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

Italferr S.p.A.

Financial statements as at and for the year ended 31 December 2017

(with report of the auditors thereon)

KPMG S.p.A.

12 March 2018

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the sole shareholder of
Italferr S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Italferr S.p.A. (the "Company"), which comprise the statement of financial position as at 31 December 2017, the income statement and the statements of comprehensive income, cash flows and changes in equity for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Italferr S.p.A. as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the financial statements*" section of our report. We are independent of Italferr S.p.A. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to note 1 to the financial statements, where the directors state that, despite significant controlling interests, the Company has availed itself of the legal exemption from preparation of consolidated financial statements as it is, in turn,

controlled by Ferrovie dello Stato Italiane S.p.A., for which consolidated financial statements are prepared. These consolidated financial statements are made public within the timescale and the mode defined by current legislation. We did not qualify our opinion in this respect.

Other matters

As required by the law, the Company disclosed the key figures from the latest financial statements of the company that manages and coordinates it in the notes to its own financial statements. Our opinion on the financial statements of Italferr S.p.A. does not extend to such data.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Italferr S.p.A. for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The directors of Italferr S.p.A. are responsible for the preparation of the Company's directors' report at 31 December 2017 and for the consistency of such report with the related financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the Company's financial statements at 31 December 2017 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the financial statements of Italferr S.p.A. at 31 December 2017 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Rome, 12 March 2018

KPMG S.p.A.

(signed on the original)

Benedetto Gamucci
Director

(TRANSLATION FROM THE ITALIAN ORIGINAL WHICH REMAINS THE DEFINITIVE VERSION)

Italferr S.p.A.

2017

ANNUAL REPORT

Italferr S.p.A.

Single-member company managed and coordinated by Ferrovie dello Stato Italiane S.p.A.

Share capital: €14,186,000, fully paid up

Registered office: Via Vito Giuseppe Galati 71, 00155 Rome

Tax code and company registration no.: 06770620588

REA no.: 541241

VAT number: 01612901007

Web site: www.italferr.it

MISSION

Italferr is the Ferrovie dello Stato Italiane group's engineering company with over 30 years of consolidated experience in large infrastructural projects for traditional and high-speed railways, underground and road transport and the design of ports and stations in Italy and abroad.

Its mission is to build infrastructure in accordance with high quality standards, deadlines and the budget, covering all technical and management activities for the planning, design, execution, inspection and commissioning of the works.

Italferr offers innovative, high-tech services ranging from design to contracting, works management and supervision, inspection and commissioning of lines, stations and intermodal and interport hubs, project management, organisational consultancy, training and the transfer of specialised, avant-garde know-how.

COMPANY OFFICERS

Board of directors

Chairman	Riccardo Maria Monti
Chief Executive Officer	Carlo Carganico
Director	Elisabetta Scosceria

Board of statutory auditors	In office until 16 May 2017	In office as of 17 May 2017
Chairwoman	Ines Russo	Roberta De Felice
Standing statutory auditor	Giuseppe Farneti	Fabio Mastrangelo
Standing statutory auditor	Lelio Fornabaio	Giampaolo Davide Rossetti
Alternate statutory auditor	Silvana Amadori	Luca Provaroni
Alternate statutory auditor	Guglielmo Marengo	Federica Silvestri

INDEPENDENT AUDITORS

KMPG S.p.A. (engagement assigned by Italferr's shareholders on 26 April 2017 for 2017-2019)

Contents

LETTER FROM THE CHAIRMAN

Dear Shareholder,

Conflicting trends marked 2017: on the one hand, the Italian government's drive on investing in the railways (the so-called "rail therapy") led to a growing demand for services by RFI; on the other, continuing geopolitical tensions in many regions around the globe prevented a balanced revival in the worldwide economy.

Against this backdrop, Italferr accommodated market trends to best take advantage of opportunities, while limiting the impact of negative events.

To this end, the company faced the higher demand from RFI by increasing its workforce beyond that budgeted. In addition, it expanded the productivity of technical personnel to meet the increased demand and meet the deadlines of "strategic" projects and the roll-out of plant and lines agreed with RFI.

The extra effort paid off: production volumes to the group rose by roughly 18% on the previous year and the budget and fully offset the drop in production volumes on the non-captive market. The latter was due to both the slowdown in development in Middle Eastern countries where the company had been strengthening its position over time and the lengthy timeframes involved in rolling out operations in emerging countries due to their chaotic bureaucratic systems.

However, Italferr has not relinquished its goal to expand the international segment of its portfolio, which remains one of the stalwarts of the 2017-2026 business plan.

To achieve this, the company embarked on a scouting mission to the US market in 2017 to seek out a company that would be a suitable vehicle for penetrating the American market. Though the first attempt did not achieve the desired results, the company will continue its strategy in 2018 as such market is currently the most appealing by far on a global scale with regard to both growth forecasts and related demand volumes.

Alongside the pillar of internationalisation, Italferr continued activities to digitalise its production processes - the second mainstay of its business plan - by extending Building Information Modelling (BIM) know-how to a wider number of employees and applying it to some projects developed for RFI on a test basis.

Applying a model created for civil works design to the field of infrastructure meant Italferr was the first Italian engineering company to attain BIM certification for design, procurement and works management.

This prestigious recognition along with the decree on digitalisation signed by the Ministry of Infrastructure and Transport in December, which introduced gradual mandatory digitalisation of public calls to tender, are two major trump cards for Italferr's quest to maintain its leading position in the domestic market and compete on a level playing field with international players.

The outlook on the global economy predicts a near future marked by strong growth across the board. Italferr has shown how it managed to secure its objectives even in a year of transition such as 2017, testifying its ability to successfully tackle the situations it is faced with, including in the long term.

