emissions compared with other forms of transport.
Whilst a trip from Rome to Milan by train results in the emission of 14kg of CO2, the figure rises to up to 66kg and 94 kg travelling either by car or by air.

Our trains not only enable us to achieve a general reduction in consumption and greater efficiency, they also greatly reduce the impact on the environment caused by harmful emissions from fossil fuels. Fuel consumption is reduced thanks to the trains' technical characteristics that enable them to carry large numbers of passengers aerodynamically, at a constant speed and with energy dissipation reduced to the greatest extent possible.

The Italo Lounges, designed to ensure that passengers in transit can wait in comfort, also comply with the most recent directives on energy consumption and waste recycling.

Having made protecting and safeguarding the environment a key goal to be met and continuously improved on, Italo is committed to:
- reducing water and electricity consumption at its headquarters and at all the Company's other sites;
- providing detailed information to customers and other stakeholders on the environmental impact of their journeys.

Italo also pursues this environmentally friendly approach at corporate level, participating in initiatives designed to increase awareness among employees and travelers of the best ways to save energy.
The main initiatives that Italo has taken part in include *Italia in Classe A*, the first national information and educational campaign on energy efficiency, promoted by the Ministry for Economic Development and run by ENEA (the Italian agency for new technologies, energy and sustainable economic development). The project's main objective is to educate people about the importance of energy saving and energy efficiency, promoting a more responsible use of energy in the many areas of daily life.
Italo takes part in various initiatives forming part of the campaign, with information and promotional initiatives created specially to get travelers involved in the project and raise their awareness of the need to use energy responsibly.
As Italo's business becomes ever more deeply rooted throughout the country, we are ready to face the new challenges that will be posed in the coming years as a result of growing attention towards environmental sustainability.

Italo firmly believes in the need to take an integrated approach to the economic, financial, social and environmental aspects of a business's operations. For this reason, although not subject to the relevant legal requirements, in 2018 we decided to publish our first sustainability report, not only to assess and mark the initiatives supported and the results achieved, but also to share the values that have always inspired the Company to face new challenges and further improve our performance.
Italo again voluntarily prepared a sustainability report in 2019, highlighting our strong, ongoing

commitment to sustainability and our willingness to pursue the targets set, above all in relation to five of the UN Sustainable Development Goals for 2030, specifically those focusing on the climate, gender equality, sustainable cities and communities, economic and employment growth, innovation and infrastructure.
In the document, Italo has reported on what steps have been taken so far and what needs to be done in the future.
A number of the goals Italo had set itself have been achieved and we have now set new ones in keeping with the Company's sustainable approach to doing business: these include the process of making the Company plastic-free, the implementation of recycling at the Company's sites, the adoption of innovative forms of working to improve the work-life balance (designed around people's different needs throughout their working lives and beyond) and the introduction of new forms of staff training (both classroom and on line) to develop new skills and increase people's awareness of their roles.

Green financing for green investment

In October 2019, Italo developed the "Italo Green Finance Framework" (the "Framework"), on the basis of which, in November 2019, it was granted a Green Loan of €1,100 million, with the aim of refinancing existing and future projects that contribute to achievement of the targets for reducing Italy's greenhouse gas emissions and the switch to sustainable mobility.

Italo has engaged Sustainalytics to provide a Second-Party Opinion ("SPO") on the Framework, confirming its alignment with the Green Loan Principles for 2018 ("GLPs"). In October 2019, Sustainalytics issued a positive SPO, confirming Italo's ranking as a "pure player" (meaning a company whose revenue is generated entirely or primarily from activities entailing a low level of CO2 emissions and that is therefore capable of combating climate change). Sustainalytics believes that the purchase and renewal of Italo's fleet for use in providing public transport helps to cut emissions and to drive the switch to sustainable mobility.

Report on operations

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, owned by Italo, consisting of 25 AGV trains.

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 of EVO Pendolino trains owned by Italo.

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

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

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

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

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

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

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

Italobus: the intermodal road transport service offered by Italo.

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

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

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

MED: Ministry for Economic Development.

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

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

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

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

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

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

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

KEY FINANCIAL AND OPERATIONAL DATA FOR 2019

Key financial and operational data for 2019 and 2018 is shown below.

(€m, as ratios and in %)	2019	2018	Change	% Change
Operating performance				
Total Operating Revenue	715.3	571.6	143.7	25.1%
Revenues from Transport Services	680.6	536.5	144.1	26.9%
Net Revenues from White Certificates	29.8	30.4	(0.5)	(1.8%)
Other Revenues	4.9	4.7	0.2	4.4%
Non-recurring expenses	-	(13.2)	13.2	(100.0%)
EBITDA	292.2	198.8	93.4	47.0%
EBITDA margin	*40.8%*	*34.8%*	*6.1 pp*	*n/a*
Adjusted EBITDA	292.2	212.0	80.2	37.8%
Adjusted EBITDA margin	*40.8%*	*37.1%*	*3.8 pp*	*n/a*
Organic EBITDA	262.4	181.7	80.7	44.4%
Organic EBITDA margin	*38.3%*	*33.6%*	*4.7 pp*	*n/a*
EBIT	235.7	162.7	72.9	44.8%
EBIT margin	*32.9%*	*28.5%*	*4.5 pp*	*n/a*
EBT	199.7	131.1	68.6	52.3%
EBT margin	*27.9%*	*22.9%*	*5.0 pp*	*n/a*
Profit for the year	151.4	92.9	58.5	63.0%
Profit margin	*21.2%*	*16.3%*	*4.9 pp*	*n/a*
Financial position				
Net Working Capital	(222.1)	(194.2)	(27.9)	14.4%
Non-current Assets	2,817.8	899.4	1,918.3	213.3%
Net Non-current Assets	2,766.6	876.5	1,890.0	215.6%
Net Invested Capital	2,544.4	682.3	1,862.1	272.9%
Available funds	93.2	289.0	(195.8)	(67.8%)
Current financial assets	80.2	-	80.2	n/a
Current and non-current borrowings	900.2	722.7	177.5	24.6%
Gross Debt	954.2	722.7	231.5	32.0%
Net Debt	780.8	433.7	347.1	80.0%
Investment	144.7	147.0	(2.3)	(1.6%)
Total Assets	3,041.5	1,236.8	1,804.7	145.9%
Equity	1,763.6	248.6	1,515.0	609.3%
Financial ratios				
Net Debt / Equity	0.4x	1.7x	(1.3x)	n/a
Net Debt / EBITDA	2.7x	2.2x	0.5x	n/a
Operational indicators				
Passengers (in millions)	20.1	17.5	2.5	14.5%
Commercial offering (millions of train-km)	22.4	19.6	2.8	14.2%
AGV fleet (at year end)	25	25	-	0.0%
EVO fleet (at year end)	19	12	7	58.3%
Total AGV + EVO fleet (at year end)	44	37	7	18.9%
Workforce at year end (number)	1,420	1,250	170	13.6%

A number of figures shown in the table constitute Alternative Performance Indicators, as defined in the section, “Alternative Performance Indicators” below.
In addition, the financial data shown in this document is presented in millions of euros, and has been rounded with respect to the corresponding amounts in the financial statements for the year ended December 31, 2019, presented in euros. The totals for certain financial indicators may thus differ slightly from the effective mathematical totals and/or corresponding amounts in euros included in the financial statements for the year ended December 31, 2019.

An overview of 2019

2019 was a year of positive results in all strategic areas: in terms of passengers, operating performance, brand recognition and customer satisfaction.
There was a significant improvement in earnings, driven by strong revenue growth. This was achieved through expansion of the offering, an effective commercial strategy and a constant focus on cost discipline.
The Company's operations in 2019 enabled us to improve on the already solid performance of the previous year and achieve highly satisfactory overall results.

€292m	€151m	€715m	€145m	2.7x
EBITDA	profit for the year	turnover	Investment	net debt/EBITDA ratio
€199m in 2018	€93m in 2018	€572m in 2018	€147m in 2018	2.2x in 2018

From an operational viewpoint, Italo further consolidated and strengthened its geographical footprint was, increasing frequencies thanks to the gradual entry into service of the new Italo EVOs, with 19 of these trains now in operation. The last 3 will be ready to join the fleet in early 2020 and will thus enable the Company to operate up to 116 services a day.
7 new EVO trains were delivered in 2019, bringing the number of trains in the fleet to 44. The arrival of the new trains and optimized use of the fleet in 2019 enabled us to increase the number of daily services from 90 to 102 (up 13% on 2018). In addition, the network was extended to include Bergamo (March 2019) and Udine (September 2019).

This progressive growth has benefitted as always from the high quality of the services offered by Italo, with the aim of making passenger journeys more comfortable, and has also resulted in an increase in the workforce.
Since February 2019, the Company has in fact embarked on a three-year recruitment drive with the aim of hiring over 500 new staff to boost Italo's team, whilst offering all our employees great opportunities to develop their careers.

In terms of operating results, 2019 saw a significant increase in profitability, driven by a combination of strong revenue growth and a further improvement in operational efficiency. The EBITDA margin is 40.8% for 2019, a 6.1 percentage point improvement on 2018.

This brilliant performance enabled the Company to meet its commitments in terms of loan repayments and investment and to distribute a dividend to shareholders.

2019 was also an important year from a financial standpoint. Following its strong operating performance and in order to support our plans for large-scale investment, the Company has obtained a green bank loan of €1,100 million. The transaction, which strengthens Italo's commitment to environmental sustainability, marks a milestone in the history of Green Financing, representing the largest green loan ever provided in Italy and, in the transport sector, the largest in the world.

Finally, 2019 also saw execution of the Company's reverse merger of the parent, GIP III Neptune SpA, marking the completion of changes to the Company's governance, a process that began in 2018.

Financial highlights

The following operating and financial performance was recorded in 2019:

- **Total operating revenue** of €715.3 million, up 25.1% on 2018 (revenues from transport services are up 26.9%).

- **EBITDA** of €292.2 million, up 47.0% compared with the previous year and resulting in an EBITDA margin of 40.8%. On an organic basis, EBITDA of €262.4 million is up 44.4% on the previous year, with an EBITDA margin (after deducting revenues from White Certificates), up 4.7 percentage points compared with 2018 to 38.3%.

- **EBIT** of €235.7 million, up 44.8% (€72.9 million) compared with 2018.

- **Profit for the year** of €151.4 million, up 63.0% (€58.5 million) on the previous year.

- **Investment** amounted to €144.7 million in 2019 (€147.0 million in 2018) and reflects the process of expansion embarked on in previous years.

- **Net debt** of €780.8 million is up €347.1 million on the previous year, reflecting the financing raised to fund the Company's growth, as well as the lease liabilities recognized following first-time adoption of IFRS 16.

Non-recurring events

On February 21, 2019, GIP III Neptune SpA and its subsidiary, Italo, executed the **reverse merger**, with effectiveness for tax and accounting purposes back-dated to January 1, 2019.
The main effects of the reverse merger on the Company's financial statements as of January 1, 2019 are as follows:

- recognition of **Intangible assets** of €114.4 million, representing "Customer Relationships" (€88.7 million) and the value of Italo's trademark (€25.7 million), gross of deferred tax liabilities of approximately €33.0 million;
- recognition of **Goodwill** of €1,683.8 million;
- recognition of a **Reverse merger reserve** of €1,766.2 million, representing the value of the GIP III Neptune group's consolidated equity as of December 31, 2018, net of Italo's equity as of the same date and transactions that took place through to the date of the transaction.

FINANCIAL REVIEW

Operating results

The table below shows the main operating results for 2019, compared with the previous year.

OPERATING RESULTS (€m)	2019	2018	Change	% Change
Operating revenue	715.3	571.6	143.7	25.1%
of which revenues from White Certificates	29.8	30.4	(0.5)	(1.8%)
Operating costs	(423.1)	(372.8)	(50.3)	13.5%
of which non-recurring	-	(13.2)	13.2	(100.0%)
EBITDA	**292.2**	**198.8**	**93.4**	**47.0%**
Amortization, depreciation, impairments, gains and losses on disposal of non-current assets	(56.5)	(36.1)	(20.5)	56.7%
EBIT	**235.7**	**162.7**	**72.9**	**44.8%**
Net financial income (expenses)	(36.0)	(31.6)	(4.3)	13.7%
EBT	**199.7**	**131.1**	**68.6**	**52.3%**
Income tax	(48.3)	(38.2)	(10.1)	26.4%
Profit (loss) for the year	**151.4**	**92.9**	**58.5**	**63.0%**

Profit for 2019 amounts to €151.4 million.

Operating revenue of €715.3 million is up €143.7 million (25.1%) compared with 2018.

The increase in **revenues from transport services** (up 26.9%) reflects the increase in available capacity. 2019 benefitted from the progressive entry into service of a further 7 EVOs, which brought the number of trains in the fleet to 44. This added capacity was also well-received by the market, leading to positive performances for all the services offered.

Revenues from White Certificates were stable (down €0.5 million). As a result of the regulatory changes introduced by the relevant authorities in 2018 designed to bring down the market price of energy efficiency certificates, 2019 saw prices remain broadly stable. The slight reduction in revenues with respect to the previous year is therefore due to the decline in the average selling price.
Finally, the figure for 2019 also reflects revenue from the certificates received as a result of the savings achieved by the EVO fleet (€2.2 million for energy savings in the two-year period 2018-2019), which partially offset reduced revenue from the AGV fleet.

Operating costs of €423.1 million are up €50.3 million (13.5%) on the previous year, in line with the growth of the business.

The above revenue growth, allied with the less than proportionate increase in costs, had a positive impact on **EBITDA**, which is up 47.0% to €292.2 million compared with the €198.8 million of 2018, and a notable effect on the related margin, which is up 6.1 percentage points compared with the previous year.

EBIT is up €72.9 million (44.8%) compared with 2018 to €235.7 million, after amortization, depreciation and impairments of €56.5 million. The increase in EBIT in 2019 is broadly linked to the improvement in EBITDA, totaling €93.4 million, partially offset by an increase in "Amortization, depreciation, impairments" linked to the ordinary impact of the Company's expansion of assets (up €20.5 million).

EBT of €199.7 million is up €68.6 million compared with the €131.1 million of 2018, resulting in an improvement of 52.3%. In terms of EBT margin, the increase is 5.0 percentage points from 22.9% in the previous year to 27.9% in 2019.

Net financial expenses of €36.0 million are up €4.3 million (13.7%) compared with the previous year.

Income tax amounts to €48.3 million, an increase of €10.1 million (26.4%) compared with 2018 due to the improved results.

Profit for the year totals €151.4 million, an improvement of €58.5 million (63.0%) on 2018. The resulting margin for 2019 is 21.2%, up 4.9 percentage points compared with the previous year.

Financial position

The table below shows key financial data for 2019, compared with data for the previous year.

FINANCIAL POSITION (€m)	2019	2018	Change
Goodwill	1,683.8	-	1,683.8
Intangible assets	115.4	9.0	106.4
Property, plant and equipment	946.4	844.6	101.8
Right-of use assets	52.5	-	52.5
Deferred tax assets	19.5	45.8	(26.2)
A. Non-current assets	**2,817.8**	**899.4**	**1,918.3**
Inventories	10.1	7.4	2.7
Trade receivables	8.3	7.2	1.1
Other current assets	31.9	33.7	(1.7)
Trade payables	(188.8)	(177.9)	(10.9)
Current tax payables	(14.2)	(4.4)	(9.8)
Deferred revenues from transport services	(44.6)	(31.9)	(12.7)
Other current liabilities	(24.8)	(28.3)	3.5
B. Net working capital	**(222.1)**	**(194.2)**	**(27.9)**
Employee benefits	(16.9)	(18.3)	1.4
Deferred tax liabilities	(30.3)	-	(30.3)
Non-current provisions	(4.1)	(3.3)	(0.8)
Other non-current liabilities	-	(1.3)	1.3
C. Other assets (liabilities)	**(51.2)**	**(22.9)**	**(28.3)**
D. Net invested capital (A+B+C)	**2,544.4**	**682.3**	**1,862.1**
E. Net debt	**780.8**	**433.7**	**347.1**
F. Equity	**1,763.6**	**248.6**	**1,515.0**
G. Total sources of financing (E+F)	**2,544.4**	**682.3**	**1,862.1**

Non-current assets amount to €2,817.8 million, having increased significantly (up €1,918.3 million) following the reverse merger of GIP III Neptune SpA by Italo SpA. This resulted in Italo's recognition of goodwill (€1,683.8 million) and other intangible assets (€105.0 million, consisting of "Customer Relationships", totaling €82.1 million, and the Italo trademark, amounting to €22.9 million, gross of deferred tax liabilities of €30.3 million at the reporting date).
A major portion of the Company's non-current assets is represented by its owned rolling stock, the historical cost of which is €1,126.2 million as of December 31, 2019. This rose €130.8 million during the year due to expansion of the EVO fleet.
Deferred tax assets are down €26.2 million, primarily due to the positive results achieved by the Company, which led to the partial reversal of deferred tax assets generated in previous years.

Net working capital is a negative €222.1 million, marking an increase of €27.9 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.
Changes in the items that make up working capital are not significant, but rather reflect the growth in operations and the resulting increase in volumes. The largest movements thus regard trade payables and deferred revenues from transport services sold but yet to be provided, as well as current tax liabilities, which have risen due to the operating performance and the almost total reversal of deferred tax assets.

Other assets and liabilities reflect an increase of €28.3 million in liabilities, due primarily to the deferred tax liabilities accounted for following the reverse merger completed during the year.

Net invested capital of €2,544.4 million is covered by equity of €1,763.6 million and net debt of €780.8 million, having registered an increase of €1,862.1 million compared with the end of the previous year. This primarily reflects the increase in equity resulting from the reverse merger of the parent, GIP III Neptune SpA, and to a residual extent an increase in net debt.

Net debt

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

NET DEBT (€m)	2019	2018	Change
A. Cash	**(93.2)**	**(289.0)**	**195.8**
B. Current financial assets	**(80.2)**	**-**	**(80.2)**
Current portion of non-current debt	2.4	4.5	(2.1)
Lease liabilities falling due within the next 12 months	5.8	-	5.8
Other current financial liabilities	-	-	-
C. Current debt	**8.2**	**4.5**	**3.7**
D. Net current debt (D = A + B + C)	**(165.1)**	**(284.5)**	**119.4**
Bank borrowings	897.8	718.2	179.6
Notes issued	-	-	-
Other non-current borrowings	-	-	-
Lease liabilities falling due after the next 12 months	48.2	-	48.2
E. Non-current debt	**946.0**	**718.2**	**227.8**
F. Net debt (F = D + E)	**780.8**	**433.7**	**347.1**

Net debt of €780.8 million is up €347.1 million compared with December 31, 2018. The increase reflects the following factors.

- In 2019, the Company used €150 million available under the loan agreement entered into in 2018, increasing its overall exposure to €880 million (gross of transaction costs). In November 2019, the Company then obtained a green loan worth €1,100 million to finance green investments that it has already carried out and that it will carry out in the near future. €900 million of this facility has been drawn down. As part of this transaction, the size of the loan was increased by €20 million.
- During the year, the Company also paid dividends totaling €401.9 million to shareholders. This distribution, combined with investing activities, was reflected in available cash and current financial assets at the end of the year, which declined by a total of €115.6 million compared with the previous year.
- Finally, net debt reflects first-time adoption of IFRS 16, which has resulted in the recognition of lease liabilities of €54.0 million, without which net debt would amount to €726.8 million, marking an increase of €293.1 million compared with 2018.

The above events are reflected in the change in the "**Net Debt /EBITDA**" ratio, which has risen 0.5x to 2.7x (2.2x in 2018).

The "**Net Debt /Equity**" ratio has improved considerably, falling from 1.7x in 2018 to 0.4x in 2019 (a decline of 1.3x).

Cash flow

The table below shows a summary of the cash flow statement for the years ended December 31, 2019 and 2018.

CASH FLOW (€m)	2019	2018	Change
Cash flow from/(for) operating activities	283.6	206.3	77.3
Cash flow from/(for) investing activities	(235.8)	(152.5)	(83.3)
Cash flow from/(for) financing activities	(243.6)	(31.9)	(211.7)
Total net cash generated/(used) during the period	**(195.8)**	**21.9**	**(217.7)**

There was a **net cash outflow** of €195.8 million in 2019.

Cash flow from operating activities rose €77.3 million compared with the previous year, but this was more than offset by increases in the cash outflow for investing and financing activities.

Operating activities generated a cash inflow of €283.6 million, almost entirely absorbed by the cash outflow for investing activities of €235.8 million. In keeping with the previous year, the outflow for investing activities primarily reflects the Company's investment in the assets purchased in connection with its growth plans (€155.8 million). A residual amount of €80.2 million was invested in a short-term asset management transaction.

Thanks to the cash generated by the business, the Company was able to pay shareholders special dividends which, in addition to those paid from earnings for 2018, amounted to €401.9 million.

At the end of the year, available cash amounts to €93.2 million, rising to €173.4 million if investments in short-term financial assets are taken into account. Available cash continued to be 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.

INVESTMENT DURING THE YEAR

Investment amounted to €144.7 million in 2019, a reduction of €2.3 million compared with the previous year.

Details of investment in property, plant and equipment and intangible assets in 2019 are provided below (for further details, reference should be made to the notes to the financial statements).

INVESTMENT (€m)	2019	2018	Change
Property, plant and equipment			
Italo's fleet	101.8	62.6	39.2
Onboard telecommunications	0.1	0.2	(0.1)
Investment assets under construction	34.7	74.0	(39.3)
Investment in railway stations	0.3	1.2	(0.9)
Other PPE	1.3	2.7	(1.4)
Total investment in property plant and equipment	**138.2**	**140.7**	**(2.5)**
Intangible assets			
Software	2.3	3.9	(1.6)
Investment in intangible assets in progress	4.2	2.3	1.9
Total investment in intangible assets	**6.5**	**6.2**	**0.3**
Total investment	**144.7**	**147.0**	**(2.3)**

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

Investment in the EVO fleet amounted to €130.8 million in 2019, including the remaining milestones for trains entering service during the year and payments on account for further trains under construction (recognized in assets under construction).

Following the reverse merger completed in 2019, the effectiveness of which for accounting and tax purposes was back-dated to January 1, 2019 pursuant to the provisions of article 2504-*bis*, paragraph two of the Italian Civil Code, the following assets were also recognized:

(€m) Intangible assets resulting from the reverse merger (€m)	2019	2018	Change
Goodwill	1,683.8	-	1,683.8
Customer Relationships	93.1	-	93.1
Trademark	27.5	-	27.5
Total assets resulting from the reverse merger	**1,804.4**	**-**	**1,804.4**

KEY EVENTS DURING THE YEAR

Operating activities

On **February 20, 2019** the new collective labor agreement (*CCL ITALO*), applicable to all personnel, was signed with the unions. The new agreement is valid for three years.

On **March 4, 2019** the latest addition to the Italo Live onboard entertainment offering, a "Games" section, was launched. Italo offers a range of content free of charge to all passengers, who can access it using the wi-fi network.

On **March 10, 2019** the new twice daily services to Bergamo began. This has given the large number of travelers originating in Bergamo the chance to connect with the high-speed network, enabling them to travel to Rome and back within a day or reach one of the other cities served by Italo.

On **May 22, 2019** an addendum to the Framework Agreement with RFI was signed, among other things extending the duration of the agreement until December 2033. The new agreement also provides for an increase in capacity, optimized frequencies and improvements to punctuality, enabling Italo to plan additional services and to circulate both its AGV and EVO fleets on the network backbone.

On **June 3, 2019** Italo took part in the conference on "Transport and sustainability" organized by the University of Milano Bicocca as part of the Sustainable Development Festival 2019 promoted by ASVIS. The conference brought together both government actors and businesses with the aim of developing a consistent, concrete agenda for sustainable transport. The presence of major companies such as Italo, Snam 4 Mobility and Go flash, actively involved in the development of sustainable forms of transport, facilitated a discussion of the practical aspects. By taking part, Italo was able to highlight the strength of its commitment to respecting and protecting the environment, presenting the progress made so far and its intentions for the future.

In **June 2019**, the new rail timetable came into effect, marking increases in both daily connections and the network. In addition, thanks to the ItaloBus integrated rail and bus service, seasonal routes were introduced to provide connections with the Amalfi Coast, serving Vietri, Cetara, Maiori, Minori, Atrani and Amalfi, and towns along the Venetian coastline, with 10 daily services from Mestre, stopping at tourist destinations such as Caorle, Bibione, Punta Sabbioni and Jesolo. The Italobus network, which is growing fast, thus saw the introduction of 10 new destinations for the summer season through to September 15.

On **June 24, 2019** Italo introduced Amazon Pay, a new method of payment for passengers purchasing tickets on line.

On **July 29, 2019**, thanks to the agreement entered into with Alipay, the Alibaba group's mobile payments platform, this new method of payment was rolled out at stations in Milan, Venice, Verona, Florence and Rome. The agreement aims to improve the travel experience and the purchase of tickets for Chinese tourists visiting Italy's most important cities.

On **September 1, 2019** services to the city of Udine were launched.

On **September 23, 2019** the Italo Impresa app for SME business customers and professionals was launched.

In **December 2019**, a new Access Agreement covering hours of service in 2019/2020 period was signed. The agreement is signed annually by the Company and the infrastructure manager, RFI, and governs the allocation of slots for the annual use of railway lines and the related services.

Financial matters

In **November 2019**, the Company obtained a green bank loan worth €1.1 billion from a syndicate of banks. This transaction marks a milestone in the history of Green Financing, representing the largest green loan ever provided in Italy and the largest in the world in the transport sector.
The Green Loan also includes the possibility to activate a "sustainability-linked option" under which Italo, by meeting certain KPIs for Environmental Sustainability Governance (ESG), can reduce the spread applied.
Sustainalytics, a company that audits sustainability performance, has issued a positive SPO (Second Party Opinion) on Italo's Green Finance Framework in line with Green Loan Principles, confirming its classification as a "pure player". This reflects the fact that the Company's business model is based on a low-carbon future, with revenue generated entirely or mainly from green activities.
€900 million of the sum obtained was used to repay existing debt and to cover the related costs, including the early unwinding of hedges. An additional facility of €200 million is available for general corporate purposes.
The new loan terms and conditions have reduced the Company's borrowing costs and extended the term to maturity by 1 year (with full repayment due in 2024).

November 2019 also saw the Company enter into three Interest Rate Swap agreements, two of which classifiable as "ESG-linked Swaps" containing incentives to meet certain sustainability performance indicators set out in the loan agreement.

Corporate events

The reverse merger of GIP III Neptune SpA by its subsidiary, Italo SpA, was completed in **February 2019**, with the transaction's effectiveness for tax and accounting purposes back-dated to January 1, 2019.

In **December 2019,** following the resignation of Andrew Harvey Gillespie-Smith from the Board of Directors, Lucy Chadwick was co-opted on to the Board.

Social and cultural initiatives

In February 2019, Italo provided backing for the **Ospedali Dipinti** project, supporting the **"Donare è vita" association in its "Acquario" project** at the Monaldi hospital in Naples. Ospedali Dipinti, which helps non-profits, foundations, businesses and private entities, has enabled the repainting of rooms and units in numerous hospitals throughout Italy. Italo, which firmly believes in the importance locally-based social initiatives, decided to support the initiative and immediately took part in the "Acquario" project, making it possible to refurbish the unit that provides mechanical circulatory support and transplants for adolescent patients at the Monaldi hospital in Naples. All Italo's personnel could donate in order to help the young patients realize their dreams, with the Company doubling the amount donated by each member of staff and passing on the full amount raised.

On 8 March, by donating hortensia and gardenia plants to travelers using the Italo Club Lounge at Rome Termini, Italo supported **AISM, Italy's Multiple Sclerosis Association**, and its **"Bentornata Gardensia"** initiative, a campaign focusing on women with multiple sclerosis.

March also saw the Company begin a **partnership with the Egyptian Museum**, founded in Turin in 1824 and considered the oldest museum in the world dedicated entirely to Egyptian civilization, after the Museum in Cairo. Italo, which has always believed in the important role played by culture as an unquestionable driver of sustainable growth, and has for many years taken part in related initiatives in partnership with cultural institutions in the areas in which the Company operates, gave its customers the chance to buy discounted tickets for entry to the museum.

In April 2019, Italo took part in the **Lezioni di Storia Festival** held in Naples between April 25 and 28.

On May 7, 2019 Italo launched its participation in an Ecobox initiative organized in partnership with the humanitarian organization, **HUMANA People to People Italia**. The Ecobox containers for the collection of clothing were placed in Italo's head office and in staff rooms in Naples, Rome and Milan, with the aim of making people more aware of how clothing can be recycled and the circular economy. For every kilogram collected, Italo made a donation to further support all HUMANA's activities.

In June 2019 Italo's intermodal Italobus train-bus service offered 4 daily connections to Mantua, thus providing travelers with a convenient way of getting to **Without Frontiers – Lunetta a Colori**, a festival focusing on contemporary art, urban regeneration and how culture can be used to break down barriers, bringing city centers closer to their suburbs through art and culture.

Italo supported the celebrations held to mark the **ten years since the Dolomites were included in UNESCO's World Heritage List**, held in Cortina d'Ampezzo from June 26, 2019. Thanks to the intermodal Italobus train-bus service, Italo ran 4 daily services to Cortina, enabling travelers to visit the many events held in the town.

In August 2019, Italo took part in another major cultural initiative in Campania: the **"Un'Estate da Re" opera and symphonic music festival** that hosted a number of world-renowned artists and musicians.

From October 10, 2019, Italo accompanied its customers to the **"Botero" exhibition**, which was open to the public at the Palazzo Pallavicini a Bologna between October 12, 2019 and January 26, 2020.

In November 2019, Italo provided support for Telefono Rosa, a national non-profit association that provides assistance for victims of domestic violence and their children, helping to protect them, restore their dignity and bring hope back into their lives by spreading a message of equality and mutual support, and the need to prevent violence. For one week from 25 November, the international day for the elimination of violence against women, Italo supported the association by running a campaign in our Lounges at Naples Centrale, Rome Termini and Milan Centrale.

Commercial initiatives

The **"2 poltrone per 1"** ("2 tickets for the price of 1") initiative was launched on February 4, 2019. This was aimed at Italo Più members, giving them the chance to purchase 2 cinema tickets for the price of just 1 in order to see the latest Italian and international films. Further partnerships with cinemas were run during the summer period, timed to coincide with the release of "Spider-Man™: Far From Home", and in December, when the film "Jumanji: The Next Level" was released.

Italo began a **partnership with a global leader in ticketing** for live events on June 19, 2019. Thanks to this initiative, all Italo's customers have the chance to purchase reduced-price tickets for a selection of major live events in Italy.

THE GENERAL CONTEXT

Macroeconomic environment[1]

According to the Bank of Italy in Economic Bulletin 1/2020, **global economic risks are continuing to ease**. World trade has picked up again and there are signs that recent tariff disputes between the USA and China are easing, although the outlook remains uncertain and geopolitical tensions are on the rise. Less pessimistic growth projections, backed by monetary easing by central banks, have driven share prices higher and favored a recovery of long-term yields. In contrast, however, in February 2020 the Governor of the Bank of Italy declared that this scenario is subject to significant downside risks.

Economic activity in the euro area was held back by weakness in the manufacturing sector, which is particularly notable in Germany despite a performance that beat expectations through to November 2019. The risk that growth in services, which have so far held up better, may be affected remains. The performance of the economy has had an impact on inflation, which is expected to be supported by the effects of monetary stimulus but is still projected to be below 2% in the next three years. The ECB's Governing Council has reconfirmed the need to continue with the current monetary easing.

The latest available information suggests that **economic activity in Italy, whilst having picked up in the third quarter of 2019, was almost stagnant in the fourth**, continuing above all to reflect the weakness of the manufacturing sector. In surveys conducted by ISTAT and the Bank of Italy, businesses have reported a slight improvement in orders and overseas demand, but continue to consider uncertainty and trade tensions as factors holding back their activity. Businesses are planning to invest more in 2020, although the increase will not be as great as that seen in the previous year.

In the closing months of 2019, **overseas investors purchased large volumes of Italian government securities** (€90 billion between January and November 2019). The Bank of Italy's debt position in Europe's TARGET2 payments system has improved significantly. The current account surplus remained sizeable in 2019, whilst Italy's net external position is close to equilibrium.

The **number of people in employment rose slightly** in the first quarter of 2019, above all in the services sector. The available figures indicate growth continued into the last months of the year. Wage growth of 0.7% compared with the previous year, whilst down, reflects the fact that important sectors of the economy are due for contract renewals.

Inflation is modest (0.5% in December 2019). Services made the biggest contribution, whilst growth in the prices of industrial goods remained low. The underlying inflation rate strengthened slightly in the autumn, rising to 0.7%. The most recent surveys show that businesses' inflation expectations have fallen slightly.

The **yields on government securities and Italian equity prices** rose from mid-October 2019, reflecting a common trend among other countries in the euro area and the publication of economic data for the area that was more positive than expected. Yields on securities issued by Italian banks and non-financial undertakings did not rise, coming in at over 70 basis points below the average for the first half of 2019.

The cost of credit fell, significantly in the case of households. There as again solid growth in household debt, whilst lending to businesses declined, reflecting – according to surveys – weak demand for credit. According to banks, the measures adopted by the ECB's Governing Council in September 2019 will help to improve credit conditions.

[1] Source: data published by the Bank of Italy in Economic Bulletin n. 1 – 2020 (January 2020).

Early indications for 2019 point to a **slight reduction in the ratio of net public borrowing to GDP and an increase in the debt-to-GDP ratio**. The budget for the three-year period 2020-2022, approved by Parliament in December 2019, increases the deficit by an average of 0.7 percentage points of GDP a year with respect to trend. The government has projected that, after stabilizing in 2020, public borrowing and debt as percentages of GDP will fall in the following two years.

Macroeconomic projections for the Italian economy in the three-year period 2020-2022 point to a gradual global recovery and easy monetary conditions that are expected to lead to a return to moderate growth, despite the risks remaining high.

Market environment

According to a study by the European Court of Auditors, **transport represents a strategic sector for the EU economy**, having a direct impact on the daily lives of the Union's citizens and generating approximately 11 million jobs. As a result, valid transport systems are one of the bases for European integration, given that fully interconnected and sustainable transport networks are a necessary condition for completing and the correct functioning of the European single market.
In recent decades, EU freight and passenger traffic has grown and this is expected to continue, even if at a slower pace. In volume terms, the majority of freight and passengers travel by road, with the market failing to offer sufficient incentives to switch to other forms of transport, which are in general less competitive.

Given its importance, the sector is included among the EU's strategic objectives; the treaty on the functioning of the European Union (TFEU) has set out the basis for a **trans-European transport network (TEN-T)**, an integrated multimodal network that will enable people and goods to rapidly and easily move around the whole of the EU.

To arrive at a functioning single market, the European Commission has actively supported **the opening up and liberalization of the internal transport market**. As regards the railways, freight transport has been open to competition since 2007, whilst international transport was liberalized in 2010. Liberalization of the railway market has not been carried out in a uniform manner across all member countries. Only a few have liberalized their national passenger transport markets. Operators wishing to enter the market still face barriers in terms of access to railway infrastructure and essential services, which are often owned and managed by incumbent operators.

In 2016, the EU adopted the **fourth railway package**, which has radically changed the regulatory framework for the sector and proposes an integrated approach with a view to revitalizing rail transport within the EU in order to create a single European rail market. In Italy, the process of implementing the fourth railway package was completed in June 2019, with transposition of the last two directives forming the so-called "technical pillar" in the fourth railway package, regarding the interoperability of the railway system within the European Union and railway safety.

Steps are certainly being taken at European level to support the growth of rail transport, including the provision of backing for investment in infrastructure, although responsibility for the development, funding and construction of such infrastructure remains primarily with member states.

The **pace with which new infrastructure is built** cannot but play a major role, though progress is uneven within the European Union, with the quantity and availability of infrastructure remaining insufficient, above all in eastern regions. The main networks forming the TEN-T are already complete or are close to completion in certain member states, whilst there remains much to do in others.

At national level, whilst progress has been slow, liberalization of the high-speed rail market can now be considered complete. The opening up of the internal market for passenger transport to competition has brought an undoubted improvement in the quality of service offered and has convinced travelers to switch from using the plane or a car. Since 2012, the year in which Italo entered the market, the high-speed rail transport market has registered growth of around 8% per year. It is estimated that growth in 2019 with respect to 2018 was approximately 6%, with a large percentage of that traffic switching from other forms of transport. In contrast, the market is expected to stabilize in the coming years, with lower growth of around 1-2% per year in the next 5 years.

In terms of infrastructure, over the XVIIth legislature, **funding for railway infrastructure in Italy** was provided on the basis of the program designed to boost rail transport in order to achieve a better balance between the various forms of passenger and freight transport. In line with the railway infrastructure development strategy, investment focused on a number of particularly costly projects (the III Valico di Giovi, the high-speed Brescia-Verona-Padua section of the Milan-Venice line, the new Valico del Brennero and others).
In addition to this investment, other high-cost projects have focused on network upgrades, railway safety, the removal of level crossings, the introduction of new technologies and investment in track serving urban areas, regional lines and transport interchanges.
The FS Italiane group's new Business Plan for the period 2017-2026 envisages investment of €94 billion, including €73 billion for infrastructure, which will have a positive impact on the offer of mobility and, as a result, on business opportunities for companies operating in the sector.

Finally, the transport sector represents one of the most challenging in relation to achievement of the EU's **overall decarbonization targets**, given that transport is responsible for approximately a quarter of all greenhouse gas emissions in the European Union and that, since 2014, the sector's emissions have begun to climb again.
Within the context of existing policies, taking into account the expected growth in freight and passenger transport, the transport sector's greenhouse gas emissions are projected to fall 15% by 2050 with respect to 2005. Companies operating in the sector will have to be in a position to take advantage of the opportunities this challenge presents.
Italo, the only transport provider that can claim to have been dubbed a "pure player" by Sustainalytics, is an exception in the sector, given that 100% of its fleet is made up of electric trains.

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 (the "**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 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 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 188 of July 8, 2003.

Directives 2004/49/EC, 2004/50/EC and 2004/51/EC (the "**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 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"), subsequently repealed and replaced by Legislative Decree 50 of May 14, 2019 ("Implementation of directive 2016/798 of the European Parliament and Council, dated May 11, 2016, on railway safety"), with the exception of safety certificates valid at the date of entry into force of the latter decree, which will continued to be valid until their original expiry date;
- Legislative Decree 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 have been subsequently adopted (directives 2007/58/EC and 2007/59/EC – constituting the "**Third Railway Package**" - and transposed by Law 99 of 23 July 2009, by Legislative Decree 15 of January 25, 2010 and by Legislative Decree 247 of December 30, 2010, and directives 2016/797/EU, 2016/798/EU and 2016/2370/EU - constituting the "**Fourth Railway Package**" – and transposed into law by Legislative Decree 57 of May 14, 2019 and Legislative Decree 50 of May 14, 2019), the aim of which is to increase the competitiveness of railway services and consolidate establishment of the 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 lines – including high-speed lines – and equipment 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 (in accordance with the criteria established by the Transport Regulator).

The **Infrastructure Manager is RFI** by virtue of the concession granted by the Ministry of Infrastructure and Transport in ministerial decree 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 Regulator (ART), which was established pursuant to article 37 of Law Decree 201 of December 6, 2011 (converted into law, as amended, by Law 214 of December 22, 2011) in connection with regulatory authorities for public services under Law 481 of November 14, 1995.

The Transport Regulator 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 112 of May 15, 2015 – in line with Legislative Decree 188 of July 8, 2003 – the following conditions must be met in order to provide rail transport services:

- a railway license corresponding with the service provided;
- 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 railway license is issued by the Ministry of Infrastructure and Transport. To obtain such licenses an operator must fulfil certain requirements relating to integrity, financial strength, professional competence and adequate civil liability insurance.
Licenses are for an unlimited period of time. However, the Ministry can review from time to time whether the above requirements have been met and, if they have not, licenses may be suspended or revoked.
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 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.

In preparation for expansion of its network, in October Italo submitted a request for an amendment to its current Safety Certificate (issued in accordance with Legislative Decree 162 of August 10, 2007), having fulfilled the new requirements for the issue of the Single Safety Certificate for railway undertakings introduced by directive 2016/798/UE.