Directors' report

KEY AND GLOSSARY

ALTERNATIVE PERFORMANCE INDICATORS

Below is a description of the criteria used to determine the most frequently used alternative performance indicators in this report, which differ from the criteria applied to the financial statements and which management finds useful in monitoring the company's and the group's performance and believes reflect the results of operations and financial trends of its business segments:

- **Gross operating profit**: this is an indicator of the operating performance and reflects the company's core business only. It is calculated as the difference between revenue and operating costs.
- **Operating profit:** this is an indicator of the operating performance and is calculated as the sum of gross operating profit and amortisation and depreciation, write-downs, impairment losses (reversals of impairment losses) and provisions.
- **Net operating working capital:** this is the sum of inventories, construction contracts, current and non-current trade receivables and current and non-current trade payables.
- **Other assets, net:** these reflect the sum of receivables, deferred tax assets, other current and non-current assets and other current and non-current liabilities.
- **Working capital:** this is the sum of net operating working capital and other assets, net.
- **Net non-current assets:** these reflect the sum of property, plant and equipment, investment property, intangible assets and equity investments.
- **Other provisions:** these reflect the sum of post-employment benefits and other employee benefits, the tax provision, the provision for litigation with employees and third parties, the provisions for other sundry risks and deferred tax liabilities.
- **Net invested capital (NIC):** this is the sum of working capital, net non-current assets, other provisions and net assets held for sale.
- **Net financial debt (NFD):** this is a financial indicator calculated as the sum of non-current bank loans and borrowings and the current portion thereof, current bank loans and borrowings, current and non-current loans and borrowings from other financial backers, cash and cash equivalents and current and non-current loan assets.
- **Equity (E):** this is a financial statements indicator calculated as the sum of share capital, reserves, retained earnings (losses carried forward), current and non-current derivative liabilities and the profit (loss) for the year.
- **Gross operating profit margin**: this profitability indicator is calculated as the ratio of gross operating profit to operating revenue.
- **Operating profit margin – ROS (return on sales):** this sales profitability indicator is calculated as the ratio of operating profit to revenue.
- **Financial debt (NFD/E):** this indicator is used to measure the company's indebtedness, calculated as the ratio of net financial debt to equity.

- **ROE (return on equity):** this is a profitability indicator for equity and is calculated as the ratio of profit (loss) for the year and average equity, using the average of opening equity (including the profit (loss) for the previous year) and closing equity (net of the profit (loss) for the year).
- **ROI (return on investment)**: this is a profitability indicator for invested capital through core business operations. It is calculated as the ratio of operating profit to average NIC (the average of opening and closing NIC).
- **NAT (net asset turnover):** this is an efficiency indicator that expresses invested capital's ability to transform into sales revenue. It is calculated as the ratio of operating revenue to average NIC (the average of opening and closing NIC).
- **CAGR (Compound Annual Growth Rate)**: this indicator represents the growth rate of a specific amount over a given time period.

GLOSSARY

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

- **HS/HC:** High speed/High capacity. This is the system of lines and means specifically developed for high speed transport and the consequent high capacity transport.
- **BIM (Building Information Modelling)**: this is a complete digital model of a project, which in the initial stages describes the infrastructure to be built and follows its progressive development to construction.
- **MoU (Memorandum of understanding)**: usually a bilateral agreement that expresses a convergence of will between parties, indicating an intended common line of action. It is not a bona fide binding contract.
- **PPP (public-private partnership)**: a form of cooperation between public and private institutions in order to fund, build or operate infrastructure or provide services of public interest.

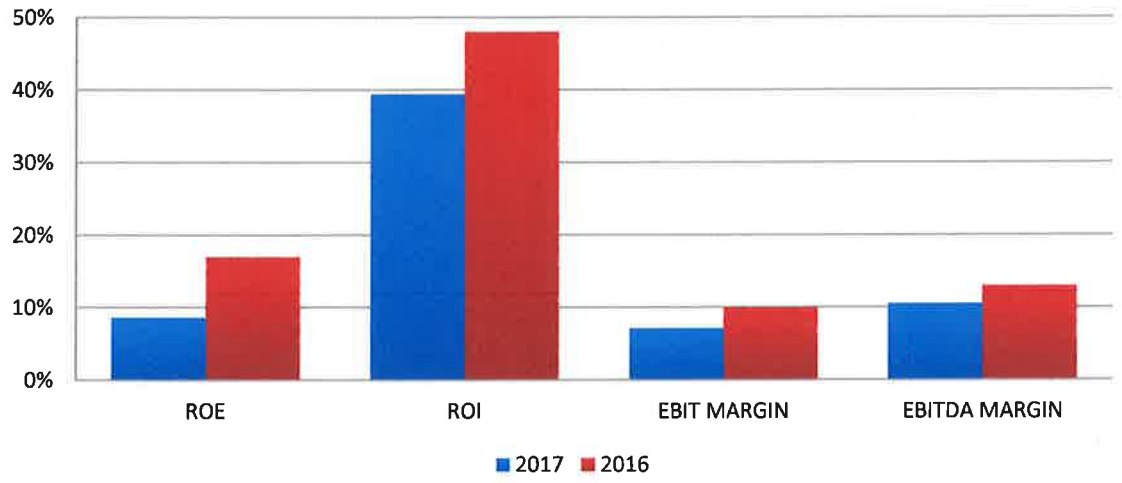
Qe

KEY 2017 RESULTS

Although 2017 did not see a repeat of the previous year's exceptional performance, the results more or less confirmed the budget assumptions and, therefore, can be considered fully satisfactory.

Indeed, 2016 benefited from the conclusion of some important highly-profitable contracts, while 2017 saw the company make a strong drive for expansion and strategic activities according to the 2017-2026 business plan, such as digitalisation and internationalisation, which will only reap returns in terms of production volumes and operating cost reduction in future years.

That being said, the main performance indicators are illustrated below and compared to the previous year.



		2017	2016
ROE	P/E*	9%	17%
ROI	OP/NIC*	39%	48%
OPERATING PROFIT MARGIN	OP/REV	7%	10%
GROSS OPERATING PROFIT MARGIN	GOP/REV	10%	13%
NET ASSET TURNOVER (NAT)	REV/NIC*	5.53	4.89
FINANCIAL DEBT	NFD/E	n.v.	n.v.

KEY

NIC*: Average net invested capital (opening and closing NIC)

GOPM: Gross operating profit margin

E*: Average equity (opening and closing equity) net of the profit for the year

E: Equity

REV: Revenue

P: Profit for the year

OP: Operating profit

NFD: Net financial debt

MAIN EVENTS OF THE YEAR

INTERNATIONALISATION INITIATIVES

February

- On 2 February, Italferr and Rites, an engineering company established by the government of India, signed an MoU aimed at incentivising cooperation between the two companies on the Indian and Asian market.