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 includes the period between the second Sunday in the month of December of year x and the second Saturday in the month of December of year x + 1.
Use of the infrastructure entails the right for railway undertakings to use the services covered by the minimum access package (MAP) and other services not covered by the MAP. The services covered by the MAP 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 Regulator in pursuance of Legislative Decree 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 Ageement, drawn up on the basis of the model annexed to the Network Prospectus, was later amended. An addendum was signed in 2019, among other things extending the duration of the agreement until 2033.

RISK FACTORS

The first paragraph of art. 2428 of the Italian Civil Code requires a description of the principal risks and uncertainties the Company is exposed to, which might have an impact on the Company's situation in the foreseeable future.
The overall factors deemed to give rise to corporate risks, together with the activities carried out to monitor and mitigate them, are described below.

Operational risk

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

The Company's activity relies heavily on the supplier, Alstom, from which Italo has purchased its AGV and EVO fleets and maintenance services.
If the supplier were to be unable, or no longer wished, to provide maintenance services to the required standard, the Company might encounter difficulties in identifying a provider of maintenance services with the same technical capabilities at an acceptable price, with possible negative effects on the operation of Italo's fleet and safety levels. These occurrences might have an adverse impact on the Company's ability to deliver its services.
For this reason, the contract governing the maintenance services supplied by Alstom sets clear levels of service and includes a system of penalties applicable should the supplier fail to meet such levels, thereby enabling the Company to mitigate this risk.
There have never been any instances in which Alstom has failed to carry out maintenance of the trains to the required standard.

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.
The ability to ensure timely and regular maintenance of Italo's fleet is a crucial factor for the Company's business.
To mitigate this risk and ensure availability of the facilities for the Company, Italo has entered into long-term contracts.
There have never been any instances in which it was not possible to carry out maintenance of Italo's fleet in a timely manner and with regularity.

Risks related to information systems, network infrastructure and data protection

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

In order to safeguard the continuity of its essential processes and IT systems, and avoid serious malfunctions, the Company has adopted data center architecture providing a high degree of availability and backup procedures that provide a stable environment capable of ensuring that data is protected.
To date, there have not been any cyber-attacks on the Company's IT systems.

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.
The difficulties and disagreements encountered with the workforce or with the unions could lead to, among other things, strikes, stoppages and other forms of industrial action by the workers concerned, and the Company could be forced to deal with significant disruption to its operations and an increase in personnel costs.
To date, the above difficulties and disagreements encountered during talks with the workforce or 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 on board trains whilst they 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 2019 and in previous years, there were no instances of key suppliers being unable to provide contracted services to the required standard.

Risks related to the sector in which the Company operates

Risks related to access to and management of the infrastructure

The Company does not own or operate the rail transport infrastructure network, and related structures and services, that it uses for its activities. Moreover, it shares access to rail infrastructure with other operators.
Even though access to and utilization of the rail network and other infrastructure is specifically regulated, the Company's operation relies on the activities and decisions of the infrastructure manager, on the regulatory decisions taken by the Italian authorities and on the rulings of Italian administrative courts.
Furthermore, the Company is exposed to the risk that agreements with the infrastructure manager and with other service providers may be terminated.
In the event that the Company is unable to negotiate the technical, operational and financial terms for access and utilization of the rail infrastructure, it might not be able to provide a commercial offering

capable of attracting customers or might be forced to incur greater operating costs, which might make its business less profitable or even impractical. For example, if it cannot secure train paths in the hours of greater interest to customers, the Company's commercial offering might be considered less attractive, leading to a loss of passengers. In addition, any expansion of services, on existing or new paths, requires amendment of the Framework Agreement to obtain new access rights.
The Company has in place a Framework Agreement guaranteeing its right to access and use the Italian rail network through to 2033.

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 Grandi Stazioni Retail SpA.
These companies 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 past, the Company had to ask ART to intervene to resolve a number of disputes with station management companies. 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

In the Network Prospectus, RFI fixes the level of fees applicable to railway operators based on specific regulatory guidelines (the criteria for setting the fees applicable to the MAP and services other than those covered by the Package) issued by ART. ART examines and approves the fees to ensure that they are in line with the above guidelines before they are applied to operators. ART's guidelines establish the principles and criteria applicable over periods of five years.
An increase in access costs (the fees relating to the MAP, other services or electricity costs) could compromise the Company's cost structure.
In terms of electricity costs, RFI passes on the electricity costs it pays to its energy suppliers to railway operators. These costs are determined in application of the current regulations for electricity prices, included in the regulations governing the industry and set out in specific determinations issued by the Regulatory Authority for Energy, Networks and the Environment ("ARERA").
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.

Risks related to the suspension or revocation of licenses

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

Risks related to changes in industry regulations

The Company is subject to the risk that the large number of legal, administrative and regulatory

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

Fare evasion risk

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

Strategic risk

Risks related to the competition

The Company is exposed to competition from the only other operator of high-speed railway services in Italy and from the operators of other passenger transport services.
In the first place, the Company competes on the basis of the quality of the services offered, the composition of its commercial offering, including the convenience of its train timetables, and price. Competition is expected to remain fierce, considering the aim of each competitor is to gain market share at the expense of the other. In addition, even though the high-speed passenger rail transport industry has high barriers to entry, the entry of new competitors in this market could further intensify these competitive pressures.
The Company must also deal with competition from the airline industry (particularly on the Rome-Milan route), private automobile transport and bus services. Consumer preferences and the competition among the different transport services is largely determined by travel times, the degree of comfort on offer, the ease of access to urban 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 considered to form part of our distinctive brand identity – offers a means of creating a lasting competitive advantage and of creating value, the Company has set up a unit with responsibility for the continuous monitoring of quality, both on board its trains and in the stations it serves.

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

The Company is subject to the risk that adverse macroeconomic market conditions in Italy 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.

Risks linked to climate change

The Company is exposed the risks linked to climate change, which could have a negative impact on the business. These risks relate to adverse and/or extreme weather events, such as flooding, rainfall, hurricanes, rising sea levels and drought, which could disrupt services or cause significant damage to the infrastructure used by the Company in its operations.
Italo is firmly convinced of the strategic importance of protection of the environment and the land, resulting in our commitment to supporting the development of intermodal collective transport with a minimal impact on the environment. Moreover, to help prevent and minimize the environmental risks, the Company has begun to devise a structured approach towards sustainability, with the aim of incorporating sustainability within its strategy and culture and applicable to all aspects of the value chain.

Litigation risk

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

FINANCIAL RISK

Pursuant to art. 2428 of the Italian Civil Code, an assessment of the Company's exposure to financial risk is provided below. Further Details are provided in the notes to the financial statements.

Risks related to debt

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

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

The loan agreement in question includes a number of standard default events, such as:

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

In addition, there is a clause that calls for mandatory repayment in case of:

- a change of control
- the sale of all the Company's assets or the issue of a new financial instrument in the capital markets.

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

Liquidity risk

As of December 31, 2019, the Company's available cash amounts to €173.4 million, including the €80.2 million invested in short-term financial assets.
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 €450 million. A portion of these swaps are classifiable as ESG-linked.

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

Foreign exchange risk

The Company is not exposed to foreign exchange risk.

Credit risk

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

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

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

EVENTS AFTER DECEMBER 31, 2019

Reference should be made to the section of the notes to the financial statements entitled “Events after December 31, 2019”.

OUTLOOK

In 2020, the Company will be engaged in implementation of the Business Plan, which continues to focus on achieving growth, enhancing the brand and creating value for all our stakeholders.

The Plan is based on the following strategic pillars.

An increased offering, to be achieved via the opportunities offered by expansion of Italo’s fleet.

Implementation of changes to the commercial strategy, with the aim of improving the Company’s position on each of the routes served by Italo. The potential initiatives around the provision of extra services will also be evaluated to offer customers an increasingly all-round travel experience.

Improvements in terms of operations, quality and digitalization, through initiatives designed to: achieve a high level of operational performance in terms of fleet utilization, reliability and punctuality; improve the quality of service provided and perceived; develop and retain staff; and improve digitalization of the fleet and of the onboard services offered.

Improvements in terms of productivity, adopting a model focusing on cost discipline and productivity, to be achieved through management of the supply chain, improvements to the service model, automatization and the optimization of business processes.

Environmental Social Governance (ESG). The Company intends to put particular emphasis on this aspect, with a team established to develop and implement new ESG projects, with a view to creating an ecosystem around Italo, based on a holistic approach capable of improving the care, culture and wellbeing of personnel, customers, suppliers and all the community and of creating lasting value for the Company.

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 transactions with related parties during the year are described in the notes to the financial statements.

Treasury shares and shares/equity interests in parent companies

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

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:
- conducting training, information and educational initiatives focusing on safety in order to reduce the risk of accidents involving people and, more generally, the risk of dangerous behavior on the railway network, aimed at all types of user, in terms of age, nationality, gender and role;
- implementing the actions necessary to guarantee effective oversight of maintenance processes in order to ensure that they meet the specific requirements and established standards;
- combining aspects related to the human factor in the railway safety management system and in its operational procedures;
- promoting the development of a positive "Safety Culture" in its operations and those of suppliers;
- enabling cooperation and coordination among railway operators, devising an effective process for exchanging information on incidents and problems in order to learn from them.

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

- pursuing a constant and substantial reduction in occupational injuries, with the long-term objective of achieving "zero injuries";
- pursuing a constant and substantial reduction in the number of accidents at work;
- improving the culture of safety with systematic training and specific information initiatives, designed to enhance the awareness of hazards and risks and knowledge of the techniques involved in preventing injuries and managing emergencies;
- ensuring the effectiveness and efficiency of the occupational health and safety management system, by performing regular audits and implementing the corrective actions recommended following the audits performed;
- ensuring the proper evaluation of suppliers in relation to Health and Safety at Work requirements;
- ensuring effective internal/external communication concerning all stakeholders, reviewing the issues raised by external parties and responding.

Considering the prevention of pollution and environmental protection to be mandatory objectives, to be achieved and improved constantly, the Company is also committed to:
- reducing the risk of damage to the environment by implementing a system for monitoring Italo's activities across all its operating sites;
- reducing the environmental impact of the activities of Italo's personnel (for example, in managing waste and in consuming electricity, water and paper), including by promoting development of a positive "Safety Culture";
- informing and where possible involving customers, the community and stakeholders in Italo's environmental initiatives;
- implementing recycling schemes for the waste produced on board Italo's trains and at other sites;
- monitoring the electricity consumption of Italo's fleet of AGV575 and ETR675 trains, using energy meters installed on board, and considering measures designed to minimize consumption.

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

During 2019:
- Italo was not involved in any major incidents relating to railway safety. There were two incidents involving people trespassing on railway tracks, events classified as suicide, for which Italo and its personnel were in no way responsible;
- there were no deaths or serious injuries at work;
- the Company was not held responsible for the occupational illness of employees or former employees and does not have any contingent liability for the occupational illness of employees or former employees or for legal actions brought in relation to harassment,
- there was no legal action brought against the Company in relation to environmental damage.

Certifications

Occupational health and safety

OHSAS 18001:2007 certification provides confirmation, at international level, of Italo's voluntary and substantial commitment to adopting a system that allows it to control and manage its operations in such a way as to minimize health and safety risks for its workers, thus reducing injuries as well as complying with the laws currently into force.
In this way, by regularly monitoring our trains, offices, ticket offices, lounges and training centers located around Italy, Italo guarantees not only the safety of its workers but also that of all those people operating or present at the various sites. This represents further confirmation of Italo's long-standing commitment to continuously improving people's safety and well-being.

Italo obtained the first certification, valid for three years, at the end of 2017 and, during 2019, the planned audit was conducted with success, certifying that the adopted system is in compliance with the law and capable of achieving the goals set.
The audit planned for 2019 did not reveal any areas of non-compliance; this clearly indicates the degree of effectiveness achieved by Italo's health and safety management system.
Italo has begun the process of transition to the new ISO 45001 standard concerning occupational health and safety, which will replace OHSAS 18001:2007 from March 12, 2021.
On a statistical level, the number of injuries to Italo's personnel and reported to INAIL in 2019 fell compared with the number registered in 2018. In greater detail, there were a total of 23 accidents at work in 2019, whilst the figure was 32 in 2018, marking a reduction of 28%.

Environmental protection

Italo obtained its first certification in May 2018, valid for three years. During 2019, the planned audit was conducted with success, certifying that the adopted system is in compliance with the law and capable of achieving the goals set. The auditors identified just on area of non-compliance regarding the incorrect management of waste at the Venice site. This was promptly put right.
ISO 14001:2015 certification provides confirmation, at international level, of Italo's voluntary and substantial commitment to adopting a system that allows it to control and manage all its activities, in order to minimize the impact of its business processes on natural resources, contributing to their conservation and to protection of the environment.
In this way, by regularly monitoring our trains, offices, ticket offices, lounges and training centers located around Italy, Italo guarantees protection of the environment, underlining once again the Company's long-standing commitment to continuous improvement in relation to the environment.

The Energy Efficiency Program: White Certificates

The AGV and ETR fleets have been admitted to a program designed to foster energy efficiency supported by the Italian Government and governed, as regards the AGV fleet and the ETR fleet (numbers 1 to 12), by the Ministerial Decree of December 28, 2012 and, as regards the ETR fleet (numbers 13 to 22) by the Ministerial Decree of January 11, 2017.
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.

The duration of the program for the AGV fleet is five years from January 1, 2015 and thus expiring on December 31, 2019.
The duration for the ETR fleet (from numbers 1 to 12) is the same, starting from January 1, 2018.
The duration of the program from the ETR fleet (from numbers 13 to 22) is, however, 10 years from May 2019 for ETRs 13 to 17 and from January 2020 for ETRs 18 to 22.
In 2019, requests for the issue of certificates for the ETR project (numbers 1 to 22) were submitted to the

GSE in relation to trains in circulation in 2018 and 2019 and for the AGV project for those in circulation in 2019.

ESG Steering Committee

In order to a consistent approach to governance and specialist oversight of Environmental Social Governance (ESG) projects, the Company has set up an ESG Steering Committee, with responsibility for defining and promoting Italo's ESG policies and the related governance procedures, ensuring their alignment with the Company's growth plans and strategies.

Internal control

On May 15, 2019, the Company's Executive Committee approved the Audit Plan for 2019-2021, involving 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 also the subject of prior discussions with the Board of Statutory Auditors.
As of December 31, 2019, all the procedures envisaged in the 2019 plan have been completed and the process of updating the plan for 2020 is under way.

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

In line with the provisions of articles 6 and 7 of Legislative Decree 231 of 2001, the Organizational, Management and Control Model represents the organizational, management and control model adopted by the Company in order to prevent, or in any event reduce to an "acceptable level", the risk of commission of the offences referred to in the legislation by senior management or subordinates.
The Model was developed following identification of areas at risk of the commission of offences and any at-risk activities and, therefore, on the basis of the Company's exposure to such risks in the conduct of its business, taking into account the controls used to minimize such risks.
The Model, which was adopted in 2011, is updated to incorporate organizational and regulatory requirements as they arise. At a meeting held on September 18, 2019, the Board of Directors approved the revised version of the Model, taking into account recent changes to the law governing the administrative liability of entities referred to in Legislative Decree 231/2001. These included Law 179 of November 30, 2017, which has introduced legislation on whistleblowing, and Law 3 of January 9, 2019 (the so-called *Spazzacorrotti* law) which, as well as introducing the illegal practice of influence peddling, as defined by art. 346-*bis* of the criminal code, has toughened the punishments provided for in art. 9 of Legislative Decree 231/2001 for offences against the public administration.

The Supervisory Board – established by Board of Directors' resolution – has three members and is responsible for overseeing application of and compliance with the Organizational, Management and Control Model's content and provisions.
On May 16, 2019, the Supervisory Board approved the Supervisory Plan for 2019 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, forming an integral part of the Organizational, Management and Control Model, 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 and was recently updated by the Board of Directors at their meeting of September 18, 2019, consists of general principles and behavioral standards. 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)	2019	2018
Profit for the year	**151.4**	**92.9**
Income tax	48.3	38.2
Financial expenses	36.8	32.0
(Financial income)	(0.8)	(0.4)
Losses (gains) on disposal of non-current assets	0.1	0.3
Depreciation, amortization and impairments	56.4	35.8
EBITDA	**292.2**	**198.8**

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

Adjusted EBITDA, calculated as follows.

(€m)	2019	2018
EBITDA	**292.2**	**198.8**
Non-recurring costs	-	13.2
Adjusted EBITDA	**292.2**	**212.0**

Adjusted EBITDA margin, calculated as the ratio of “Adjusted EBITDA” to “Total operating revenue”.
Organic EBITDA, calculated as follows.

(€m)	2019	2018
Adjusted EBITDA	**292.2**	**212.0**
Revenues from White Certificates	(29.8)	(30.4)
Organic EBITDA	**262.4**	**181.7**

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

EBIT, calculated as follows.

(€m)	2019	2018
Profit for the year	**151.4**	**92.9**
Income tax	48.3	38.2
Financial income	(0.8)	(0.4)
Financial expenses	36.8	32.0
EBIT	**235.7**	**162.7**

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

EBT, calculated as follows.

(€m)	2019	2018
Profit for the year	**151.4**	**92.9**
Income tax	48.3	38.2
EBT	**199.7**	**131.1**

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

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

Net Working Capital, calculated as follows.

(€m)	2019	2018
Inventories	10.1	7.4
Trade receivables	8.3	7.2
Other current assets	31.9	33.7
Trade payables	(188.8)	(177.9)
Current tax liabilities	(14.2)	(4.4)
Deferred revenues from transport services	(44.6)	(31.9)
Other current liabilities	(24.8)	(28.3)
Net Working Capital	**(222.1)**	**(194.2)**

Non-current assets, calculated as follows.

(€m)	2019	2018
Goodwill	1,683.8	-

Intangible assets	115.4	9.0
Property, plant and equipment	946.4	844.6
Right-of-use assets	52.5	-
Deferred tax assets	19.5	45.8
Non-current assets	**2,817.8**	**899.4**

Net Non-current Assets, calculated as follows.

(€m)	2019	2018
Non-current Assets	2,817.8	899.4
Employee benefits	(16.9)	(18.3)
Deferred tax liabilities	(30.3)	-
Non-current provisions	(4.1)	(3.3)
Other non-current liabilities	-	(1.3)
Net Non-current Assets	**2,766.6**	**876.5**

Net Invested Capital, calculated as follows.

(€m)	2019	2018
Net Working Capital	(222.1)	(194.2)
Net Non-current Assets	2,766.6	876.5
Net Invested Capital	**2,544.4**	**682.3**

Available Funds, calculated as follows.

(€m)	2019	2018
Short-term bank deposits	-	-
Cash and cash equivalents	93.2	289.0
Total Available Funds	**93.2**	**289.0**

Gross Debt, calculated as follows.

(€m)	2019	2018
Current borrowings	2.4	4.5
Non-current borrowings	897.8	718.2
Current and non-current borrowings	**900.2**	**722.7**
Current lease liabilities	5.8	-
Non-current lease liabilities	48.2	-
Current and non-current lease liabilities	**54.0**	**-**
Gross Debt	**954.2**	**722.7**

Net Debt, calculated as follows.

(€m)	2019	2018
A. Short-term bank deposits	-	-
B. Cash and cash equivalents	(93.2)	(289.0)
C. Available Funds (A+B)	**(93.2)**	**(289.0)**
D. Current financial assets	(80.2)	-
E. Current borrowings	2.4	4.5
F. Current lease liabilities	5.8	-
G. Net short-term debt (C+D+E+F)	**(165.1)**	**(284.5)**
H. Non-current borrowings	897.8	718.2
I. Non-current lease liabilities	48.2	-
L. Net Debt (G+H+I)	**780.8**	**433.7**

Net Debt/Equity, calculated as follows.

(€m)	2019	2018
Net Debt	780.8	433.7
Equity	1,763.6	248.6
Net Debt / Equity	**0.4x**	**1.7x**

Net Debt /EBITDA, calculated as follows.

(€m)	2019	2018
Net Debt	780.8	433.7
EBITDA	292.2	198.8
Net Debt / EBITDA	**2.7x**	**2.2x**

The impact on key indicators of first-time adoption of IFRS 16 is shown below.

(€m)	*2019*	*IFRS 16*	*2019 Adj*
EBITDA	292.2	(6.9)	285.3
EBIT	235.7	(1.1)	234.6
EBT	199.7	0.7	200.4
NET DEBT	780.8	(54.0)	726.8

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, 2019 and to the proposed appropriation of profit.

The financial statements report a **profit for the year of €151,420,257** which, given that the legal reserve has reached the threshold required by law, we propose to distribute in full as follows:

- €120,000,000 by March 31, 2020;
- €31,420,257 by December 31, 2020.

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With approval of the financial statements as of and for the year ended December 31, 2019, the term of office of the Board of Statutory Auditors will expire. We therefore invite you to elect a new Board.

Rome, February 19, 2020

For the Board of Directors

Chairman

Luca Cordero di Montezemolo

Financial statements 2019

INCOME STATEMENT

(€)	Note	2019	2018
Revenue from transport services	8	680,565,276	536,502,159
Other operating revenues	9	34,734,807	35,062,305
Total operating revenues		**715,300,083**	**571,564,464**
Access and electricity costs	10	(161,587,758)	(134,304,590)
Train management costs	11	(91,991,675)	(71,672,385)
Personnel costs	12	(69,445,177)	(65,764,685)
Other operating costs	13	(100,079,705)	(101,013,261)
of which:			
Other non-recurring operating costs		-	*(13,239,490)*
Operating profit (loss) before depreciation, amortization, impairments and (losses) gains on disposal of non-current assets		**292,195,768**	**198,809,543**
Depreciation, amortization and impairments	14	(56,423,449)	(35,778,968)
(Losses) gains on disposal of non-current assets	15	(116,667)	(303,059)
Operating profit (loss)		**235,655,652**	**162,727,516**
Financial income	16	820,455	383,720
Financial expenses	16	(36,792,732)	(32,028,512)
Profit (loss) before tax		**199,683,375**	**131,082,724**
Income tax	17	(48,263,118)	(38,193,297)
Profit (loss) for the year		**151,420,257**	**92,889,427**

STATEMENT OF COMPREHENSIVE INCOME

(€)	Note	2019	2018
Profit (loss) for the year		**151,420,257**	**92,889,427**
Profit on cash flow hedges	28	2,160,004	(1,947,441)
Profit on cash flow hedges - taxation	28	(518,401)	467,386
Other components of comprehensive income that will be reclassified to profit or loss in future years		**1,641,603**	**(1,480,055)**
Actuarial (loss) / profit for employee benefits	28, 32	(1,308,745)	1,021,309
Actuarial (loss) / profit for employee benefits - taxation	28	314,099	(245,113)
Other components of comprehensive income that will not be recycled to profit or loss in future years		**(994,646)**	**776,196**
Total other components of comprehensive income		**646,957**	**(703,859)**
Comprehensive income (loss) for the year		**152,067,214**	**92,185,568**

STATEMENT OF FINANCIAL POSITION

(€)	Note	2019	2018
Goodwill	18	1,683,797,961	-
Intangible assets	19	115,448,392	9,032,414
Property, plant and equipment	20	946,448,789	844,628,512
Right-of use assets	21	52,533,059	-
Deferred tax assets	22	19,533,436	45,761,418
Total non-current assets		**2,817,761,636**	**899,422,344**
Inventories	23	10,145,787	7,432,824
Trade receivables	24	8,261,756	7,205,758
Other current assets	25	31,943,578	33,667,599
Current financial assets	26	80,187,753	-
Cash and cash equivalents	27	93,206,101	289,044,460
Total current assets		**223,744,975**	**337,350,641**
Total assets		**3,041,506,611**	**1,236,772,985**
Share capital		60,017,725	60,017,725
Share premium reserve		2,672	49,615,855
Other reserves		1,553,167,617	21,644,947
Retained earnings		150,422,939	117,345,065
Total equity	**28**	**1,763,610,953**	**248,623,592**
Non-current borrowings	29	897,791,129	718,201,779
Non-current lease liabilities	31	48,184,666	-
Employee benefits	32	16,886,706	18,327,064
Deferred tax liabilities	33	30,254,912	-
Non-current provisions	34	4,064,838	3,281,303
Other non-current liabilities	38	-	1,281,721
Total non-current liabilities		**997,182,251**	**741,091,867**
Current borrowings	29	2,418,285	4,545,071
Current lease liabilities	31	5,826,314	-
Trade payables	35	188,804,299	177,903,173
Deferred revenues from transport services	36	44,585,304	31,898,681
Current tax payables	37	14,233,337	4,402,011
Other current liabilities	38	24,845,868	28,308,590
Total current liabilities		**280,713,407**	**247,057,526**
Total liabilities		**1,277,895,658**	**988,149,393**
Total equity and liabilities		**3,041,506,611**	**1,236,772,985**

STATEMENT OF CHANGES IN EQUITY

(€)	Share capital	Share premium reserve	Other reserves	Retained earnings	Total Equity
As of January 1, 2018	60,000,000	49,615,855	4,257,241	72,627,248	186,500,344
Profit for the year	-	-	-	92,889,427	92,889,427
Cash flow hedge reserve	-	-	(1,480,055)	-	(1,480,055)
Actuarial gain (loss) on employee benefits	-	-	-	776,196	776,196
Comprehensive income (loss) for the year	-	-	(1,480,055)	93,665,623	92,185,568
Reclassifications	-	-	18,885,486	(18,885,486)	-
Share capital increase	17,725	-	(17,725)	-	-
Dividends	-	-	-	(30,000,000)	(30,000,000)
Effects of application of IFRS 9	-	-	-	(62,320)	(62,320)
As of December 31, 2018	60,017,725	49,615,855	21,644,947	117,345,065	248,623,592
Profit for the year	-	-	-	151,420,257	151,420,257
Cash flow hedge reserve	-	-	1,641,603	-	1,641,603
Actuarial gain (loss) on employee benefits	-	-	-	(994,646)	(994,646)
Comprehensive income (loss) for the year	-	-	1,641,603	150,425,611	152,067,214
Reverse merger (note 28)	-	-	1,766,164,742	-	1,766,164,742
Dividends (note 28)	-	(49,613,183)	(236,283,676)	(117,347,738)	(403,244,597)
As of December 31, 2019	60,017,725	2,672	1,553,167,617	150,422,939	1,763,610,953

STATEMENT OF CASH FLOWS

(€)	Note	2019	2018
Profit (loss) before tax		199,683,375	131,082,724
Adjustments for:			
Depreciation, amortization and impairments	14	56,423,449	35,778,968
(Releases from) / accruals for provisions for risks and charges	34	953,222	1,193,599
Net financial expenses/(income)	16	35,972,277	31,644,792
Other non-monetary items		3,709,621	2,952,471
Payment of employee benefits	32	(6,280,682)	(814,592)
Interest paid		(20,606,670)	(16,476,843)
Interest paid on leases		(1,575,558)	-
Tax paid		(14,988,560)	(8,713,929)
Interest collected		152,518	647,053
Cash flow generated by/(used in) operating activities before changes in net working capital		253,442,992	177,294,243
Change in inventories	23	(2,712,964)	(1,855,705)
Change in trade receivables	24	(1,180,608)	(2,386,173)
Change in trade payables	35	23,111,608	13,735,865
Change in other assets/liabilities	25,36,38	10,877,711	19,554,777
Cash flow generated by/(used in) operating activities		283,538,739	206,343,007
Investment in property, plant and equipment	20	(149,384,228)	(146,328,550)
Investment in intangible assets	19	(6,455,553)	(6,168,249)
Disposals of property, plant and equipment and intangible assets		74,070	-
Investment in current financial assets	26	(100,000,000)	-
Sale of current financial assets	26	20,000,000	-
Cash flow generated by/(used in) investing activities		(235,765,711)	(152,496,799)
New long-term borrowings	29	1,047,791,129	718,201,780
Repayment of long-term borrowings	29	(880,000,000)	(720,000,000)
Financial expenses on early repayment of borrowings	16	(5,070,100)	(126,063)
Repayment of lease liabilities		(4,507,734)	-
Dividends paid	28	(401,855,169)	(30,000,000)
Cash flow generated by/(used in) financing activities		(243,641,874)	(31,924,283)
Total change in cash and cash equivalents		(195,868,846)	21,921,925
Cash and cash equivalents at beginning of year		289,044,460	267,122,535
Cash and cash equivalents resulting from the reverse merge		30,487	-
Cash and cash equivalents at the end of the year		93,206,101	289,044,460

Notes

NOTES TO THE FINANCIAL STATEMENTS

1. General information

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

2. Reporting standards

These financial statements have been prepared in compliance with International Financial Reporting Standards (hereinafter "IFRS") issued by the International Accounting Standards Board (hereinafter "IASB") and adopted by the European Commission according to the procedure set forth in art. 6 of (EC) Regulation no. 1606/2002 of the European Parliament and Council of July 19, 2002. IFRS also cover all international accounting standards ("IAS") and all interpretations of the International Financial Reporting Standard Interpretations Committee, previously called the "Standard Interpretations Committee" (SIC).

IFRS have been applied consistently and voluntarily to all of the periods included in this document, taking account also of the view of highly qualified scholars in this field. Any future orientations and updates to interpretations will be reflected in future years, in accordance with the procedures required on each occasion by the applicable standards.

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

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

This structure best reflects the elements that have led to the Company's profit or loss as well as its financial and equity structure.

The Financial Statements have been prepared by applying the historical cost method, also considering, where appropriate, value adjustments, with the exception of financial statements items which, according to IFRS, must be recognized at fair value, as indicated in the accounting policies and without prejudice to cases in which IFRS provisions permit a different accounting policy.

The Financial Statements have been prepared on a going concern basis, insofar as the Directors have confirmed that there are no indicators - financial, operational or of any other nature - that could point to a difficulty in the Company's ability to meet its obligations in the foreseeable future and in particular in the next twelve months

A description of the procedures adopted by the Company to manage financial risk is contained in note 6. "Financial risk management".

All amounts in these financial statements and the accompanying notes are in euros, unless otherwise indicated.

3. Corporate actions

Acquisition of Italo and consolidation

On April 26, 2018, GIP III Neptune SpA acquired 93.987% of Italo. On the same date, GIP III Neptune SpA acquired 100% interests in Partind Srl and Partind Due Srl, both holding companies which owned 1.967% and 2.861% of Italo, respectively.

On July 30, 2018, GIP III Neptune SpA acquired the remaining 1.185% of Italo held by a non-controlling shareholder, PII 1 Sarl. Therefore, at December 31, 2018, GIP III Neptune SpA directly and indirectly owned 100% of Italo, including through the subsidiaries, Partind Srl and Partind Due Srl. GIP III Neptune SpA financed the transactions from its own resources.

Based on the above and taking April 26, 2018 as the date on which control was obtained, the management of GIP III Neptune SpA by convention designated April 30, 2018 as the date of first-time consolidation of Italo.

In accounting for the above acquisition, the fair value of non-controlling interests in equity, including the attributable goodwill, was computed (under the “full goodwill method”). The fair value of these non-controlling interests was determined on the basis of the price paid by GIP III Neptune SpA in order to acquire the remaining 1.185% interest in Italo on July 30, 2018, amounting to €22,377,480. This amount was already known at the acquisition date and corresponds to Italo’s equity value of approximately €1.936,729,192, on the basis of which the transaction was concluded.

The following table shows the fair values of the assets acquired and the liabilities assumed as of April 30, 2018 and recognized in the consolidated financial statements of GIP III Neptune SpA:

Net assets acquired (€)		Fair value
Intangible assets		127,261,048
Property, plant and equipment		791,603,353
Non-current financial assets		68,597,920
Total non-current assets		**987,462,321**
Inventories		8,869,363
Trade receivables		8,264,140
Current tax assets		45,818,302
Cash and cash equivalents		223,909,679
Total current assets		**286,861,486**
Total assets	A	**1,274,323,807**
Non-current borrowings		708,809,562
Employee benefits		16,199,260
Non-current provisions		2,321,438
Deferred tax liabilities		34,772,000
Other non-current liabilities		2,513,593
Total non-current liabilities		**764,615,852**
Current borrowings		8,639,751
Trade payables		167,029,949
Current tax payables		3,592,256
Deferred revenues from transport services		33,966,421
Other current liabilities		21,170,866
Total current liabilities		**234,399,243**
Total liabilities	B	**999,015,095**
Fair value of net assets acquired	C = (A - B)	**275,308,712**

Acquisition cost	D	1,936,729,192
Non-controlling interests	E	22,377,480
Goodwill	F = (D + E - C)	1,683,797,961

Fair value measurement of the assets acquired and the liabilities assumed in accordance with IFRS 3 (Purchase Price Allocation or PPA), carried out the with assistance of an independent expert, resulted in the recognition of the following intangible assets in the consolidated financial statements of GIP III Neptune SpA:

- the "Trademark", amounting to €27,512,000 (gross of deferred tax liabilities of €7,928,848), and;
- "Customer Relationships", amounting to €93,142,000 (gross of deferred tax liabilities of €26,843,152).

Given the above, goodwill of €1,683,797,961, computed as follows, has also been recognized based on the excess of (a) over (b), where:

- (a) is the sum of: the consideration paid (€1,936,729,192) and the fair value of the non-controlling interest at the acquisition date (€22,377,480);
- (b) the net fair value, at the acquisition date, of the identified assets acquired and the identified liabilities assumed (€275,308,712).

Reverse merge

On February 21, 2019, GIP III Neptune SpA and its wholly owned subsidiary, Italo SpA, executed the reverse merge previously approved by the boards of directors of GIP III Neptune SpA and Italo SpA on October 10, 2018 and by the extraordinary general meetings of the two companies' shareholders on October 19, 2018.

The effective date of the two transactions for accounting and tax purposes was back-dated to January 1, 2019 pursuant to the provisions of article 2504-*bis*, paragraph two of the Italian Civil Code and the purposes of both transactions are the following:

- to rationalize the companies' structures, enabling Italo to assume full control of operations and strategic decision-making;
- to shorten the ownership chain;
- to streamline organizational and operational processes and, at the same time, improve profitability and protect Italo's trademark and business.

The reverse merge involved, among other things:

- the Company's adoption of new articles of association for Italo in line with those of the parent (with the number of shares equal to those issued by GIP III Neptune SpA);
- cancellation of the shares previously representing Italo's share capital and the subsequent consolidation to create no-par shares;
- allocation to each of the parent's shareholders of one Italo share for each share held in GIP III Neptune SpA of the same class.

Cancellation of Italo's shares has resulted in the recognition of a "Merger deficit" in assets. This is equal to the difference between the value of GIP III Neptune's investment in Italo and the carrying amount of Italo's equity. This deficit has been allocated on the basis of the amounts recognized in the consolidated financial statements of GIP III Neptune SpA (the parent), following completion of the PPA process.

Following completion of the reverse merger of GIP III Neptune SpA by Italo SpA, these financial statements reflect:

- the assets and liabilities of GIP III Neptune SpA at their pre-merger carrying amounts;

- the assets and liabilities of Italo measured at fair value at the acquisition date in compliance with the requirements of IFRS 3.

4. Accounting policies

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

Business combinations

IFRS 3 defines a business combination as "a transaction or other event in which an acquirer obtains control of one or more businesses". Under IFRS 3, a business combination must be accounted for in accordance with the acquisition method.

Application of the acquisition method involves: identification of the acquirer; determination of the acquisition date; recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-controlling interests in the acquiree; recognition and measurement of goodwill or a gain from a bargain purchase.
The identifiable assets acquired and liabilities and contingent liabilities assumed are accounted for at fair value at the acquisition date.

Goodwill resulting from the acquisition is determined as the difference between the cost of the business combination and the acquirer's interest in the difference between the assets acquired and liabilities assumed measured at fair value.

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.

Trademark
The trademark has been recognized using the same approach as used in the consolidated financial statements of the acquired company, GIP III Neptune SpA, as of December 31, 2018 following completion of the Purchase Price Allocation (or PPA) process. The asset refers to the fair value of the Italo brand, determined by estimating fair value, with the assistance of an independent expert, on the basis of estimates based on assumptions deemed to be reasonable and realistic, and based on the information available at the acquisition date. The choice of method used to estimate the value of the trademark was made taking into account the purpose of the transaction and the nature of the intangible asset itself. In particular, in line with expert opinion and generally accepted practice, the value of the trademark owned by Italo was determined by using the income method, discounting the future economic benefits generated by the intangible asset being measured. The income method was applied using the discounted

value of expected royalty income.

Customer Relationships
Customer relationships have been recognized using the same approach as used in the consolidated financial statements of the acquiree, GIP III Neptune SpA, as of December 31, 2018 following completion of the PPA process. Recognition was based on measurement of discounted future income on the basis of the expected residual margin to be earned on the Company's customer base. Fair value measurement of customer relationships was based on discounted future cash flows.

The estimated useful lives of our primary intangible assets are as follows:

Intangible asset	Useful life in years
Software	3-5
Railway license and safety certificates	5
Trademark	10
Customer relationships	14

(ii) Property, plant and equipment

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

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

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

The estimated useful lives of items of property, plant and equipment are as follows:

Property, plant and equipment	Useful life in years
AGV/EVO rolling stock	30
Buildings	10-30
Other property, plant and equipment	5-10
Onboard telecommunications	5
Seat upholstery	6
Investments at railway stations and depots	Base on the lease term

(iii) Financial expenses capitalized

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

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

The Company must suspend the capitalization of financial expenses:

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

(iv) Right-of-use assets and current and non-current lease liabilities

Finance and operating leases are accounted for in accordance with IFRS 16, which requires the lessee to recognize the leased item as an asset and a matching financial liability initially measured at the present value of future lease payments. The depreciation of right-of-use assets and interest on the lease liability are recognized in the income statement.
The Company has elected to apply the practical expedient granted by the standard and does not, therefore, recognize arrangements where the underlying asset is of low value (assets with a value lower than €5,000) or leases contracts with terms equal to or less than 12 months as a lease.
Further information is provided in the following note on “New accounting standards, amendments and interpretations adopted by the Company”.

(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

(i) Inventories

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

White certificates

White certificates (Energy Efficiency Certificates or EECs) are awarded 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 subsequent sale, revenues from EECs are recognized in the Company's financial statements on an accruals basis, based on the best estimate of the number of EECs to be issued, in proportion to the estimated saving of TOE (Tons of Oil Equivalent) recorded during the period. They are measured at the weighted average market value for the energy year (as defined by the Italian Energy Services Operator) on the reporting date for the financial statements and recognized in warehouse inventories until their sale. 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.

(ii) Grants

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

(iii) Receivables and current financial assets

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

Financial assets, including, among other things, bank deposits and other financial instruments that do not qualify as cash equivalents, are classified in the following categories in accordance with IFRS 9: financial assets at amortized cost; financial assets at fair value through other comprehensive income; financial assets at fair value through profit or loss.
Classification within the above categories is based on the business model used to manage the financial asset and the nature of the contractual cash flows generated by the asset.

(vi) Impairment of financial assets

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

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

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

(v) Derecognition of financial assets

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

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

(vi) 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.

(vii) 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

(i) 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.

(ii) Derecognition of financial liabilities

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

(iii) Provisions for risks and charges

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

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

Provisions are recognized at a value that represents the best estimate of the amount that the Company should reasonably pay to extinguish the obligation or to transfer it to third parties on the closing date of the period. When the financial impact of the passing of time is significant and the payment dates of the obligations can be reliably estimated, the allocation is determined by discounting the expected cash flows taking the risks associated with the obligation into account; the increase of the provision related to the passing of time is recognized in the income statement under “Financial expenses”.
The costs that the Company expects to incur to implement restructuring programs are recognized in the year in which the program is formerly defined and the interested parties have a valid expectation that the restructuring will take place.
Provisions are updated periodically to reflect changes in cost estimates, realization timing and the discounting rate; revised estimates are recorded under the same income statement item that previously covered the allocation. 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.

(iv) Employee benefits

Short-term benefits are represented by salaries, wages, the related social security contributions, compensated holiday leave and incentives paid in the form of a bonus. These benefits are accounted for as personnel cost components for the period in which the employee works.
In defined benefit plans, which include the post-employment benefits due to employees under art. 2120 of the Italian Civil Code (“TFR”), the amount of the benefit to be paid to the employee can only be quantified when the employment ends, and is linked to one or more factors, such as age, years of service and pay; therefore, the related charge is recognized in the relevant income statement on the basis of an actuarial calculation. The liability recognized in the financial statements for defined benefit plans corresponds to the present value of the obligation on the date of the reporting period. The obligations for defined benefit plans are determined annually by an independent actuary using the Project Unit Credit method. The present value of a defined benefit plan is determined by discounting the future cash flows at a specific interest rate. The actuarial gains and losses resulting from the above-cited adjustments and changes in actuarial assumptions are recognized in the statement of comprehensive income.