March

- On 17 March, Italferr and the Australian engineering company AUSENCO signed an MoU with the objective of developing infrastructural projects on the Australian market and throughout the world. AUSENCO is a multinational that operates in 18 countries with projects completed in over 50 different nations.
- On 20 March, Italferr and its Indian customer Dedicated Freight Corridors Corporation India Limited (DFCCIL) signed a "Quality & Safety Audit Consultancy Services" contract for the supply of technical assistance services related to quality and safety issues for 45 months.

June

- On 1 June, as part of a joint venture with SWS, Italferr signed a Design Verification Engineer (DVE) contract with the Turkish joint venture Kolin - Kaliyon-Cengiz - (KKC) related to the construction of Section 3 of the Marmaray Tunnel.
- On 12 June, in association with the Italian company Geodata and the Korean company Dohwa, Italferr won the tender for the feasibility study and detailed design of the Tunnel Trasandino in Peru. The contract comprises developing a study of a vast network of connections between Lima and the central regions of Peru.

October

- On 25 October, as leader of a joint venture with the Italian company Tecnic, Italferr signed a contract with the Uzbekistan railways for the electrification of the Pap-Angren route. Won via a call to tender, the contract consists of a technological upgrade aimed at improving safety on the line that will link up the country's main cities with the capital Tashkent.

November

- On 27 November, as leader of a joint venture with the Tunisian company Comete International and Algeria-based Medevco, Itaferr was awarded a contract by the Arab Maghreb Union (AMU) to carry out a feasibility study for the rehaul and upgrade of the Trans-Maghreb railway line.

December

- On 2 December, Italferr and Beijing National Railway Research & Design Institute of Signal & Communication (CRSCD) - a major Chinese leader in rail technology, products and services - signed an MoU to develop infrastructural projects and integrated activities and expand the business onto international markets.
- On 20 December, in joint venture with the French company Systra, Italferr was awarded the preliminary design of the new Line 2 of the Turin metro (Rebaudengo - Cimitero Parco) and the feasibility study for extensions to the north-east and south-east.

OTHER EVENTS

June

- On 6 June, the new Afragola Station on the HS/HC Naples-Bari railway line was inaugurated. Italferr was in charge of the works management of the entire project designed by the starchitect Zaha Hadid.

October

- On 20 October, Italferr was the winner among 61 candidates for the "infrastructure" category of the "BIM&DIGITAL Award", the first accolade for professional studios, start-ups, universities, research institutes, public bodies and private companies that have implemented and experimented with the BIM methodology.

HUMAN RESOURCES

In 2017, the company made a strong push on both consolidating its workforce and redesigning the organisational model in order to adequately meet the objectives set out in the new business plan.

It also placed great emphasis on the change management process with the dual goal of supporting internationalisation strategies and making the customer centricity approach more efficient, including for captive customers.

Employees

As detailed in the following table, the company's overall workforce increased by 143 during the year. Such rise mainly originated from the growth in the number of employees to 135.

The number of temporary staff also grew to deal with production peaks during the year, for a total of 100 at the end of 2017.

(actual numbers of employees)

	31.12.2016	Incoming	Outgoing	Promotions		Total Changes	31.12.2017
				Incoming	Outgoing		
Managers	60	2	(4)	5		3	63
Junior managers	642	12	(16)	19	(5)	10	652
White collars	451	152	(11)		(19)	122	573
Total employees	**1,153**	**166**	**(31)**	**24**	**(24)**	**135**	**1,288**
Seconded to FS group companies	(3)	(1)	0			(1)	(4)
Temporary staff	92	66	(58)			8	100
Freelancers	1	1				1	2
Total flexible workers	**90**	**66**	**(58)**	**0**	**0**	**8**	**98**
TOTAL	1,243	232	(89)	24	(24)	143	1,386

Following the changes shown in the table above, the average number of employees in 2017 was 1,320, as detailed below.

(average number of employees)

	2017	2016	Changes
Managers	61	61	0
Junior managers	634	638	(4)
White collars	525	446	79
Total employees	**1,220**	**1,145**	**75**
Flexible	100	92	8
TOTAL	1,320	1,237	83

The restructuring of the company required important recruitment activities on the labour market, prioritising as part of the selection process, not only technical expertise, but especially the management and language skills that are essential for the international market.
As in the previous year, temporary staff still constitute the company's main source of candidates to be hired under open-ended employment contracts.

Organisational structure

Significant changes were made to the organisational structure during the year to define a company model functional to achieve the business plan. In addition, such changes enabled the company to more efficiently meet customer requests, comply with changes required by the market more flexibly by using an innovative approach and achieve professional enrichment at all levels.

A Strategy, innovation and systems department was set up. Under the command of the CEO, its aim is to ensure strategies are defined by identifying business priorities and risks, guide the strategic planning process, ensure the business plan is developed and oversee the issue of innovation.

The structure assigned with the planning and control of contracts and the assessment of investments was named the Programme planning and project control unit in order to coordinate the company's line departments via dedicated structures functionally positioned in the departments themselves. The aim is to maximise efficiency in planning and monitoring contracts, pooling business operational needs (operational planning) with the priorities and direction dictated by management (strategic planning).

Furthermore, at the end of 2017, the company began reorganising the structure of the Market and foreign development unit. Completed in January 2018, the primary aim of this initiative was to clearly separate the commercial and business development process from the operating activities performed to complete the contracts.

Relationships with trade unions

In 2017, employee participation in strikes remained negligible in general, the same as in the previous year.
The company presented its recruitment plan to the national trade unions at two meetings held in July and September and held various meetings at regional level to provide updates on the activities at the relevant facilities.

Training

In 2017, training involved about 1,078 company resources, for a total of approximately 10 thousand hours. The cost for courses and conferences totalled €270 thousand for the year.

Courses mainly covered technical training and safety-related issues.
With regard to the former, workshops were held to introduce employees to the BIM model and its implementation in specialist software, along with refresher courses on new legislation on calls to tender and advanced courses on specialised issues related to design and works management.