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.

(v) 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 value of derivative financial instruments entered into by the Company is measured using valuation techniques widely used in the financial markets and market data at the date of preparation of the financial statements.

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.).

The fair value measurement of instruments entered into by the Company is made according to methods that are classified in level 2.

(vi) Derivative financial instruments

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

(vii) Revenue and costs

Revenue is recognized when control of the good or service passes to the customer. Revenue is measured at the transaction price, which is based on the consideration that the Company expects to receive for the transfer to the customer of the goods and services promised, net of taxes paid by the customer to the tax authority.

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

The Company generates revenue from transport services and recognizes a contract with a customer when it is legally binding between the Company and the customer, the parties' rights are identified, the contract has commercial substance and the collection of the price is probable. Payments from customers are generally due before the service is used, as tickets are purchased before the journey.
The Company does not recognize any asset that it does not expect to recover. Revenue is recognized as the service is provided (at a point-in-time). The Company has also opted to apply the practical expedient allowing it to recognize any incremental costs to obtain the contract as they are incurred, if the asset that would otherwise be recognized is to be fully depreciated in a year or less.

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

Revenue from the provision of services is recognized when the service has been rendered; revenues from sales when control is effectively transferred.

Costs are recognized on an accrual basis when relating to services and goods purchased or consumed during the period or are systematically distributed, namely when the future usefulness of the same cannot be identified.
Operating lease payments are recognized in the income statement on a straight-line basis over the term of the lease contract, unless they fall within the scope of IFRS 16 – Leases, as described above.
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.

Non-recurring expenses and revenues

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

(viii) Foreign currency transactions

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

(ix) Dividends

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

(x) Income tax and deferred taxation

Current taxes on income for the year - recognized under "Current tax payables" net of any advances paid, or under "Current tax receivables", when the tax account shows a debit balance - are calculated on the basis of an estimate of taxable income and in accordance with tax legislation in force. Taxable income differs from net profit in the income statement because it excludes items of income and expenses that are taxable or deductible in other years or that are non-taxable or non-deductible. More specifically, said payables and receivables are determined by applying the tax rates applicable on the reporting date.
Current taxes are booked in the income statement, with the exception of those relating to items recognized outside of the income statement, which are directly booked to other comprehensive income or equity.
Deferred taxes are calculated based on the temporary differences between the carrying amount recorded in the financial statements and the corresponding amounts recognized for tax purposes, by applying the

tax rate in force on the date on which the temporary difference will reverse, on the basis of the tax rates applicable on the reporting date.
Deferred tax assets arising from all temporary differences, tax losses or tax credits are recognized when their recovery is probable, that is when it is expected that future taxable income will be sufficient to recover the tax assets. Recoverability of deferred tax assets is reviewed at every year-end.
Deferred tax assets not recognized in the financial statements are re-analyzed on each reporting date and are recognized to the extent to which it is probable that future taxable income will enable their recovery.
Deferred tax assets and liabilities are recognized in the income statement, except for those related to items that are not reported in the income statement, which are recognized directly in other comprehensive income or in equity.
Deferred tax liabilities and assets, resulting from the application of legislation relating to the same tax authority, are offset if there is a legally exercisable right to offset current tax assets against the current tax liabilities that will be generated at the time of their reversal.

(xi) 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

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

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

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.
Amendments to IFRS 3: Definition of a Business	On October 22, 2018, the IASB issued this amendment to IFRS 3 to clarify the definition of business, to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets that does not meet the definition of business provided in IFRS 3. The amendment is effective for reporting periods starting on or after January 1, 2020.

(ii) Accounting Standards, amendments and interpretations not yet adopted early by the Company

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

Amendments to IAS 1 and IAS 8: Definition of Material	On October 31, 2018, the IASB issued this amendment to IAS 1 and IAS 8 to clarify the definition of "material", to help companies decide whether information should be included in their financial statements. The amendment to IAS 1 and IAS 8 is effective for reporting periods starting on or after January 1, 2020.
Amendments to References to the Conceptual Framework in IFRS Standards	On March 29, 2018, the IASB issued amendments to the references in IFRS to the Conceptual Framework. The amendments aim to update existing references to the Conceptual Framework in the various standards and interpretations, replacing them with references to the Revised Conceptual Framework. The amendments are effective for reporting periods starting on or after January 1, 2020.

(iii) Accounting Standards, amendments and interpretations adopted early by the Company

At the date of these financial statements, the competent bodies of the European Union have approved the adoption of the following accounting standards and amendments, which have been adopted early by the Company in 2019.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	On September 26, 2019, the IASB published "Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform". This has amended IFRS 9 "Financial Instruments" and IAS 39 "Financial Instruments: Recognition and Measurement", in addition to IFRS 7 "Financial Instruments: Disclosures". The amendments have modified a number of requirements for the application of hedge accounting, with a view to mitigating the impact of uncertainty over future cash flows as a result of the reform of the InterBank Offering Rate (IBOR), the interest rate benchmark. The IASB has adopted a phased approach to the provision of adoption guidelines following the above reform. With these amendments, it has limited itself to a first phase regarding to the accounting effects of uncertainty in the period leading up to the reform. The amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective from January 1, 2020 but early adoption is permitted. The above amendments are considered relevant to the Company, given that hedge accounting is applied to its exposures to changes in interest rate benchmarks. As a result, the Company has opted for early adoption of the amendments for the year ended December 31, 2019. At the date of these financial statements, the Company holds floating rate debt instruments linked to Euribor (bank borrowings), with the related cash flows partially hedged via interest rate swaps ("IRSs") expiring in 2022 and having a total notional value of €450 million. Further information is provided in note 6. "Financial risk management" and note 38. "Other current and non-current liabilities" in this document. Early adoption of these amendments means that: • the Company will continue to classify its derivative instruments as hedges and to apply hedge accounting, despite uncertainty over changes to the floating

interest rates included in the interest rate swaps;

- as permitted by the amendments themselves, the Company will continue to account for gains and losses on changes in the fair value of the derivative instruments classified as hedges, and which are subject to the reform, in a specific cash flow hedge reserve in equity. It has opted to do this despite the uncertainty caused by the reform in relation to the timing and amount of the cash flows connected with the hedged items.

(iv) New accounting Standards, amendments and interpretations adopted by the Company

At the date of these financial statements, the competent bodies of the European Union had approved adoption of the following accounting standards and amendments, which have therefore been adopted for the first time by the Company.

IFRS 16 "Leases"

On January 13, 2016, the IASB published IFRS 16 – Leases, which has replaced IAS 17 and the related interpretations, that is IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease.
The new standard sets out a new definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish between lease contracts and contracts for the provision of services, based on certain key information: identification of the asset, right to replace such asset, right to obtain substantially all the economic benefits determined by the use of the asset and the right to direct use of the asset underlying the contract.

The standard lays down a single model for the recognition and measurement of lease contracts by the lessee which calls for the recognition of the leased item – under both operating and finance lease arrangements - as an asset and a matching financial liability, providing also for the possibility not to recognize as leases contracts for low-value assets (i.e. contracts related to assets with a value lower than €5,000) and contracts with terms equal to or less than 12 months. On the other hand, the standard does not contain any significant changes for lessors.
The standard was effective from January 1, 2019.

The standard will affect the accounting treatment of operating leases.

At the reporting date, the Company has operating lease arrangements related particularly to train maintenance plants, spaces in railway stations, self-service ticket machines and data centers.
Lease arrangements are negotiated on an individual basis and are subject to a wide range of terms and conditions. Lease arrangements do not include covenants, although the leased assets may not be used as security for any borrowings.
The Company has elected to apply the standard retrospectively, whilst accounting for the cumulative impact of first-time adoption in equity as of January 1, 2019, in accordance with paragraphs C7-C13 of IFRS 16. In particular, with regard to lease arrangement previously classified as operating, the Company recognizes:

- a financial liability equal to the present value of the remaining lease payments at the transition date (i.e., January 1, 2019), discounted using the incremental borrowing rate for each arrangement at the transition date;
- a right-of-use asset equal to the financial liability at the transition date, adjusted for any prepaid or accrued expenses related to the leases recognized in the statement of financial position at the end of the reporting date for these

financial statements.

The average incremental borrowing rate at the date of first-time adoption is 3% per annum.

The following table shows the impact of adoption of IFRS 16 at the transition date. The increase in non-current assets and liabilities are broadly in line with the information provided in the notes to the financial statements for the year ended December 31, 2018, where the standard required the Company to indicate the estimated impact ahead of its adoption:

(€)	As of January 1, 2019
Non-current assets – Right-of-use assets	
Right-of-use asset: Station spaces and self-service ticket machines	26,982,253
Right-of-use asset: Train maintenance centers	11,436,278
Right-of-use asset: Self-service ticket machines	5,538,543
Right-of-use asset: Offices	2,316,678
Right-of-use asset: IT equipment	936,884
Right-of-use asset: Marshalling yards	846,786
Right-of-use asset: Vehicles	152,506
Total	**48,209,927**
Liabilities	
Non-current lease liabilities	42,981,980
Current lease liabilities	5,227,947
Total	**48,209,927**

In adopting IFRS 16, the Company applied the exemption granted by 5(a) of IFRS 16 regarding short-term leases under arrangements expiring within the next 12 months.
Likewise, the Company applied the exemption granted by paragraph 5(b) of IFRS 16 for lease arrangements where the underlying asset is of low value (assets with a value lower than €5,000 when new). The arrangements to which this exemption applies primarily fall within the following categories:

- computers, phones and tablets;
- printers;
- other electronic devices.

In the case of these arrangements, the introduction of IFRS 16 has not involved the recognition of any financial assets or of right-of-use assets, but lease payments will be recognized in the income statement on a straight-line basis over the term of the various arrangements.

In addition, with regard to the transition rules, the Company has taken advantage of the following practical expedients, available when an entity opts for the modified retrospective approach:

- the classification of arrangements expiring within the next 12 months at the transition date as short-term leases. The related lease payments will be recognized in the income statement on a straight-line basis;
- use of the information available at the transition date to determine the lease term, with particular reference to the exercise of extension and termination options.

The Company has also elected to apply the practical expedient granted by paragraph 15 of IFRS 16, regarding the separation of non-lease components. It does not therefore separate non-lease components or account for them separately from lease components, but considers each lease component and the associated non-lease component as a single lease component when determining the related financial liability and right-of-use asset.

The Company has determined lease terms on the basis of the non-cancellable period of the leases, together with the periods covered by an extension or termination option if there is reasonable certainty that the option will be exercised.
The Company uses its own judgement in assessing whether or not the extension option is reasonably certain to be exercised.
In conducting the assessment, the Company considers all the relevant facts and circumstances creating an economic incentive to exercise the extension option.

After the commencement date, the Company must reassess the carrying amount of the lease liability to reflect any remeasurements or lease modifications. These remeasurements may regard:

- the lease term upon the occurrence of a significant event or a significant change in circumstances that is within its control and affects whether it is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term (for example, a change in business strategy) or following changes to the contract terms;
- contractual payments.

The Company has included the extension period in the lease term for the arrangements relating to its head office building, stations, maintenance plants and marshalling yards (where provided for) as these assets play an important role in its business. These lease arrangements have a short non-cancellable period and, if a replacement asset were not readily available, there would be a negative impact on the Company's business.

Operating leases
In applying IFRS 16 to all leases (except for contracts covering low-value assets and contracts with terms of up to 12 months), the Company:

- recognizes right-of-use assets and lease liabilities, measured initially by discounting to present value future lease payments, in the statement of financial position;
- recognizes the depreciation of right-of-use assets and the interest on the lease liability in the income statement; and
- separates the total amount paid in principal (shown in uses for financing activities) and interest (shown in uses for operating activities) in the statement of cash flows.

Pursuant to IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 – Impairment of Assets. This replaces the process under the previous standard, where a liability was recognized for onerous lease contracts.

During the process of first-time adoption of the standard, the Company exercised the option to realign carrying amounts and the values used for tax purposes, in this way eliminating differences relating to the impact on assets, liabilities, profit and loss of "pre-existing" transactions (being transactions outstanding at the date of first-time adoption).

Finance leases

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

Adoption of the standard by the Company

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

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

The impact of adoption of the standard on the financial position and operating results is reflected in these financial statements.

Reconciliation with lease commitments

In order to help readers to understand the impact of first-time adoption of the standard, the following table provides a reconciliation between future lease commitments, as described below in note 31. "Current and non-current lease liabilities" in these financial statements.

Reconciliation	
Operating lease commitments as of December 31, 2018	344,223,773
Operating lease commitments out of scope of IFRS 16	(282,199,026)
Undiscounted lease liabilities as of January 1, 2019	**62,024,747**
Effect of discounting lease liabilities	(13,814,820)
Additional lease liabilities resulting from adoption of IFRS 16 as of January 1, 2019	**48,209,927**
of which:	
Non-current lease liabilities	*42,981,980*
Current lease liabilities	*5,227,947*

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The process of endorsing the amendment to IAS 28 was completed on February 8, 2019. 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 is effective for annual periods starting on or after January 1, 2019.

	The Company does not believe that entry into force of this amendment will have an impact on its operating results and financial position.
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	The process of endorsing the amendment to IAS 19 was completed on March 13, 2019. The IASB issued this amendment to clarify that, in the event of a plan amendment, curtailment or settlement, i) the effects must be accounted for on the basis of the asset ceiling, ii) whilst using updated actuarial assumptions to determine current service cost and net interest for the remainder of the reporting period after such a plan amendment, curtailment or settlement. The amendment is effective for annual periods starting on or after January 1, 2019. The Company does not believe that entry into force of this amendment will have an impact on its operating results and financial position.
Annual improvements to IFRS Standards 2015-2017 Cycle	The process of endorsing "Annual improvements to IFRS 2015-2017 cycle" was completed on March 14, 2019. The changes introduced regard: • IAS 12, "Income Taxes", effective for annual periods starting on or after January 1, 2019; • IAS 23, "Borrowing Costs", effective for annual periods starting on or after January 1, 2019; • IFRS 3, "Business Combinations", effective for annual periods starting on or after January 1, 2019; • IFRS 11 "Joint Arrangements", effective for annual periods starting on or after January 1, 2019. The Company does not believe that entry into force of the improvements will have an impact on its operating results and financial position.
IFRIC 23 "Uncertainty over Income Tax Treatments"	The process of endorsing IFRIC 23 "Uncertainty over Income Tax Treatments" was completed on October 23, 2018. This contains 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. The Company does not believe that entry into force of this interpretation will have an impact on its operating results and financial position.
Amendments to IFRS 9: Prepayment Features with Negative Compensation	The process of endorsing "Amendments to IFRS 9" was completed on March 22, 2018. The amendments 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 amendments to IFRS 9 are effective for annual periods starting on or after January 1, 2019. The Company does not believe that entry into force of these amendments will have an impact on its operating results and financial position.

5. Use of estimates

Preparation of the financial statements entails the use 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. 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 judgements and assumptions adopted could have a significant impact on the subsequent results.

Impairment of assets

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

Recoverability of deferred tax assets

Deferred tax assets are recorded in the financial statements, mainly relating to the recognition of tax losses and financial expenses that may be used in future years and, to a lesser extent, to income components with deferred tax deductibility, for an amount whose recovery in future years is expected to be probable. The recoverability of the above-cited deferred tax assets is conditional on the generation of future taxable income that is sufficient to absorb the aforementioned tax losses or up to the amount of the deferred taxes related to other deferred tax assets. Significant management judgement is required to determine the amount of deferred tax assets that may be recognized in the financial statements on the basis of the timing and the amount of future taxable income. In particular, it should be noted that deferred tax assets have been recognized on financial expenses not previously deducted 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 the above items may be carried forward over an unlimited period.

Goodwill

In accordance with the accounting standards applied in preparing the financial statements, goodwill is tested for impairment at least annually. To this end, goodwill is allocated to one or more separate cash generating units (CGUs), coinciding with the Company, Italo, and its recoverable amount is calculated on the basis of the higher of fair value and value in use. If the recoverable amount is less than the carrying amount of the CGU, the Company recognizes an impairment loss on the goodwill allocated to the CGU. Based on the impairment test carried out as below, the value of the goodwill tested was judged to be adequately justified in terms of expected income and the related cash flows. There was, therefore, no evidence of impairment such as to require the Company to recognize any impairment loss.

Lease liabilities

Lease liabilities are initially recognized at the present value of future lease payments at the commencement date, using a discount rate equal to the interest rate implicit in the lease. If this rate cannot be readily determined, the rate used is the lessee's incremental borrowing rate. Lease payments included in the value of the lease liability include: (i) the fixed component of the lease payments, less any lease incentives received; (ii) variable lease payments that depend on an index or a rate (e.g. inflation); (iii) any residual value guarantees that the lessee expects to pay; (iv) the exercise price of the purchase option; and (v) the extension or termination option only when the exercise of these options is considered to be reasonably certain.

Contingent liabilities

The Company recognizes a liability against legal disputes and risks resulting from existing or potential lawsuits 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 discount rate and the inflation rate curve, and demographic factors, such as the mortality rate and the rate of employee turnover.

6. Financial risk management

The Company’s assets are exposed to the following risks: market risk (defined as foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Company’s risk management strategy seeks to minimize potential negative effects on financial performance. Some types of risk are mitigated through the use of derivative instruments. Risk management is centralized in the Finance department, which monitors risk management and identifies, measures and hedges financial risk.

Interest rate risk

In November 2019, the Company revisited its capital structure, agreeing a new green loan and effecting early repayment of existing debt using the proceeds from the new borrowing[1].
As the Company has floating rate liabilities, it is exposed to interest rate fluctuations.
In keeping with the existing hedging policy, the Company has entered into interest rate swaps, some of which classifiable as ESG-linked.

As of December 31, 2019, the total notional value of the derivative portfolio was €450,000,000 (€600,000,000 as of December 31, 2018) with a negative fair value of €1,480 (€3,641,536 as of December 31, 2018). 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, 2019, with all other variables equal, but considering the effect of the derivative contracts, the profit/loss for the period before tax would have been €238,278 thousand lower/higher (€320,389 thousand in 2018), and the profit/loss for the period after tax would have been €181,091 lower/higher (€243,496 thousand in 2018).

As described in note 4. “Accounting policies – iii) Accounting standards, amendments and interpretations

[1] Further information is provided in note 29. “Current and non-current borrowings”.

adopted early by the Company", the Company will continue to apply the amendments to IFRS 9 "Financial Instruments" and IAS 39 "Financial Instruments: Recognition and Measurement", in addition to IFRS 7 "Financial Instruments: Disclosures" until the uncertainty resulting from the reform of interest rate benchmarks continues. Once these uncertainties have been resolved, appropriate changes will be made to the contract terms of both the hedged and hedging instruments.

Credit risk

Credit risk represents the Company's exposure to the risk of potential losses resulting from a counterparty's inability to discharge an obligation.

The Company's exposure to credit risk is linked to i) financial investments, such as short-term bank deposits and other bank and post office deposits, where counterparties are major banks and ii) the Company's trading activities.

The trade receivables accounted for in the financial statements primarily relate to the indirect sales channel, represented by agencies. The measurement of these receivables and establishment of the related credit limits are based on credit scores provided by specialist agencies.

Most ticket sales take place through direct channels without the involvement of an intermediary. As a result, the related receivables are collected almost immediately. Specifically:

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

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

The following table provides a breakdown of trade receivables as of December 31, 2019 and 2018, grouped by due dates.

(€)	2019	2018
Current	8,039,904	6,909,711
Past due for 0-30 days	198,342	170,255
Past due for 31-60 days	79,385	80,309
Past due for 61 to 180 days	9,305	140,032
Past due for over 181 days	275,572	123,064
Total gross trade receivables	**8,602,509**	**7,423,372**
Provisions for doubtful accounts	(340,753)	(217,614)
Total trade receivables	**8,261,756**	**7,205,758**

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, assessments of expected credit losses and of specific evidence in relation to individual exposures, also taking into account the type of contractual relationship with the counterparty within the context of the Company's commercial policies. In this sense, provisions for doubtful accounts for each financial year are estimated primarily on the basis of receivables past due for over 180 days.