With regard to health and safety, the company held 13 sessions of a refresher course for health and safety coordinators during construction of works.

Some of the training provided during the year was financed by Fondimpresa. The cost of such projects totalled €88 thousand, of which €50 thousand was financed.

The company organised a masters course on "Transport and logistics management and techniques" in collaboration with the Tor Vergata University, Rome, on specific chosen issues.

Moreover, to enable Italferr technical personnel to acquire the training credits required by the professional associations of engineers, architects and geologists, courses were held, or registration with external courses was ensured for engineers and works supervisors.

Italferr personnel with the required skills were also registered for courses for acquiring and maintaining international certificates, such as PMP (Project Management Professional) issued by the PMI (Project Management Institute) and CSEP (Certified Systems Engineering Professional) issued by the INCOSE (International Council on Systems Engineering).

The PMP certification is the most widely-recognised and respected credential in the world of project management and enables industry companies to improve their project management and boost their reputation on the market.

CSEP certification attests the level of expertise (know-how, training, proven experience) of systems engineers, top professional figures able to manage complex activities requiring interaction between various teams.

Finally, Italferr personnel took part in workshops, courses and conferences for a total of 43 national and international events, while 40 advanced foreign language courses (English, French and Spanish) were organised for staff involved in international projects.

The company's expertise in training meant it also organised courses for international customers and group companies. Specifically, it launched or completed the following in 2017:

- technical training for ANESRIF (Agence Nationale d'Études et de Suivi de la Réalisation des Investissements Ferroviaires) in Algeria;
- a two-week study tour in Italy, Denmark and France on cable-stayed bridges for the management of Northern Railways (India);
- a workshop dedicated to a team of engineers from the Iranian Islamic Railways (RAI);
- two workshops as part of training organised with the FS group for Oman Rail on the Mineral Line project;
- refresher courses on technical matters and safety and the environment and a course for "Civil works specialists" organised for RFI.

Safety training required by Legislative decree no. 81/2008

The company offered significant training on safety in 2017 related to mandatory refresher courses for Italferr personnel. There were various sessions of the courses provided, some of which will continue throughout 2018.

As part of mandatory training and refresher courses, the company organised courses for newly-hired employees, periodic refresher courses for prevention and protection managers and staff, courses on first aid and fire prevention and training on how to use individual protective devices.

Furthermore, it held a safety leadership course for managers and junior managers aimed at spreading awareness of issues related to the health, safety and well-being of employees as a company value, along with training on railway risks, as a prevention measure identified by employers in order to work safely in railway operations.

In addition, Italferr invested in certain staff who are experts in health and safety issues, helping them to obtain certification as asbestos risk trainers. Accordingly, the company does not need to turn to external training.

Following the issue of the Methodological proposal for assessing the risk of work-related stress, in July 2017 Italferr concluded the new assessment for "similar groups" and "organisational groups" of workers exposed to such risk.

Moreover, as it has done every year, the company complied with legislative requirements for medical check-ups (in the office, at sites and preventive medical examinations for employees travelling abroad for the first time), held emergency drills and provided/replaced individual protective devices for personnel who occasionally and/or regularly work at sites.

In July 2017, the company passed inspection to maintain ISO 9001/14001 and BS OHSAS 18001 certification. Simultaneously, updated versions of the general risk assessment document and specific risk assessment documents were released.

Finally, the company issued emergency plans for certain offices, in addition to site files and country files on the risk assessment for sites without permanent presence and at foreign sites.

THE ENVIRONMENT

With regard to sustainability and the environment, in line with FS group strategies, Italferr is deeply committed to seeking out more effective design solutions in terms of sustainability, safeguarding cultural heritage and taking tangible steps to improve its energy efficiency, increasingly rationalise its use of resources, reduce CO_2 emissions and enhance assimilation of infrastructure into the surrounding area.

Italferr's quality, environment and safety policy sets strategic targets based on eco-sustainable planning that entails adopting methods and protocols aimed at enhancing the opportunities offered by infrastructures in relation to upgrading and regenerating pre-existing structures and functions, enhancing the historical and culture heritage of the affected areas and providing concrete, sustainable solutions to community needs, aware of the decisive role that engineering plays in sustainable development on a global scale.
In this regard, Italferr, in collaboration with RFI and ICMQ, drafted guidelines in 2017 for the application of the Envision protocol in the rail transport infrastructure sector as an established reference to be adopted at national and international level in planning sustainable railway infrastructure works.

Also with respect to sustainable development, in order to guarantee quality, environmental protection and occupational health and safety in projects managed on behalf of its customers, for some time Italferr has required contractors implement an integrated management system which plans, inter alia, environmental management that complies with relevant legislation as well as specific projects requirements defined in relation to sustainable development. To this end, the company fine-tuned an environmental management system which contractors undertake to apply via specific clauses that are included in all tender contracts. Such system is applied to various planning, implementation, verification and re-examination stages and provide, inter alia, that all contractors carry out a preliminary environmental analysis before beginning works in order to pinpoint the significant environmental issues in the various contractual processes. For each of these aspects, the company requires procedures or instructions to be prepared defining the management operational methods planned by the contractors in compliance with the relevant environmental legislation and regulations.
Italferr checks that the contractors comply with the environmental management system via indicators fine-tuned some time ago to monitor site activities.

With regard to reducing energy consumption, Italferr continues to work to contain consumption at its sites with the support of the company Energy Manager and pursues consumption efficiency initiatives.

Implementation of the integrated management system

As mentioned earlier, during the year, the company's certification (ISO 9001, 14001 and BS OHSAS 18001) was confirmed for the integrated quality, environment, health and safety management system following the third-party audits by the certification body, SGS.

Moreover, again in 2017, the company continued the transition process for the new UNI EN ISO 14001:2015 standard which, compared to the previous version, promotes a deep-set rooting of the management system in the company structure, extending improvement strategies on a broader scale of environmental sustainability.

Finally, the ISO 14064.1 certification related to the company's carbon footprint was confirmed in December.

Italferr takes the carbon footprint approach to various railway infrastructure projects and in so doing, has found that the main contributor to CO_2 emissions during construction of works is the production of the construction materials that it uses (cement and steel). Accordingly, the company has called for the construction companies on all contracts worth more than €30 million to provide evidence of CO_2 emissions related to the supply choices made, in addition to the actions implemented to reduce such emissions.

CUSTOMERS

The engineering services market where Italferr operates is dominated by groups of considerable size, especially in the international field, that boast revenues of billions of Euros, a "global" presence in the world and thousands of employees.

As the company cannot compete with big international players from a size point of view, it has primarily identified innovation and service diversification as vehicles for clinching growing market shares.

Alongside these targets, Italferr is also developing an "inorganic" growth strategy, identifying possible partners for mergers and acquisitions in countries offering the greatest business opportunities.

With regard to innovation, Italferr has continued its experiments with the BIM methodology aimed at gradually extending know-how on this innovative system to works management as well as design.
Thanks to its unquestionable advantages, the BIM methodology has become a requisite for taking part in calls to tender in many countries abroad. Also in Italy, Ministerial decree no. 560/2017 decreed its mandatory use for participation in public tenders, though gradually over a period of time (from 2019 to 2025).
The path towards digitalisation of all company production processes will not only enable Italferr to offer high-quality services at competitive prices, but also show up prepared for the relevant legislative change.

With regard to the diversification of services offered, Italferr has started to make the most of its technical expertise to present itself to the market as a water management expert and to meet the needs of certain Italian regions to reduce hydro-geological risk.

Finally, a leader in archaeological studies and excavations for years for all new infrastructural projects, the company has launched projects to optimise the artefacts discovered together with the Department of cultural heritage.

MACROECONOMIC CONTEXT

The global economy underwent a moderate, yet widespread expansion in both industrialised countries and emerging markets in 2017. According to the latest estimates, the world's GDP grew 3.5% (+0.6% on 2016), thanks to the steady pace of economic activities in the second half of the year accompanied by an annual average growth rate in worldwide trade that neared 5%.

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

Source: Prometeia, December 2017

The outlook is for global growth to remain more or less unchanged in 2018, despite the unknown factor of an unstable political situation, especially in the Middle East and North Korea.

As the leading player among industrialised countries, the US economy grew by 2.3% on the previous year thanks to its solid domestic demand, despite the violent weather events at the end of the summer which had negative effects on many components of the GDP. The implementation of the Trump administration's expansive economic and tax plan at the end of the year should incentivise new investments and improve labour market conditions with gradual pay increases, in the short and medium term, promoting consolidation of economic activities also in 2018.

Among the great industrial economies, Japan's economy, which has been growing for seven consecutive quarters, recorded its longest period of growth for 16 years (+1.7% on the previous year) thanks to good export trends which, together with the increase in capital investments, helped offset the drop in household spending. Overall, the growth rate of the advanced countries came to 2.3%, up from 1.6% in 2016.

After some tough years of ups and downs, emerging countries are currently undergoing a revival (+4.5%) thanks to better economic conditions of countries that export raw materials. Chief among those are Brazil and Russia, where improvements in the political situation and oil prices led to an upwards revision of growth forecasts.

Economic activities in China continued to increase steadily, reaching +6.8% on the previous year (higher than the growth target set by government authorities) sustained by enduring spending and the solid real estate market. The National Congress of the Communist Party held in October defined an economic programme for the next five years based on a reform process mainly focused on growth quality and sustainability.

Eurozone economic data	2017	2016
GDP (% change on previous year)		
Eurozone	2.4	1.8
Germany	2.5	1.9
France	1.9	1.1
Italy	1.6	1.1
Spain	3.1	3.3
Inflation (% change on previous year)	**2017**	**2016**
Eurozone	1.5	0.2
Germany	1.7	0.4
France	1.2	0.3
Italy	1.2	-0.1
Spain	2	-0.3

Source: Prometeia, December 2017

The Eurozone's economic expansion remained solid and widespread through various countries and sectors. There was a 2.4% annual average growth in GDP, bolstered by household spending, investments and exports that benefit from a widespread global revival. The good performance of the labour market, with unemployment rates reaching their lowest level since 2009 (9.1%), and low inflation rates continue to sustain household disposable income. At the same time, improvements in the profitability of companies and favourable financing conditions encourage an upswing in investments.

Germany is once again the driving force behind the Eurozone with its 2.5% GDP growth rate stimulated by foreign trade and stock piling. While slowing down, investments by companies continued their revival at a steady pace (1.5%) and remained one of most dynamic components of demand. There was more moderate growth in France (+1.9%) sustained by domestic demand and the good performance of private investments.

One of the Eurozone's most dynamic economies, the growth in Spain's GDP, over 3% for the past three years, was driven by domestic demand and, above all, investments.

Italy's economic growth sped up considerably in 2017 thanks to the expansive approach in economic policies and a favourable international backdrop with positive impacts on domestic demand and exports.

Italy economic data	2017 Q1	Q2	Q3	Q4
GDP (% change on previous year)	**0.5**	**0.3**	**0.4**	**0.4**
Domestic demand	0.2	0.8	0.2	0.5
Spending by households and private not-for-profits	0.7	0.2	0.3	0.1
Public administration spending	0.4	0.2	0.1	0.2
Gross fixed investments	-2.2	1.1	3	1
Construction	0.8	-0.3	0.3	0.2
Other durable goods	-4.7	2.4	5.3	1.6
Imports of goods and services	**0.7**	**1.6**	**1.2**	**0.9**
Exports of goods and services	**1.8**	**0.1**	**1.6**	**0.7**

Source: Prometeia, December 2017

Specifically, during the first half of the year, GDP increased by 0.5% and 0.3% (in the first and second quarters, respectively), primarily sustained by the decisive rise in household spending and, from an offer point of view, the strengthening of the services sector. According to the latest estimates, the increase in GDP in the second half of 2017 reached approximately 0.4%.

Such trends led to a 1.6% increase in GDP over the previous year, exceeding the government's expectations (+1.5%) though lower than other Eurozone countries. Economic activities were sustained by the increase in spending supported by the improvement in the labour market and disposable income, only partially held back by the contained rise in consumer prices. After a slight decline in early 2017, investments showed great vitality, benefiting both from improved expectations about economic trends and the positive effects on the credit market deriving from the continuation of the ECB's expansive monetary policy.