Liquidity risk

Liquidity risk is associated with the Company's ability to meet commitments originating mainly from financial liabilities. Prudent liquidity risk management as regards the Company's ordinary business activities implies maintaining an adequate level of cash and cash equivalents and the availability of funds that may be obtained through an adequate number of credit facilities.

The Company expects to be able to generate adequate operating cash flow to meet its requirements and pursue its planned objectives. As of the date of these financial statements, the Company therefore deems that it is not exposed to a significant level of liquidity risk.

As of December 31, 2019, cash and cash equivalents amounts to €93,206,101.
The following tables show cash flow forecasts for future years (including the principal and interest) as regards financial liabilities as of December 31, 2019 and 2018:

As of December 31, 2019 *(€)*	Carrying amounts	Expected cash flows within 12 months	Expected cash flows between 1 and 5 years	Expected cash flows after 5 years
Current and non-current borrowings	900,209,414	12,392,400	961,479,490	-
Current and non-current lease liabilities	54,010,980	7,662,623	26,702,395	37,124,647
Trade payables	188,804,299	188,804,299	-	-
Other current and non-current liabilities	1,307,193	1,332,666	-	-
Total financial liabilities excluding derivative financial instruments	**1,144,331,886**	**210,191,988**	**988,181,885**	**37,124,647**
Derivative liabilities	1,480	304,251	(300,876)	-
Total	**1,144,333,366**	**210,496,239**	**987,881,009**	**37,124,647**

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

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, 2019 and 2018.

As of December 31, 2019 *(€)*	**Financial assets and liabilities at amortized cost**	**Financial assets and liabilities at** FVTPL	**Hedging derivatives**	**Non-financial assets / liabilities**	**Total**
Assets					
Trade receivables	8,261,756	-	-	-	**8,261,756**
Other current and non-current assets	5,019,800	-	-	26,923,778	**31,943,578**
Current financial assets	-	80,187,753	-	-	**80,187,753**
Cash and cash equivalents	93,206,101	-	-	-	**93,206,101**
Total assets	**106,487,657**	**80,187,753**	**-**	**26,923,778**	**213,599,189**
Liabilities					
Current and non-current borrowings	900,209,414	-	-	-	**900,209,414**
Current and non-current lease liabilities	54,010,980	-	-	-	**54,010,980**
Trade payables	188,804,299	-	-	-	**188,804,299**

Deferred revenues from transport services	-	-	-	44,585,304	**44,585,304**
Other current and non-current liabilities	1,361,868	-	1,480	23,482,520	**24,845,868**
Total liabilities	**1,144,386,561**	**-**	**1,480**	**68,067,824**	**1,212,455,865**

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

Fair value measurement

The following table summarizes the assets and liabilities that are measured at fair value as of December 31, 2019 and 2018, based on the level that reflects the inputs used to determine the fair value.

(€)	2019	2018
Derivative liabilities	1,480	3,641,536
Total	1,480	3,641,536

The fair value measurement of these instruments is made according to methods that are classified as level 2.
There were no transfers between different levels of the fair value hierarchy during the periods in question.

7. 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.

8. Revenues from transport services

The following table shows a breakdown of revenue from transport services:

(€)	2019	2018	Change
Transportation revenues	680,565,276	536,502,159	144,063,117
Total	680,565,276	536,502,159	144,063,117

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 integrated rail and bus service, after commercial discounts, returns, rebates, adjustments for fraud and customer loyalty programs.
The Company recognizes revenues following satisfaction of the related performance obligation "at a point in time", being when passengers are transported.

9. Other operating revenues

The following table shows a breakdown of other operating revenues:

(€)	2019	2018	Change
White certificates	29,825,222	30,366,708	(541,486)
Royalties and advertising space	1,217,044	1,525,529	(308,485)
Recharges for services to third parties	1,323,533	1,278,324	45,209
Other income	2,369,008	1,891,744	477,264
Total	**34,734,807**	**35,062,305**	**(327,498)**

The item, "White certificates", refers to revenues from Energy Efficiency Certificates (EECs) issued by the Gestore dei Servizi Energetici (GSE, or Energy Services Operator) on the basis of the energy savings achieved by Italo's fleet with respect to a specific threshold. The decrease in revenue from "White certificates" is broadly due to lower prices obtained from the sale of the certificates compared with the comparative period.

"Other income" mainly consists of revenues for ancillary services to passenger transport and insurance proceeds as a result of claims submitted.

10. Access and electricity costs

The following table shows a breakdown of access and electricity costs:

(€)	2019	2018	Change
Access costs	128,468,944	116,348,235	12,120,709
Electricity costs	33,118,814	17,956,355	15,162,459
Total	**161,587,758**	**134,304,590**	**27,283,168**

This item refers to fees paid to the railway infrastructure operator for access costs and electricity costs. The increase in access costs primarily reflects the increased service offering.

11. Train management costs

The following table shows a breakdown of train management costs:

(€)	2019	2018	Change
Rolling stock maintenance	78,649,061	60,121,400	18,527,661
Cleaning costs for trains	11,397,227	9,926,901	1,470,326
Other train costs	1,945,387	1,624,084	321,303
Total	**91,991,675**	**71,672,385**	**20,319,290**

This item primarily regards the costs incurred by the Company for the maintenance and management of Italo's fleet of trains, carried out by Alstom under the existing maintenance contract, and for the internal and external cleaning of trains. The increase in this item is broadly linked to expansion of the EVO fleet.

12.Personnel costs

The following table shows a breakdown of personnel costs:

(€)	2019	2018	Change
Wages and salaries	50,614,895	46,160,101	4,454,794
Social security and insurance contributions	13,152,274	10,757,582	2,394,692
Post-employment benefits (*TFR*)	2,407,395	2,130,237	277,158
Other personnel costs	3,270,613	6,716,765	(3,446,152)
Total	**69,445,177**	**65,764,685**	**3,680,492**

"Personnel costs" primarily consist of remuneration, salaries, wages, social security and pension contributions. In addition, this item includes amounts paid into supplementary pension funds and flat taxes, totaling €559,936 for the year ended December 31, 2019 (€476,680 in the year ended December 31, 2018).
The increases reflect the expansion of the workforce, in line with the Company's growth strategy.
The reductions reflect movements during the period following the extinguishment and launch of medium/long-term incentive plans.

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

	Average number of employees		**Number of employees**	
(number)	2019	2018	2019	2018
Officers	17	18	17	17
Managers	65	58	68	64
Employees	965	856	1,058	889
Others	288	263	277	280
Total	**1,335**	**1,195**	**1,420**	**1,250**

13.Other operating costs

The following table shows a breakdown of other operating costs, which have risen in line with expansion of the business:

(€)	2019	2018	Change
Ticket sale commissions	26,442,445	21,690,176	4,752,269
Third party services	18,416,535	16,481,886	1,934,649
Consultants' fees	12,159,984	9,750,711	2,409,273
Other operating costs	10,175,494	5,133,875	5,041,619
Credit card fees	6,809,846	5,532,479	1,277,367
Promotional expenses	6,549,057	4,781,038	1,768,019
Insurance services	4,492,183	5,006,964	(514,781)
Travel expenses	3,913,652	3,415,867	497,785
Connectivity	3,870,020	3,539,722	330,298
Rental and lease instalments	3,256,874	8,369,654	(5,112,780)
Maintenance	3,040,393	2,888,827	151,566
Net provisions for risks	828,612	1,178,996	(350,384)
Provisions for doubtful accounts	124,610	3,576	121,034
Total other recurring operating costs	**100,079,705**	**87,773,771**	**12,305,934**
Other non-recurring operating costs	-	13,239,490	(13,239,490)
Total other non-recurring operating costs	**-**	**13,239,490**	**(13,239,490)**
Total other operating costs	**100,079,705**	**101,013,261**	**(933,556)**

"Third party services" mainly includes the costs for the on-board caring service, for the cash management service for the automatic vending machines, for the Italobus integrated rail and bus service and for office cleaning, security and surveillance services.

"Other operating costs" mainly includes costs for staff catering, costs connected with ancillary services to passenger transport, the cost of staff training, indirect taxes and duties, utility costs and telephone expenses.

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

The item, "Rental and lease instalments", is down €5,112,780 compared with the previous year. The change reflects the impact of first-time adoption of the new accounting standard, IFRS 16 "Leases", from January 1, 2019. Further information is provided in note 4. "Accounting policies - Recently issued accounting standards", in this document.

14. Depreciation, amortization and impairments

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

(€)	2019	2018	Change
Depreciation of rolling stock	32,287,541	28,510,611	3,776,930
Amortization of intangible assets	14,406,846	3,553,831	10,853,015
Depreciation of right-of-use assets	5,783,017	-	5,783,017
Depreciation of other property, plant and equipment	3,946,045	3,714,526	231,519
Total	56,423,449	35,778,968	20,644,481

The increase in depreciation and amortization primarily reflects the following:

- the increase in trains in the fleet in 2019;
- amortization of the intangible assets recognized following the reverse merger (the trademark and customer relationships);
- the depreciation of right-of-use assets recognized in application of IFRS 16.

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

The following table shows a breakdown of this item:

(€)	2019	2018	Change
Losses on disposal of non-current assets	(140,696)	(303,059)	162,363
Gains on disposal of non-current assets	24,029	-	24,029
Total	(116,667)	(303,059)	186,392

The losses were generated by the replacement of seat upholstery in Club Executive and Prima classes and the replacement of the food vending machines of the AGV fleet.

The gains reflect the accounting effect of the sale of specialist equipment for amounts higher than the related carrying amounts.

16. Financial income (expenses)

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

(€)	2019	2018	Change
Interest on bank deposits	311,512	89,540	221,972

Change in fair value of current financial assets	288,349	-	288,349
Income from current financial assets	172,901	-	172,901
Other interest income	47,693	275,820	(228,127)
Total financial income	**820,455**	**365,360**	**455,095**
Interest expense on borrowings	19,452,492	24,447,143	(4,994,651)
Financial expenses on early repayment of borrowings	10,674,219	2,301,182	8,373,037
Financial expenses on derivative instruments	1,924,833	976,896	947,937
Financial expenses on leases	1,778,290	-	1,778,290
Fees	1,389,638	2,205,367	(815,729)
Change to fair value of derivative instruments	1,061,883	1,427,466	(365,583)
Change in fair value of current financial assets	228,543	-	228,543
Interest on post-employment benefits (*TFR*)	145,253	157,684	(12,431)
Other financial expenses	137,133	493,488	(356,355)
Net foreign exchange losses	448	926	(478)
Total financial expenses	**36,792,731**	**32,010,152**	**4,782,580**
Total financial income (expenses), net	**(35,972,277)**	**(31,644,792)**	**(4,327,485)**

Financial income

"Financial income" primarily regards accrued financial income on bank current accounts and current financial assets.
The increase compared with the previous year, amounting to €455,095, is due to income from investments in current financial assets in 2019 and to the fact that average liquidity was higher with respect to the previous year.

Financial expenses

"Financial expenses" primarily refer to interest and fees paid on the Company's financial instruments.
In November 2019, the Company extinguished its existing loan and agreed a new loan, details of which are provided in note 29. "Current and non-current borrowings" in this document. As a result of this transaction, "Financial expenses" increased by €4,782,580, due to application of the amortized cost method which, at the time of extinguishment of the previous borrowing, led to the transaction costs previously recognized and not yet amortized being recycled in full through profit or loss.

"Financial expenses on early repayment of borrowings", amounting to €10,674,219, regard the following:

(€)	2019	2018	Change
Financial expenses recycled as a result of early repayment of borrowings	8,146,053	2,184,336	5,961,717
Fees on early unwinding of derivative instruments	2,528,166	116,846	2,411,320
Total	**10,674,219**	**2,301,182**	**8,373,037**

"Interest expense on borrowings" is down €4,994,651 compared with the previous year, reflecting changes in the debt structure between the two periods.

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

Finally, "Financial expenses on leases" include the financial component of lease arrangements accounted for under the new accounting standard, IFRS 16 "Leases". Further information is provided in the note 4.

"Accounting policies - Recently issued accounting standards".

17. Income tax

The following table shows a breakdown of income tax:

(€)	2019	2018	Change
Current income tax expense	24,949,691	11,235,596	13,714,095
Deferred tax income	(2,710,253)	-	(2,710,253)
Deferred tax expense	26,023,680	26,957,701	(934,021)
Total	48,263,118	38,193,297	10,069,821

This item includes current income tax and the impact on profit or loss of deferred tax assets and liabilities. Income tax expense rose €10,069,821 in 2019, broadly due to the increase in taxable income, partially offset by the reversal of deferred tax assets recognized in the financial statements in 2019 following the previously described reverse merger.

The following table shows the reconciliation of the tax charge at the statutory rate and the effective charge for the years ended December 31, 2019 and 2018:

(€)	2019	2018	Change
Profit (loss) before tax	199,683,376	131,082,724	68,600,652
Theoretical tax charge (24%)[2]	47,924,010	31,459,854	16,464,156
Other differences	(11,285,781)	(1,527,726)	(9,758,055)
Effective charge for IRES	**36,638,229**	**29,932,128**	**6,706,101**
Effective charge for IRAP	**11,624,889**	**8,261,169**	**3,363,720**
Effective tax charge	48,263,118	38,193,297	10,069,821

Further details of movements in deferred taxes are provided below in notes 22. "Deferred tax assets" and 33. "Deferred tax liabilities".

18. Goodwill

The following table shows details of this item:

(€)	2019	2018	Change
Goodwill	1,683,797,961	-	1,683,797,961
Total	1,683,797,961	-	1,683,797,961

Goodwill, amounting to €1,683,797,961 as of December 31, 2019, resulted from the reverse merger described above in note 3. "Corporate actions". The unallocated merger deficit has been recognized in intangible assets with indefinite useful lives, in line with the approach used in the consolidated financial statements of the parent, GIP III Neptune SpA, for the year ended December 31, 2018.

Goodwill has been allocated to a single identified Cash Generating Unit (CGU), represented by the Company, Italo. Management has not identified any other smaller CGUs that generate largely independent cash flows to which goodwill could be allocated.

With the assistance of an independent expert, the Group tested the recoverability of net invested capital as of December 31, 2019 (including goodwill). The recoverable value, based on the CGU's value in use,

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

was calculated using the UDCF Model and estimated by the Company based on its business plan, using a discount rate that reflects, among other things, its return on investment and cost of debt (WACC). For periods not covered by the business plan, cash flows were estimated on the basis of the last period covered by the plan, using a perpetual growth rate (g).

Based on the test carried out as above, the total value of net invested capital as of December 31, 2019 (including goodwill) was judged to be adequately justified in terms of expected income and the related cash flows. There was, therefore, no evidence of impairment such as to require the Company to recognize any impairment loss.

19. Intangible assets

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

(€)	Railway license	Software	Trademark	Customer relationships	Intangible assets in progress	Total
As of December 31, 2018	35,860	6,643,995	-	-	2,352,560	9,032,414
Change due to reverse merger	-	-	25,677,867	88,706,667	-	114,384,533
As of January 1, 2019	35,860	6,643,995	25,677,867	88,706,667	2,352,560	123,416,947
of which:						
- historical cost	*183,845*	*40,429,915*	*27,512,000*	*93,142,000*	*2,352,561*	*163,620,321*
- accumulated amortization	*(147,985)*	*(33,785,921)*	*(1,834,133)*	*(4,435,333)*	-	*(40,203,373)*
Reclassifications	-	1,951,327	-	-	(1,979,948)	(28,621)
Additions	-	2,265,524	-	-	4,218,649	6,484,173
Reductions	-	(17,262)	-	-	-	(17,262)
Amortization	(16,435)	(4,986,212)	(2,751,200)	(6,653,000)	-	(14,406,846)
As of December 31, 2019	19,425	5,857,372	22,926,667	82,053,667	4,591,261	115,448,392
of which:						
- historical cost	*183,845*	*44,629,505*	*27,512,000*	*93,142,000*	*4,591,261*	*170,058,611*
- accumulated amortization	*(164,420)*	*(38,772,133)*	*(4,585,333)*	*(11,088,333)*	-	*(54,610,220)*

As of December 31, 2019, intangible assets amount to €115,448,392, an increase of €106,415,978 compared with December 31, 2018.

The increase as of December 31, 2019 reflects the combined effect of allocation of the merger deficit of €114,384,533, investments and reclassifications of €6,455,552, amortization of €14,406,846 and disposals of €17,262.

Allocation of the merger deficit regards:
- €27,512,000 (gross of deferred tax liabilities of €7,928,848) allocated to the intangible asset with a finite life, "Trademark". As of January 1, 2019, the asset was recognized after accumulated amortization of €1,834,133;
- €93,142,000 (gross of deferred tax liabilities of €26,843,152) allocated to the intangible asset with an indefinite life, "Customer relationships". As of January 1, 2019, the asset was recognized after accumulated amortization of €4,435,333.

Further information on recognition of the above components is provided in note 4. "Accounting policies"

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

20. Property, plant and equipment

The following table shows a breakdown and the related movements:

(€)	AGV fleet	EVO fleet	Onboard telecomm-unications AGV fleet	Onboard telecomm-unications EVO fleet	Assets under construction	Investments at plants and railway stations	Land and buildings	Other PPE	Total
As of December 31, 2018	**501,619,244**	**251,774,260**	**1,304,135**	**858,935**	**74,180,507**	**5,972,577**	**45,227**	**8,873,629**	**844,628,512**
of which:									
- historical cost	*637,873,819*	*259,254,816*	*12,310,267*	*1,039,301*	*74,180,507*	*12,621,528*	*132,465*	*19,814,517*	***1,017,227,221***
- accumulated depreciation	*(136,254,576)*	*(7,480,556)*	*(11,006,132)*	*(180,366)*	*-*	*(6,648,951)*	*(87,239)*	*(10,940,888)*	***(172,598,708)***
Reclassifications	-	55,292,432	-	336,206	(57,159,928)	3,169	-	1,556,741	**28,621**
Additions	527,520	101,286,301	-	114,000	34,702,072	314,113	-	1,254,804	**138,198,810**
Reductions	-	-	-	-	-	(53,921)	-	(119,647)	**(173,568)**
Depreciation	(21,337,210)	(10,950,332)	(598,398)	(248,284)	-	(501,303)	(8,314)	(2,589,746)	**(36,233,586)**
As of December 31, 2019	**480,809,554**	**397,402,661**	**705,737**	**1,060,857**	**51,722,652**	**5,734,635**	**36,913**	**8,975,782**	**946,448,789**
of which:									
- historical cost	638,401,339	415,833,549	12,310,267	1,489,507	51,722,652	12,879,920	132,465	22,312,618	**1,155,082,317**
- accumulated depreciation	(157,591,785)	(18,430,888)	(11,604,530)	(428,650)	-	(7,145,286)	(95,553)	(13,336,836)	**(208,633,528)**

As of December 31, 2019, property, plant and equipment amounts to €946,448,789, an increase of €101,820,277 compared with December 31, 2018, due to:

- investment and reclassifications, amounting to €138,227,431;
- depreciation of €36,233,586;
- net disposals, amounting to €173,568.

Investment and reclassifications primarily regard the EVO fleet, with a residual amount relating to improvements to AGV trains, investment in railway equipment and stations and other property, plant and equipment.

Disposals regard:

- food vending machines on board the AGV trains (a carrying amount of €69,513), replaced with more up-to-date models;
- specialist equipment (a carrying amount of €50,134), sold for €74,070 and thereby realizing a gain of €23,936.