In line with economic growth, the positive labour trends exceeded forecasts thanks to the reforms introduced in recent years. The 1.5% increase in the employment rate (source: ISTAT - the national cost of living index - November 2017) on the previous year led to a drop in the unemployment rate of roughly 1% during the same period, for an annual rate of 11%.

Against this backdrop of cyclical strengthening, inflation in Italy remains weak. After a slight drop in 2016 (-0.6%), it grew by 1.2% (source: ISTAT, December 2017), particularly affected by price increases related to transport, food items and services.

The outlook remains favourable overall. 2018 will begin with positive momentum which will enable current growth levels to continue, save for sudden and unexpected changes.

MARKET PERFORMANCE

ITALY

The "rail therapy" railway investment drive by the Ministry of Infrastructure and Transport and the approval by the Interministerial Committee for Economic Planning (CIPE) of the 2017-2021 planning contract propelled investments in national railway infrastructures.

The captive market benefited from this situation and, indeed, 2017 was marked by Italferr's growing production volumes with the group, exceeding budget figures.

The positive performance of Italferr's captive market was matched by the similarly positive trends on the Italian engineering market. According to the annual survey carried out by OICE, the national association of engineering and architecture companies, 2017 was a year of design: there were 3,547 calls to tender issued for a value of €856.2 million, up 26.6% and 149.7%, respectively, on 2016.

ABROAD

With regard to the **non-captive market**, Italferr strengthened its position in Africa and India in 2017 and worked on pre-positioning and setting up partnerships in the other areas.

Though at risk and currently slowing down, the company continued to monitor the Middle Eastern market, on the look out for important opportunities that may arise in the near future.

Beyond any macro-economic disparity between different regions of the world, the attractiveness of railway transport is constantly on the rise. Most of the demand is expected in interurban and urban segments due to spreading metropolitan areas and growing populations. Against this backdrop, railway infrastructure is the backbone of an intermodal transport system where urbanisation advances in step with sustainable development goals.

Europe

The company concluded its second year of providing technical assistance to the Romanian railways (CFR) in 2017 and it also completed the preliminary designs for the Hrvatski - Leskovac-Karlovac railway line in Croatia.

Furthermore, it wrapped up activities in Bosnia Herzegovina.

Driven by the concentration of big players on the European market, Italferr strengthened strategic partnerships during the year to stand out from its competitors in the opportunities it is chasing down. With the same aim, it set up collaborations with the main contractors in countries where Italferr boasts an entrenched presence (the Balkans, Scandinavia, Poland and England). It also actively monitored developments in the Greek market in light of the recent acquisition of Trainose by FS Italiane and related future opportunities.

These efforts to cement partnerships and debut on new markets were in preparation for the growth forecast over the next four years (2018-2021) in all railway segments, with a 3.7% CAGR in Western Europe along with the Baltic areas and Scandinavia leading growth in the medium term.

Middle East and Central Asia

The Middle Eastern market was stagnant during 2017 due to the breakdown in diplomatic relations between Qatar and Saudi Arabia, the conflict in Yemen and oil price trends.

Similarly, the Central Asian market slowed down due to critical financial issues and risks linked to changes in the global political balance.

Looking to the upcoming years, Iran and the United Arab Emirates lead growth forecasts for the local market, together with investments by Oman, Turkey and Qatar in the Doha metro, with a 5.3% CAGR showing a promising outlook.

Saudi Arabia remains the leading country for infrastructural projects in the transport sector for the next few years, while Iran continues to be a highly uncertain market.

Asia and Australia

India boasts one of the most flourishing economies and leading markets on a global level.

Measures launched by Indian Prime Minister Modi, such as opening the country to international trade, allocating financing and streamlining bureaucracy, are firmly helping India become a perfect destination for investments. This situation together with stronger bilateral relations between India and Italy and infrastructural demand, especially in railways and metros, were key factors in influencing Italferr's activities in the subcontinent.

Indeed, 2017 saw Italferr consolidate its presence in India by signing its third Quality & Safety Audit Consultancy Services contract in the area.

The Mumbai metro contract was concurrently rolled out, while the contract for the design of the Anji Khad bridge was extended to included on-site services after the award of the bridge construction contract.

Singapore is another country of this area that offers important business opportunities, thanks to both its healthy economy which has constantly grown by roughly 2% in recent years though it is currently in a slowdown stage and its very stable political and institutional system.

The sectors that offer the greatest opportunities include the environment and construction segments where Italferr operates. In this regard, in November, Italferr was called to participate in one of the leading calls to tender issued as part of the region's top project, i.e., the new high speed Singapore – Kuala Lumpur railway line. The tender has not yet been awarded.

Finally, Australia has notable strengths such as its immense availability of energy and mineral resources. Its welcoming approach to international companies and the efficiency of its public administration make it particularly attractive to Italferr.

In order to support its commercial effort in South-east Asia and Australia, Italferr opened a branch in Brisbane, Australia and one in Singapore in 2017.

North America

In the US, the high speed railway in California and Texas is becoming a reality with the publication of calls to tender to construct various initial segments.

The mass transit market is growing alongside the high speed railway segment due to developing commuter needs as a result of the growing size of cities (the larger size increases the user catchment area and distances travelled, therefore the capacity and speed of transport systems need to be upgraded in order to adapt them to the new demand).

The demand for high speed and high capacity transport also in the metro segment drives technological investments, especially in circulation monitoring systems, such as Communication Based Train Control (CBTC), for metros, and Positive Train Control (PTC), for urban surface transport.

The expected overall amount of infrastructural investments in urban transport is approximately USD100 billion per year.

The tax relief recently introduced by the Trump administration, favouring the private sector, may lead to further growth in investments and PPP projects.

All of the above initiatives make the US market extremely attractive. However, a series of entry barriers hinder penetration of the market by foreign companies.

This led to Italferr setting itself an objective in 2017 to acquire an engineering company in the US.

Such goal has not yet been reached. However, the project has been reconfirmed as a company priority and new acquisition possibilities are expected to be assessed in 2018 with new potential targets.

Canada also has a budding railway market, with CAGR expected to reach 1.3% in 2021. Specifically, investments are planned in the Toronto area.
In order to finance investments, Canada promotes PPP projects via public agencies such as Metrolinx and Via Rail to electrify, upgrade and modernise railway infrastructure between Toronto, Ottawa and Montreal.

Latin America

Latin America's economy continues to suffer from the current political and business stagnation in Brazil. On the other hand, the Argentinian economy is being revived thanks to the new investment plan launched by the government.
Against this backdrop, Italferr focused its activities on developing the Sarmiento project, which is highly significant for the country (€3 billion overall investment), and gradually coordinated the transition from its previous role of railway specialist to main designer of the construction consortium, with significantly higher volumes of work.
The 24-month services contract worth roughly €40 million is slated to be finalised in early 2018.

Italferr has been operating in Peru since 2015. It has concluded the first design review phase of the Lima metro for the construction consortium Metro Lima 2 and rolled out a new engagement for the study and design of the Trasandino Tunnel.

With regard to other countries in the area, Mexico and Colombia show positive aspects which the company monitors. Indeed, if the forecast growth in Mexico's urban and railway sector occurs, investments of €3 billion should be put through during the 2019-2021 three-year period. In Colombia, the project for Line 1 of the Bogota metro should be launched, though no earlier than the second half of 2018.

Africa

North Africa confirmed investments in the railway sector to strengthen the area's infrastructure, with related projects acquired during the year in Morocco and Algeria, and also reaffirms the positive market performance in the forecasts for coming years.
The Sub-Saharan African market created opportunities during the year in the Democratic Republic of the Congo, Ethiopia and Tanzania, and expects rapid growth in the 2018-2021 period sustained by the revival of raw materials prices. The aim is to bridge, as soon as possible, the infrastructural gap between transport demand (especially for raw materials, but also passengers in large cities) and the completely inadequate network currently in place.

Performance of operations by geographical segment

Italy - Captive market

Italferr signed contracts totalling €196.6 million in 2017, approximately 99% of which with RFI. The value of these contracts is detailed by customer and service type in the table below:

Customer	Service type			Total	% of total
	Consultancy	Design	Works management		
RFI	42.0	118.1	33.7	**193.8**	99%
Trenitalia			0.5	**0.5**	0%
FSE	0.5	0.8	0.9	**2.2**	1%
Total	**42.5**	**118.9**	**35.1**	**196.5**	**100%**

At year end, the contract backlog amounts to €599.5 million.

Moreover, negotiations for new contracts worth approximately €133 million were underway at year end. The related contractual documentation has already been sent to customers and is now awaiting their endorsement.

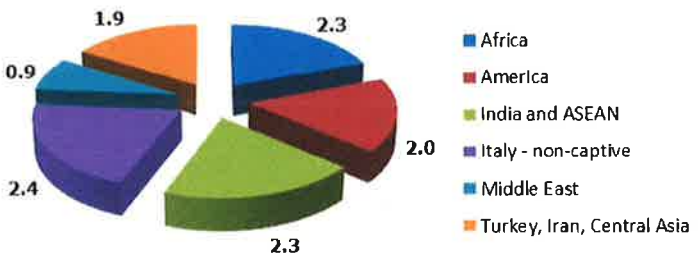
The bids that Italferr has submitted, which should lead to the finalisation of contracts in 2018, are detailed by customer and service type in the table below:

Customer	Service type			Total	% of total
	Consultancy	Design	Works management		
RFI	2.8	9.4	115.9	**128.1**	96%
Trenitalia		0.3	0.6	**0.9**	1%
Ferservizi			1.9	**1.9**	1%
FSE	0.5	0.6	1.0	**2.1**	2%
Total	**3.3**	**10.3**	**119.4**	**133.0**	**100%**

Italian and international non-captive market

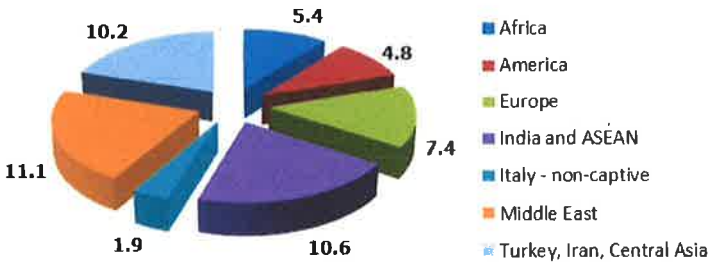
In 2017, Italferr acquired 20 contracts totalling €11.9 million, after bidding for 88 contracts in the year. The acquired contracts were in the following regions:

	Amount (€m)	% of total
Africa	2.3	19%
America	2.0	17%
India and ASEAN	2.3	19%
Italy - non-captive	2.4	21%
Middle East	0.9	8%
Turkey, Iran, Central Asia	1.9	16%
Total	**11.9**	**100%**



At year end, the order backlog amounts to €51.4 million and is broken down by geographical segment as follows:

	Amount (€m)	% of total
Africa	5.4	10%
America	4.8	9%
Europe	7.4	14%
India and ASEAN	10.6	21%
Italy - non-captive	1.9	4%
Middle East	11.1	22%
Turkey, Iran, Central Asia	10.2	20%
Total	**51.4**	**100%**



Performance of main competitors

Italferr competes internationally with large engineering companies: first and foremost, its Anglo-Saxon competitors are genuine giants, both in terms of revenue and workforce. Moreover, considering only European engineering companies, which were nearly all established as part of railway companies in EU member states, the trend highlights growth in both size and revenue.

The following table shows the revenue and average workforce of the main engineering companies with which Italferr competes in international markets.