21. Right-of-use assets

This item breaks down as follows:

(€)	Train maintenance centers	Marshalling yards	Station spaces and self-service ticket machines	Offices	Self- service ticket machines	IT systems	Vehicles	Total
As of January 1, 2019	11,436,278	846,786	26,982,253	2,316,678	5,538,543	936,884	152,506	**48,209,927**
of which:								
- historical cost	*11,436,278*	*846,786*	*26,982,253*	*2,316,678*	*5,538,543*	*936,884*	*152,506*	***48,209,927***
- accumulated depreciation	-	-	-	-	-	-	-	**-**
Reclassifications	-	-	-	-	-	-	-	**-**

Additions	784,250	230,142	8,762,669	100,379	493,891	-	133,042	**10,504,374**
Reductions	-	(232,379)	(131,068)	(19,120)	-	-	(19,941)	**(402,508)**
Depreciation	(493,437)	(61,574)	(3,143,281)	(1,012,958)	(692,778)	(280,605)	(94,102)	**(5,778,735)**
As of December 31, 2019	**11,727,091**	**782,975**	**32,470,574**	**1,384,979**	**5,339,656**	**656,278**	**171,505**	**52,533,059**
of which:								
- historical cost	*12,220,528*	*844,549*	*35,613,855*	*2,397,937*	*6,032,434*	*936,884*	*265,607*	**58,311,794**
- accumulated depreciation	*(493,437)*	*(61,574)*	*(3,143,281)*	*(1,012,958)*	*(692,778)*	*(280,605)*	*(94,102)*	**(5,778,735)**

As of December 31, 2019, right-of-use assets total €52,533,059, an increase of €4,323,132 compared with the date of initial recognition (i.e. January 1, 2019).
The increase reflects the combined effect of:

- new lease contracts entered into;
- modifications of existing leases, primarily relating to modification of the duration of the Framework Agreement for high-speed/high-capacity rail infrastructure, which has been extended with respect to the previous term;

after deducting:

- reductions (€402,508);
- depreciation (€5,778,735).

22. Deferred tax assets

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

(€)	2019	2018
As of January 1	45,761,418	72,477,168
Differences from Income Tax Return and other adjustments	310,804	1,666,792
Recognized in the income statement	(26,334,485)	(28,624,494)
Recognized in the statement of comprehensive income	(204,302)	241,952
As of December 31	19,533,435	45,761,418

"Deferred tax assets" refer to temporary differences primarily relating to:

- non-deducted financial expenses;
- derivative liabilities;
- other temporary differences (provisions not deducted during the period, mismatches between book and tax amortization and depreciation, impairments of receivables and other differences).

The reduction compared with the previous year is due to the reversal of all the deferred tax assets recognized on tax losses and ACE tax relief.

The following table shows details of deferred tax assets:

(€)	Tax losses	Financial expenses	ACE tax relief	Derivatives	Other temporary differences	Total
As of December 31, 2017	32,967,630	36,047,253	1,374,280	51,370	2,036,635	72,477,168
Differences from Income Tax Return	-	-	29,984	-	1,636,808	1,666,792
Recognized in the income statement	(20,380,525)	(7,027,545)	(1,404,264)	-	187,840	(28,624,494)
Recognized in the statement of comprehensive income	-	-	-	467,386	(225,434)	241,952
As of December 31, 2018	12,587,105	29,019,708	-	518,756	3,635,849	45,761,418
Differences from Income Tax Return and other adjustments	2,584,633	(2,273,829)	-	-	-	310,804

Recognized in the income statement	(15,171,738)	(13,362,986)	-	-	2,200,239	(26,334,485)
Recognized in the statement of comprehensive income	-	-	-	(518,401)	314,099	(204,302)
As of December 31, 2019	**-**	**13,382,893**	**-**	**355**	**6,150,187**	**19,533,435**

23. Inventories

Inventories consist of Energy Efficiency Certificates (EECs or white certificates) representing the TOE (tons of oil equivalent) accruing during the period, not yet issued by the Italian Energy Services Operator (GSE) and thus not yet sold.

(€)	December 31, 2019	December 31, 2018	Change
White certificates (EECs)	10,145,787	7,432,824	2,712,963
Total	**10,145,787**	**7,432,824**	**2,712,963**

As of December 31, 2019, this item includes EECs accrued by the AGV fleet in September, October, November and December and those accrued by the EVO fleet in 2019.

The EECs accrued by the AGV fleet in September are measured at their selling price in January 2020. The remaining certificates 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.

24. Trade receivables

The following table shows a breakdown of trade receivables:

(€)	December 31, 2019	December 31, 2018	Change
Receivables due from customers	8,602,509	7,423,372	1,179,137
Provisions for doubtful accounts	(340,753)	(217,614)	(123,139)
Total	**8,261,756**	**7,205,758**	**1,055,998**

Trade receivables primarily regard the indirect sales channel, consisting of travel agencies, and have increased as a result of the increase in ticket sales.

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 December 31, 2018	**217,614**
Additions	136,288
Utilizations/Releases	(13,149)
As of December 31, 2019	**340,753**

25. Other current assets

The following table shows a breakdown of other current assets:

(€)	2019	2018	Change
Advances to vendors	11,711,448	11,859,219	(147,771)
VAT tax receivables	11,054,788	10,948,332	106,456
Other assets	3,232,130	5,800,193	(2,568,063)
Deposits and guarantee	2,756,370	1,782,370	974,000

deposits			
Receivables resulting from credit cards	2,263,430	2,397,641	(134,211)
Social security contribution receivables	727,536	589,231	138,305
Amounts due from employees	197,876	290,613	(92,737)
Total	**31,943,578**	**33,667,599**	**(1,724,021)**

"Other assets" primarily consist of prepayments relating to commission on sureties, insurance policies and other rental payments made in advance for future periods and fees payable on unused credit facilities.

26. Current financial assets

The following table shows a breakdown of this item, consisting of the value of the liquidity invested by the Company through a leading asset management company:

(€)	2019	2018	Change
Short-term investment of liquidity	80,000,000	-	80,000,000
Fair value gains/(losses) through profit or loss	187,753	-	187,753
Total current financial assets	**80,187,753**	**-**	**80,187,753**

In view of the business model used and the contractual nature of the cash flows, the financial asset is measured at fair value through profit or loss. The investment of liquidity is considered short-term as the related instruments are held for trading and or are expected to be sold within twelve months of the reporting date.

27. Cash and cash equivalents

The following table shows a breakdown of cash and cash equivalents:

(€)	2019	2018	Change
Bank and post office deposits	89,301,165	286,100,479	(196,799,314)
Cash at bank and in hand	3,904,936	2,943,981	960,955
Total	**93,206,101**	**289,044,460**	**(195,838,359)**

This item includes current account balances and cash held at the various operating units around the country.

More detailed information on movements in this item is provided in the statement of cash flows.

28. Equity

Equity breaks down as follows:

(€)	2019	2018	Change
Share capital	60,017,725	60,017,725	-
Share premium reserve	2,672	49,615,855	(49,613,183)
Other reserves	1,553,167,617	21,644,947	1,531,522,670
Retained earnings	150,422,939	117,345,065	33,077,874
Total	**1,763,610,953**	**248,623,592**	**1,514,987,361**

Share capital

As of December 31, 2019, he Company's share capital amounts to €60,017,725 and consists of

64,013,275 no par ordinary shares.

The shares that make up the share capital do not entail any rights, constraints or obligations to distribute preference dividends or to make other preferential distributions. The shares have been pledged to lenders pursuant to the new loan agreement. For additional information reference should be made to note 29. "Current and non-current borrowings".

Share premium reserve

The share premium reserve reflects the share premium paid by shareholders at the time of the share capital increases subscribed in previous years.
The reserve has been reduced by €49,613,183 following the distribution to shareholders approved by a General Meeting of shareholders.

Other reserves and retained earnings

(i) Other reserves

The breakdown of "Other reserves" is as follows:

(€)	2019	2018	Change
Legal reserve	12,004,000	12,004,000	-
Cash flow hedge reserve	(1,125)	(1,642,728)	1,641,603
Reverse merger reserve	1,541,164,742	-	1,541,164,742
Other revenue reserves	-	11,283,675	11,283,675)
Total	**1,553,167,617**	**21,644,947**	**1,531,522,670**

The legal reserve has reached the threshold required by law.

Movements in the cash flow hedge reserve are as follows:

(€)	Cash flow hedge reserve
As of December 31, 2018	**(1,642,728)**
Gain/(Loss) on cash flow hedges	2,160,004
Gain/(Loss) on cash flow hedges - tax effect	(518,401)
Other comprehensive income/(loss)	**1,641,603**
As of December 31, 2019	**(1,125)**

A "Reverse merger reserve" of €1,766,164,742 has been recognized as a result of the reverse merger of the parent, GIP III Neptune SpA, by Italo SpA. This amount includes a portion of the profit for 2018 (€1,389,427) distributed prior to the reverse merger and, as a result of this transaction, later restored to the Company's equity. Therefore, for the purposes of computing the opening balance of equity following the reverse merger, the Company has classified the above amount as a distribution with a matching increase in the reverse merger reserve (see the "Statement of changes in equity").

On 23 November, this reserve was reduced by €225,000,000 following a special distribution approved by a General Meeting of shareholders.

"Other revenue reserves" were distributed in full in 2019.

(ii) Retained earnings/ (Accumulated losses)

Movements in "Retained earnings/ (Accumulated losses)" are as follows:

- an increase of €151,420,257 due to profit for 2019;
- a reduction of €92,889,427 following the decision to distribute the entire profit for 2018;
- a reduction of €24,458,311 following the distribution of retained earnings in their entirety;
- a reduction of €994,646 in the actuarial reserve for employee benefits.

Movements in the actuarial reserve for employee benefits are as follows:

(€)	Actuarial reserve
As of December 31, 2018	(2,672)
Actuarial gains/(losses) on employee benefits	(1,308,745)
Actuarial gains/(losses) on employee benefits - tax effect	314,099
Other comprehensive income/(loss)	(994,646)
As of December 31, 2019	(997,318)

Lastly, the table below shows the equity components at December 31, 2019, with indications for each of origin, possible use and distributability.

(€)	**As of December 31, 2019**	**Possible use** (A, B, C)	**Amount available as of December 31, 2019**
Share capital	60,017,725		-
Share premium reserve	2,672	A, B, C	2,672
Legal reserve	12,004,000	A, B	455
Reverse merger reserve	1,541,164,742	A, B, C	1,541,164,207
Cash flow hedge reserve	(1,125)		-
Actuarial reserve	(997,318)		(997,318)
Retained earnings	151,420,257	A, B, C	151,420,257
Total	**1,763,610,953**		**1,691,590,273**

Legend:
A: for share capital increase
B: to cover losses
C: for distribution to shareholders

29. Current and non-current borrowings

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

(€)	2019	2018	Change
Non-current portion of bank borrowings	897,791,129	718,201,780	179,589,349
Current portion of bank borrowings	2,418,285	4,545,071	(2,126,786)
Total	**900,209,414**	**722,746,851**	**177,462,563**

The following table shows movements in current and non-current borrowings in 2019.

(€)	Non-current borrowings	Current borrowings	Total
As of January 1, 2019	718,201,779	4,545,071	722,746,850
New issues /increase in borrowings	1,047,791,129	-	1,047,791,129
Repayments/reductions	(880,000,000)	-	(880,000,000)
Non-monetary effects	11,798,221	(1,419,815)	10,378,406
Interest	-	(706,971)	(706,971)
As of December 31, 2019	897,791,129	2,418,285	900,209,414

The breakdown of the current and non-current portions of borrowings as of December 31, 2019 and 2018 is as follows.

As of December 31, 2019 (€)	Within 12 months	Between 1 and 5 years	After 5 years	Total
Bank borrowings	2,418,285	897,791,130	-	900,209,415
Total	**2,418,285**	**897,791,130**	**-**	**900,209,415**

As of December 31, 2018 (€)	Within 12 months	Between 1 and 5 years	After 5 years	Total
Bank borrowings	4,545,071	718,201,779	-	722,746,850
Total	**4,545,071**	**718,201,779**	**-**	**722,746,850**

The following table shows the breakdown of bank borrowings by bank as of December 31, 2019 and 2018.

(€)			As of December 31,		As of December 31,	
Bank	Nominal value	Interest rate	*of which current*	2019	*of which current*	2018
Banca IMI, Unicredit, BPM, Mediobanca, Natixis, Santander, Caixa, NatWest, MUFG, ING, BNL; BPER, Société Générale	900,000,000	1.75%+Euribor 3m	2,418,285	900,209,415	-	-
Banca IMI, Unicredit, BPM, Mediobanca, Natixis, Santander, Caixa, NatWest, MUFG, ING, BNL; B PER, Société Générale	200,000,000	1.75%+Euribor 3m[3]	-	-	-	-
Banca IMI, Unicredit, Barclays, BPM, Mediobanca, Natixis, Santander, Caixa, NatWest, MUFG, ING, BNL; BPER, Société Générale	730,000,000	2.50%+Euribor 3m	-	-	4,545,071	722,746,851
Banca IMI, Unicredit, Barclays, BPM, Mediobanca, Natixis, Santander, Caixa, NatWest, MUFG, ING, BNL; BPER, Société Générale	150,000,000[4]	2.50%+Euribor 3m	-	-	-	-
Banca IMI, Unicredit, Barclays, BPM, Mediobanca, Natixis, Santander, Caixa, NatWest, MUFG, ING, BNL; BPER, Société Générale	20,000,000[4]	2.50%+Euribor 3m	-	-	-	-
Total			2,418,285	900,209,415	4,545,071	722,746,851
of which at a fixed interest rate				-		-
of which at a floating interest rate				***900,209,415***		***722,746,851***

On November 6, 2019, the Company obtained a new syndicated green loan worth a total of €1,100 million. Compared with the previous loan agreed on August 3, 2018, the new loan has:

- improved financial terms;
- greater flexibility in order to support future investment;
- a longer term to maturity.

This green transaction represents the largest ever in the transport sector and has the potential to be classified as a sustainable loan by identifying certain sustainability indexes.
The proceeds from this new borrowing have been in part used for early repayment of the previous loan.

The new Loan Agreement ("the Agreement") is divided into two credit facilities, to be used in the form of cash disbursements and structured as follows:

- Facility A, amounting to €900,000,000, with a term to maturity of 5 years and drawn down on November 7, 2019 to repay the existing borrowing and to pay the fees, costs and expenses related to the financing;
- a Revolving Facility of €200,000,000 to meet working capital requirements and for general cash requirements.

Facility A is a bullet loan for repayment at maturity (November 2024), whilst the Revolving Facility will expire on the last day of the relevant interest period.
The interest rate applied is given by a spread plus Euribor, it being understood that the total of both can never be lower than zero. The spread applied to all facilities is 1.75%, rising periodically and potentially

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

[4] This credit facility refers to the existing loan agreement as of December 31, 2018.

declining on the achievement of a rating at least equal to BB+/Ba1.
In addition, the Agreement provides for the potential to identify a number of sustainability indexes which, if adhered to, would lead to a further reduction in the spread applied. Finally, a commitment fee is due on unused amounts.

The 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 Agreement calls for, among other things:

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

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

- any borrowing, within the meaning of the Agreement, is not repaid at maturity or by the end of the original grace period, if any;
- repayment of any borrowing is accelerated following a default;
- the total of the borrowings, as referred to in the previous two points, should exceed €10,000,000.

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

- missed or late payment of any sum due (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 Agreement that is not remedied within 15 days from the time the Company is made aware of the issue;
- untrue and incorrect representations and warranties in relation to substantial aspects that are not remedied within 15 days from the time the Company is made aware of the issue;
- the start of pre-bankruptcy or bankruptcy proceedings and other insolvency events; and/or
- occurrence of a Material Adverse Effect that is not remedied within 15 days from the time the Company is made aware of it.

At the same time as the new loan agreement was signed, and following removal of the restriction provided for under the previous loan agreement, the Company entered into a Deed of Pledge by which the shareholders have pledged 100% of the Company's shares.

The table below compares the thresholds for the financial covenants indicated in the loan agreement with the ratios applicable to the Company at December 31, 2019 and December 31, 2018.

	Covenants[5]	2019		2018	
		Contractual threshold	Ratio	Contractual threshold	Ratio
Senior Facilities Agreement					
1	Consolidated Net Leverage Ratio (Net Debt/Adj. EBITDA)	< 5.5x	2.5	< 5.5x	2.0x
2	Fixed Charge Coverage Ratio (Adj. EBITDA/interest expense)	> 3.5x	14.4	> 3.5x	11.4x

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

30. Net debt

The table below shows the composition of the Company's net debt as of December 31, 2019 and December 31, 2018.

(€)	2019	2018	Change
A. Cash	(93,206,101)	(289,044,460)	195,838,359
B. Current financial assets	(80,187,753)	-	(80,187,753)
Current portion of non-current debt	2,418,285	4,545,071	(2,126,786)
Lease liabilities falling due within the next 12 months	5,826,314	-	5,826,314
Other current financial liabilities	-	-	-
C. Current debt	8,244,599	4,545,071	3,699,528
D. Net current debt (D = A + B + C)	(165,149,255)	(284,499,389)	119,350,134
Bank borrowings	897,791,129	718,201,780	179,589,349
Notes issued	-	-	-
Other non-current borrowings	-	-	-
Lease liabilities falling due after the next 12 months	48,184,666	-	48,184,666
E. Non-current debt	945,975,795	718,201,780	227,774,015
F. Net debt (F = D + E)	780,826,540	433,702,391	347,124,149

31. Current and non-current lease liabilities

(€)	2019	2018	Change
Non-current portion of finance leases	48,184,666	-	48,184,666
Current portion of finance leases	5,826,314	-	5,826,314
Total	54,010,980	-	54,010,980

The aging schedule for outstanding current and non-current lease liabilities as of December 31, 2019 is shown below:

As of December 31, 2019 (€)	Within 12 months	Between 1 and 5 years	After 5 years	Total
Finance leases	5,826,314	19,491,755	28,692,911	54,010,980
Total	5,826,314	19,491,755	28,692,911	54,010,980

Movements in lease liabilities during the period are shown below:

(€)	Lease liabilities
As of January 1, 2019	48,209,927
Additions due to new leases	1,245,737
Additions/(Reductions) due to lease modifications	8,860,318
Financial expenses	1,778,290
Payments	(6,083,292)
As of December 31, 2019	54,010,980

32. Employee benefits

Employee benefits include 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 shows a breakdown:

(€)	2019	2018	Change
Post-employment benefits (TFR)	14,730,588	11,584,055	3,146,533
Medium/long-term incentive plan	2,156,118	6,743,009	(4,586,891)
Total	16,886,706	18,327,064	(1,440,358)

As of December 31, 2019, "Employee benefits" amount to €16,886,706 (€18,327,064 as of December 31, 2018) and include liabilities relating to:

- post-employment benefits (*TFR*) for Company employees, determined on the basis of actuarial techniques;
- the medium/long-term incentive plan for several key management personnel whose roles are considered to contribute to the achievement of strategic results.

Post-employment benefits (TFR)

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

(€)	Post-employment benefits (*TFR*)
As of December 31, 2018	11,584,055
Interest on the obligation	145,253
Service costs	2,345,236
Utilizations and prepayments	(652,698)
Actuarial loss/(gain)	1,308,742
As of December 31, 2019	14,730,588

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

	2019	2018
Economic assumptions		
Annual discount rate	0.77%	1.57%
Annual inflation rate	1.20%	1.50%
Annual increase in post-employment benefits	2.40%	2.63%
Annual salary increases	Managers 2.50%	Managers 2.50%
	Non-managers 1.00%	Non-managers 1.00%
Demographic assumptions		
Frequency of advance payments	1.20%	1.20%
Employee turnover rate	2.00%	2.00%

With regard to the discount rate, for all of the periods in question, the Iboxx Corporate AA with a duration of 10+ on the valuation date was used as the reference rate.

The table below provides a sensitivity analysis of the liability for post-employment benefits (*TFR*) in terms of changes in the main actuarial assumptions for the year ended December 31, 2019:

(€)	2019
Employee turnover rate + 1%	14,291,591
Employee turnover rate - 1%	15,261,267
Inflation rate + 0.25%	15,298,621
Inflation rate – 0.25%	14,190,299
Discount rate + 0.25%	14,047,695
Discount rate – 0.25%	15,460,668

Medium/long-term incentive plan

The liability relating to the three-year incentive plan for the period 2016-2018 was extinguished in 2019. At the same time, a new three-year incentive plan was launched for several key management personnel whose roles are considered to contribute to the achievement of strategic results. The incentive is assigned when certain future performance goals for the Company are achieved.

As of December 31, 2019, the liability has been calculated on the basis of the Company's results for the three-year period 2019-2021, and the benefit linked to the incentive plan, to be paid at the end of the period (first quarter 2022), is determined on the basis of the expected cash flows, calculated at a discounting rate of 0.77%.

Movements in the provision relating to the medium/long-term incentive plan (also long-term incentive plan or "LTIP") as of the reporting date break down as follows.

(€)	Medium/long-term incentive plan
As of December 31, 2018	6,743,009
Interest on the obligation	43,525
Provisions	2,705,688
Uses and releases	(7,336,104)
As of December 31, 2019	2,156,118

33. Deferred tax liabilities

(€)	2019	2018	Change
Deferred tax liabilities	30,254,912	-	30,254,912
Total	30,254,912	-	30,254,912

"Deferred tax liabilities" consist of taxable temporary differences on the mismatch between the carrying amounts of the trademark and customer relationships and the related fair value recognized on completion of the PPA, as described in note 3. "Corporate actions".

The following table shows movements in deferred tax liabilities.

(€)	Trademark	Customer Relationships	Total
As of January 1, 2019	7,400,259	25,564,906	32,965,165
Positive Impact on profit or loss	(792,885)	(1,917,368)	(2,710,253)
As of December 31, 2019	6,607,374	23,647,538	30,254,912

34. Non-current provisions

The following table shows movements in non-current provisions:

(€)	Disputes with third parties	Disputes with personnel	Other provisions	Total
As of December 31, 2018	2,851,922	87,877	341,504	3,281,303
Additions	379,412	72,050	818,680	1,270,142
Releases	(418,147)	(23,383)	-	(441,530)
Utilizations	(500)	(44,956)	-	(45,456)
Other changes	-	-	379	379
As of December 31, 2019	2,812,687	91,588	1,160,563	4,064,838

As of December 31, 2019, "Non-current provisions" amount to €4,064,838 (€3,281,303 as of December 31, 2018) and primarily include provisions for pending legal proceedings.
"Other provisions" primarily include provisions made in previous years for operating costs that the Company may be requested to pay.

The following paragraphs provide a brief description of the main pending legal proceedings that the Company is involved in, for which the Company has made non-current provisions as of December 31, 2019, for amounts that the Company believes to be reasonably certain, as shown in the above table.

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

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 denied the claimant's request for provisional enforcement of the above order. The same supplier also notified the Company of the following: (i) another provisionally enforceable court order to pay an amount of €197,640 plus interest and legal costs and a corresponding writ of execution, which the Company has challenged; (ii) on January 28, 2016, a further court order for the amount of €244,000 plus interest and legal costs, which the Company has challenged.
All the above challenges of the court orders have been combined with a previous lawsuit brought by the Company against this supplier - regarding termination for breach of the procurement contract awarded to the latter and consequent compensation for damages. The hearing was adjourned until May 28, 2020 for clarification of the pleadings.

Lawsuits brought before the Civil Court of Rome - On December 29, 2017, a supplier notified the Company of a court order to pay an amount of €12,519 plus interest, court fees, VAT, legal fees and other expenses. The Company has appealed. The application for the court to grant provisional enforceability of the injunction was rejected and the hearing was adjourned until October 15, 2020 for clarification of the pleadings.

Proceedings brought by the Prosecutor's Office for violation of Law 633/1941 - On April 18, 2018, the tax authority notified an employee of the Company and the Company itself of an assessment report and a finding, pursuant to Law 689/1981, that there had been a violation of Law 633/1941. The Company and the employee presented defense briefs contesting the finding. On January 9, 2019, as a result of pre-trial investigations, in relation to the alleged violations, the Company and the employee were notified of a payment order regarding an administrative fine of €68,112, which the Company has already paid. On July 23, 2019, the Company was notified of the conclusion of the pre-trial investigations pursuant to art. 415 *bis* of the code of criminal procedure (with regard to art. 171, letter a-*bis* of Law 633/1941). On January 9, 2020, the Prosecutor's Office served summons on both the Company and the employee, who are to appear in court on March 11, 2020.

Lawsuit brought before the Civil Court of Rome - On December 14, 2018 a network of travel agencies notified the Company of an action requesting the court to rule on: i) the Company's non-fulfilment of the obligations referred to in the train ticket sale agreement; and ii) Italo's non-contractual liability. As a result, the plaintiff requested total damages of €721,689 plus legal expenses. The first hearing was scheduled for March 19, 2019. The hearing was adjourned until September 29, 2021 for clarification of the pleadings.

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

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

35. Trade payables

The following table shows forth a breakdown of trade payables:

(€)	2019	2018	Change
Trade payables	131,780,023	127,121,546	4,658,477
Invoices to be received	57,024,276	50,781,627	6,242,649
Total	188,804,299	177,903,173	10,901,126

During the reporting period, the supplier of the trains in Italo's fleet sold trade receivables due from Italo and related to the supply of EVO pendolinos to a factoring company. These receivables are accounted for in trade payables in these financial statements. This transaction:

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

Since there have been no changes in the nature of the debt that has been factored (no significant amendments to payment terms or additional costs for the Company), it continues to be classified as a trade payable and not as a financial liability.

As of December 31, 2019, trade payables due to the factoring company amount to €22,975,370 and are not yet due.

36. Deferred revenues from transport services

The following table shows a breakdown of this item:

(€)	2019	2018	Change
Deferred revenues from transport services	44,585,304	31,898,681	12,686,623
Total	44,585,304	31,898,681	12,686,623

This item primarily includes revenues collected for train tickets sold for services to be provided after the end of each period under review and, to a lesser extent, reimbursements due to passengers as a result of delays or disruptions to services.

The increase compared with the previous year, amounting to €12,686,623, is due to the growth in sales.

37. Current tax liabilities

The following table shows a breakdown of this item:

(€)	2019	2018	Change
IRES payable	10,847,572	1,599,408	9,248,164
IRAP payable	3,385,765	2,802,603	583,162
Total	14,233,337	4,402,011	9,831,326

As of December 31, 2019, current tax liabilities amount to €14,233,337, after payments on account and offsetting against withholdings paid. The balance has risen as a result of the increase in taxable income.

38. Other current and non-current liabilities

The following table shows a breakdown of this item:

(€)	2019	2018	Change
Non-current liabilities for amounts settled	-	1,281,721	(1,281,721)
Other non-current liabilities	**-**	**1,281,721**	**(1,281,721)**
Payables to employees	13,590,050	14,169,095	(579,045)
Tax liabilities and social security payables	6,402,936	5,548,051	854,885
Other liabilities	3,489,534	3,338,935	150,599
Current liabilities for amounts settled	1,307,193	1,282,269	24,924
Payables for derivative financial expenses	54,675	328,704	(274,029)
Derivative liabilities	1,480	3,641,536	(3,640,056)
Other current liabilities	**24,845,868**	**28,308,590**	**(3,462,722)**

As of December 31, 2019, "Other non-current liabilities" amount to zero following their reclassification to other current liabilities.

The item "Derivative liabilities" indicates the fair value of derivative instruments held by the Company as of December 31, 2019. Following extinguishment of the Company's existing loan and the conclusion of a new loan agreement, the derivative instruments hedging the extinguished loan were unwound early and new hedges were entered into.

The new instruments involve the periodic exchange of cash flows (outflows at a market fixed rate and inflows at a variable Euribor rate) with a notional value hedging a portion of the underlying debt. The above derivative instruments qualify for the application of hedge accounting and as cash flow hedges of existing debt. In addition, unlike the previous contracts, a number of the instruments are classified as "ESG -linked".

The following table shows financial assets and liabilities measured and recognized at fair value as of December 31, 2019 and December 31, 2018:

As of December 31, 2019 (€)	Level 1	Level 2	Level 3	Total
Financial assets				
Bonds	-	-	-	-
Term deposits	-	40,086,470	-	40,086,470
Cash	40,101,283	-	-	40,101,283
Total financial assets	**40,101,283**	**40,086,470**	**-**	**80,187,753**
Financial liabilities				
Non-current borrowings	-	(897,791,129)	-	(897,791,129)
Current borrowings	-	(2,418,285)	-	(2,418,285)
Derivative instruments		(1,480)	-	(1,480)
Total financial liabilities	**-**	**(900,210,894)**	**-**	**(900,210,894)**

As of December 31, 2018 (€)	Level 1	Level 2	Level 3	Total
Financial assets				
Bonds	-	-	-	-
Term deposits	-	-	-	-

Cash	-	-	-	-
Total financial assets	**-**	**-**	**-**	**-**
Financial liabilities				
Non-current borrowings	-	(718,201,780)	-	(718,201,780)
Current borrowings	-	(4,545,071)	-	(4,545,071)
Derivative instruments	-	(3,641,536)	-	(3,641,536)
Total financial liabilities	**-**	**(726,388,387)**	**-**	**(726,388,387)**

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

39. Other information

Remuneration of directors and statutory auditors

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

(€)	2019	2018
Directors	5,262,619	5,029,166
Board of Statutory Auditors	140,000	140,000
Total	5,402,619	5,169,166

Auditors' fees

Pursuant to article 37, paragraph 16, of Legislative Decree no. 39/2010 and sub-paragraph 16-*bis* of article 2427 of the Italian Civil Code, it is noted that fees payable to the audit firm for the year ended December 31, 2019 amount to €161,500 (net of VAT and expenses incurred) and include, among other things:

- the reviews of interim reports and the audits of financial statements for the year ended December 31, 2019;
- the procedures performed in relation to the audit of the interim financial statements for the six months ended June 30, 2019;
- the procedures performed in relation to completion of the quarterly and annual tax returns.

(€)	**2019**
Audits	140,000
Tax attestation services	21,500
Total	**161,500**

Guarantees

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

(€)	2019	2018
Sureties to guarantee performance of lease contracts	2,433,755	1,219,910
Sureties to guarantee repayment of surplus VAT	34,968,801	44,307,981
Sureties in favor of RFI SpA for use of infrastructure	15,876,000	14,197,923
Other	632,138	491,215
Total	53,910,694	60,217,028

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

Commitments

The main commitments made by the Company relate to purchases of new EVO pendolino trains and maintenance contracts Italo's fleet.
As of December 31, 2019, following the adoption of IFRS 16 "Leases", leases have been accounted for in the items "Right-of-use assets" and "Current and non-current lease liabilities", as described in note 4. "Accounting policies" which provides further information and the relevant reconciliation at the date of first-time adoption (January 1, 2019).

Expected payments for non-cancellable contracts as of December 31, 2019 and 2018 are as follows.

(€)	As of December 31, 2019			As of December 31, 2018		
	Purchase of EVO trains	Train maintenance	Leases	Purchase of EVO trains	Train maintenance	Leases
Within 12 months	62,660,356	74,725,250	-	109,930,775	53,788,197	11,891,193
Between 1 and 5 years	43,972,000	330,682,069	-	39,575,079	315,625,926	63,070,866
After 5 years	-	1,957,348,955	-	-	1,505,701,035	269,261,713
Total	**106,632,356**	**2,362,756,274**	**-**	**149,505,854**	**1,875,115,158**	**344,223,772**

Contingent liabilities

The Company is a party to civil, administrative, labor and social security proceedings arising as a result of its ordinary activities. Based on the information currently available, and considering risk provisions in place, the Company believes that the outcomes of these 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 proceedings.

<u>Lawsuit brought before Lazio Regional Administrative Court</u> – 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 appeal is awaited.

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

<u>Lawsuit brought before the Council of State by Trenitalia SpA against Piedmont Regional Administrative Court judgement 1240/2017</u> - On February 20, 2018, Trenitalia SpA appealed against sentence 1240 of November 20, 2017 with which the Piemonte Regional Administrative Court rejected the appeal brought by Trenitalia SpA against the Transport Regulator's determination 80/2016 and any other related, connected and/or consequential action. The appeal hearing is scheduled for April 7, 2020.

<u>Lawsuit brought before Lazio Regional Administrative Court by Trenitalia SpA against the Transport Regulator's determination 152/2017, the Network Prospectus for 2019 and the Transport Regulator's determination 33/2018</u> - On February 20,2018, Trenitalia SpA notified the Company of an appeal with which it has requested the annulment - subject to precautionary relief - of the Transport Regulator's

determination 152/2017 of December 22,2017, concerning "Conclusion of the proceeding initiated with determination 77/2017. Additions to the principles and criteria applied in regulation of the national railway system ... ", as well as of the January 2018 edition of the Network Prospectus for 2019, limited to certain paragraphs, and of any other related, connected and/or consequential action. On March 22, 2018, Italo SpA declared that it would appear before the court, challenging the territorial jurisdiction of Lazio Regional Administrative Court. As part of the same lawsuit, on May 21, 2018, Trenitalia notified the Company of additional reasons for its appeal, also requesting annulment (i) of the Transport Regulator's determination 33/2018, concerning "*Application of the principles and criteria for regulating access to the national railway system established in determination 152/2017: approval, subject to certain requirements, of the formats for the information published by RFI SpA in accordance with provision 1 in Annex A; compliance with the requirements of the new rate system drawn up by RFI SpA*", (ii) of the Network Prospectus for 2019 – March 2018 edition, limited to certain paragraphs, and of any other related, connected and/or consequential action. On June 22, 2018, in order 6977, Lazio Regional Administrative Court declared that it did not have jurisdiction, indicating Piedmont Regional Administrative Court as the competent court. Following the appeal under article 16 of the code for administrative proceedings lodged by Trenitalia SpA against the above order 6977/2018, the Council of State upheld the jurisdiction of Piedmont Regional Administrative Court over the challenge to the measures adopted by the Transport Regulator. As notified on January 14, 2019, Trenitalia SpA thus resumed its action before Piedmont Regional Administrative Court, subsequently declaring that it was no longer interested in precautionary relief. A date for the hearing is awaited.

<u>Lawsuit brought before the Council of State by Trenitalia SpA against Piedmont Regional Administrative Court judgement 57/2018</u> - On April 11, 2018, Trenitalia SpA appealed against sentence 57 of January 11, 2018, with which Piedmont Regional Administrative Court rejected the appeal brought by Trenitalia SpA against the Transport Regulator's determination 96/2015 and any other related, connected and/or consequential action. The hearing on the merits is scheduled for June 11, 2020.

<u>Lawsuit brought before the Council of State by RFI SpA against Piedmont Regional Administrative Court judgement 264/2019</u> - On June 10, 2019, RFI SpA notified its appeal against sentence 264/2019 of March 11, 2019, with which Piedmont Regional Administrative Court rejected the appeal brought by RFI against the Transport Regulator's determination 78/2018 and any other related, connected and/or consequential action. On December 19, 2019, the Council of State ordered the Transport Regulator and the Ministry of Infrastructure and Transport to make the relevant documentation available.

<u>Lawsuit brought before the Supreme Court of Cassation by ARERA (the Regulatory Authority for Energy, Networks and the Environment) against Council of State judgement 3348/2019</u> – On September, 23 2019, ARERA (the Regulatory Authority for Energy, Networks and the Environment) notified the Company of its decision to appeal Council of Statement judgement 3348/19 before the Supreme Court of Cassation, in accordance with art. 111 of the Constitution, art. 362 of the of the Code of Civil Procedure and art. 110 of the code for administrative proceedings. The case concerns subsidies for energy intensive companies (AEEGSI determination 641/2013/R/COM). A date for the relevant hearing is awaited.

<u>Lawsuit brought before the Council of State by Trenitalia SpA against Council of State judgement 6108/2019</u> – On November 29, 2019, Trenitalia SpA notified the Company of an action requesting cancellation of the Council of State judgement 6108 of September 9, 2019, upholding the appeal brought by RFI against Piedmont Regional Administrative Court judgement 541/2017, concerning the Transport Regulator's determination 70/2014. A date for the relevant hearing is awaited.

<u>Lawsuit brought before the Supreme Court of Cassation by the Transport Regulator against Council of State judgement 6108/2019</u> – On December 23, 2019, the Transport Regulator notified an appeal, brought in accordance with art. 111, paragraph 8 of the Constitution, against Council of State judgement 6108 of September 9, 2019, upholding the appeal brought by RFI against Piedmont Regional Administrative Court judgement 541/2017, concerning the Transport Regulator's determination 70/2014.

In connection with this lawsuit, on January 31, 2020, both the Company (backing the appeal brought by the Transport Regulator) and RFI (challenging the Regulator's appeal) filed cross-appeals. A date for the relevant hearing is awaited.

Extraordinary appeal to the President of Italy by Trenitalia SpA against the Transport Regulator's determination 130/2019 – On January 31, 2020, Trenitalia notified an extraordinary appeal to the President of Italy, requesting cancellation (a) of the Transport Regulator's determination 130 of September 30, 2019, published on October 1, 2019, concerning "*Conclusion of the procedure initiated with determination 98/2018 – Measures concerning access to railway service equipment and services*", regarding the measures contained in certain paragraphs of the determination, and (b) any other related, connected, prior and/or consequential action. A ruling on the appeal is awaited.

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, 2019 and December 31, 2018.

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

- Shareholders: Allianz SpA. Generali Financial Holding Fcp-Fis Sub-Fund 2 and Intesa Sanpaolo SpA were related parties until April 26, 2018;
- Subsidiaries of shareholders: Essecieffe Investment Srl. Generali Italia SpA, Mediocredito Italiano SpA (which joined the Intesa San Paolo group in 2019), Mercury Payment Services SpA were related parties until April 26, 2018;
- Senior managers: members of the Board of Directors, the Chairman of the Board of Directors, the Executive Deputy Chairman, the Chief Executive Officer and key management personnel.

The following tables summarize the impact of related party transactions on the income statement for the years ended December 31, 2019 and December 31, 2018 and on the statement of financial position as of December 31, 2019 and 2018.

(€)	Shareholders	Subsidiaries of shareholders	Members of the Board of Directors	Key management personnel	Total related parties	Financial statement item	Impact on financial statement item
Impact of transactions on the income statement							
Personnel costs							
Year ended December 31, 2019	-	-	(5,122,996)	(1,472,331)	(6,595,327)	(69,445,177)	9.50%
Year ended December 31, 2018	-	-	(5,220,436)	(2,246,305)	(7,466,741)	(65,764,685)	11.35%
Other operating costs							
Year ended December 31, 2019	(219,964)	(598,348)	(11,213)	(37,383)	(866,908)	(100,079,705)	0.87%
Year ended December 31, 2018	(1,408,196)	(1,037,263)	(1,145)	(42,218)	(2,488,822)	(101,013,262)	2.46%
Financial expenses							
Year ended December 31, 2019	-	-	-	-	-	(36,792,732)	0.00%
Year ended December 31, 2018	(2,216,407)	(64,569)	-	-	(2,280,976)	(32,010,152)	7.13%

(€)	Shareholders	Subsidiaries of shareholders	Members of the Board of Directors	Key management personnel	Total related parties	Financial statement item	Impact on financial statement item
Impact of transactions on the statement of financial position							
Employee benefits							
As of December 31, 2019	-	-	554,430	581,708	1,136,138	16,886,706	6.73%
As of December 31, 2018	-	-	899,650	3,637,169	4,536,819	18,327,064	24.75%
Trade payables							
As of December 31, 2019	-	-	-	-	-	188,804,299	0.00%
As of December 31, 2018	-	100,826	-	-	100,826	177,903,173	0.06%
Other current liabilities							
As of December 31, 2019	-	-	2,930,634	232,151	3,162,785	24,845,868	12.73%
As of December 31, 2018	-	-	2,723,733	154,083	2,877,816	28,308,590	10.17%

Personnel costs refer to salaries, remuneration, bonuses and incentives, inclusive of social security payables, paid to members of the Board of Directors and key management personnel.

Other operating costs mainly refer to:
- premiums payable on insurance policies stipulated by the Company with Allianz SpA and Generali Italia SpA;
- the cost of consulting services provided by Essecieffe Services Srl;
- the cost of leasing company cars granted as benefits to senior managers.

Financial expenses mainly refer to interest expense on bank borrowings, fees and spreads on derivative contracts charged by Intesa SanPaolo SpA.

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 management personnel at the reporting date.

Trade payables refer to consulting services rendered by Essecieffe Investment Srl.

Other current liabilities refer to accrued but unpaid compensation due to members of the Board of Directors and key management personnel as of the reporting date.

40. Disclosure required by Law 124 of August 4, 2017

The following disclosure is provided in compliance with Law 124 of August 4, 2017.

Entity	Description	Value (€)	Date of collection
AGENZIA DELLE ENTRATE	Tax credit on incremental investment in advertising	34,048	April 11, 2019

41. Events after December 31, 2019

There were no material events after the end of the year ended December 31, 2019.

42. Appropriation of profit for the year

The financial statements report a profit for the year of €151,420,257 which, given that the legal reserve has reached the threshold required by law, the Board of Directors proposes to distribute in full according to the procedure described in the Report on Operations.

* * * * *

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

For the Board of Directors

The Chairman

Luca Cordero di Montezemolo