Company	Country	Reporting rate	Turnover (*)	Average number of employees	Per capita turnover
AECOM	US	30/09/2017	15,418	87,000	0.18
WorleyParsons	Australia	30/06/2017	4,574	22,900	0.20
WSP	Canada	31/12/2016	4,497	36,000	0.12
ARCADIS	The Netherlands	31/12/2016	3,329	27,080	0.12
ATKINS	UK	31/03/2017	2,433	18,308	0.13
TETRA TECH	US	30/09/2017	2,332	16,000	0.15
FUGRO	The Netherlands	31/12/2016	1,776	10,530	0.17
ARUP	UK	31/03/2017	1,764	13,346	0.13
Mott MacDonald	UK	31/12/2016	1,646	16,000	0.10
SYSTRA	France	31/12/2016	611	6,100	0.10
ITALFERR GRUPPO FERROVIE DELLO STATO ITALIANE	Italy	31/12/2017	177	1,320	0.13

(*) in millions of Euros

PERFORMANCE OF OPERATIONS AND FINANCIAL POSITION

To illustrate its financial position and performance, the company has prepared reclassified financial statements in addition to those required by the IFRS adopted by FS group (as detailed in the notes to the financial statements). The reclassified financial statements comprise alternative performance indicators which differ from those directly derived from the financial statements and which management deems useful in monitoring the company's performance and in presenting the financial results of the business. Reference should be made to the section "Key and glossary" for a description of the methods used to calculate these indicators.

Reclassified income statement

(€'000)	2017	2016	Changes	%
Revenue	**177,962**	**172,464**	**5,498**	**3%**
Revenue from engineering services	178,544	172,286	6,258	4%
Variation in provision for contractual risks	(2,053)	(35)	(2,018)	<200%
Other income	1,471	213	1,258	>200%
Operating costs	**(159,299)**	**(150,126)**	**(9,173)**	**6%**
Personnel expense	(94,173)	(87,519)	(6,654)	8%
Other costs, net	(65,126)	(62,607)	(2,519)	4%
Gross operating profit	**18,663**	**22,338**	**(3,675)**	**-16%**
Amortisation and depreciation	(4,515)	(4,197)	(318)	8%
Net impairment losses	(1,485)	(1,369)	(116)	8%
Operating profit	**12,663**	**16,772**	**(4,109)**	**-25%**
Net financial expense	(2,577)	(519)	(2,058)	<200%
Pre-tax profit	**10,086**	**16,253**	**(6,167)**	**-38%**
Income taxes	(5,835)	(8,136)	2,301	-28%
Profit for the year	4,251	8,117	(3,866)	-48%

In terms of production and operating profit, the company's results were in line with the budget. Indeed, forecasts assumed an increase in **revenue from engineering services** compared to 2016, due to the expected rise in production volumes without a proportional growth in margins, again compared to the previous year, as 2016 had benefited from one-off positive events that threw it off historical trend paths.

The decisive contribution to the increase in production volumes came from the captive market thanks to RFI's growing demand for services, even exceeding initial predictions.

The Prime Minister decree issued at the end of May for the allocation of funding earmarked for investments along with the green light from the CIPE for the 2017-2021 planning contract in August finalised the funding set aside by the 2017 Stability Act. These events, together with the "rail therapy" railway investment drive by the government, enabled RFI to proceed with the investments set out in its business plan and contract Italferr for a significant number of works.

The positive performance of the captive market fully offset the loss of volumes on the non-captive market, compared to both the previous year and the budget.

The non-captive market results were affected by the different economic performance of the countries where Italferr was operating. In the Middle East, where Italferr was cementing its presence, the stagnation caused by oil prices continued, thus leading to a dramatic cut in investments in infrastructure by local governments. This situation prevented Italferr from making new acquisitions in the area to renew its order backlog, already in its completion stage. Conversely, countries with strong growth or with high investment demand were tough for the company to penetrate. For instance, in India, bureaucratic difficulties notably slowed down the opening of the local branch, thus causing operating activities to be postponed. This was also the case in the US where high entry barriers blocked the company's efforts to win calls to tender for high speed railways.

Following the above-mentioned trends, revenue from engineering services broken down by macro-geographical segment amounted to the following:

(€'000)	2017		2016		Changes	
	Amount	% of total	Amount	% of total	Amount	% of total
RFI	147,642	83%	125,634	73%	22,008	352%
Other intragroup	3,901	2%	2,727	2%	1,174	19%
Other Italian customers	332	0%	3,453	2%	(3,121)	-50%
Total Italy	**151,875**	**85%**	**131,814**	**77%**	**20,061**	**321%**
EU countries	2,531	1%	2,595	2%	(64)	-1%
Non-EU countries	24,138	14%	37,877	22%	(13,739)	-220%
Total international service	**26,669**	**15%**	**40,472**	**23%**	**(13,803)**	**-221%**
Revenue from engineering services	178,544	100%	172,286	100%	6,258	100%

Total operating revenue for 2017 was €582 thousand lower than revenues from engineering services due to the net accruals for expected future losses on contracts showing losses (€2,053 thousand), partially offset by high other income (€1,471 thousand).

The large increase in the **variation in the provision for contractual risks** compared to the previous year (€2,018 thousand) was due to both the worsening of profit margins on projects already acquired at the end of the previous year as a result of the drop in fees due to activities being wound up, or due to more activities being needed with respect to initial forecasts, and the acquisition of contracts showing losses from RFI during the year.

The increase in **other income** on 2016 (€1,258 thousand) is due to the amount received from RFI to settle all disputes related to two buildings in Milan owned by RFI and used as offices by Italferr. Following improvements made, Italferr had obtained free use of such buildings in previous years. However, in 2017, due to unexpected circumstances, RFI requested they be returned to it in advance.

Personnel expense rose by 8% on the previous year.

This was almost fully due to the growth in the workforce (94%) caused by the increased production volumes in the captive market where activities are prevalently carried out internally due to their nature and legislative requirements.

Personnel expense and the average full time equivalent (FTE) are broken down and compared to the previous year in the following tables:

Average FTE	1,310	1,223	87	0
Employees (no.)	1,210	1,131	79	7%
Flexible workers (no.)	100	92	8	9%

Other costs, net rose 4% on 2016. They are broken down by nature in the following table:

(€'000)	2017	2016	Changes	%
Consumables	(346)	(371)	25	-7%
Services	(57,950)	(55,535)	(2,415)	4%
Use of third-party assets	(5,316)	(4,566)	(750)	16%
Other operating costs	(1,567)	(2,135)	568	-27%
Internal work capitalised	53	0	53	n.a.
Total	**(65,126)**	**(62,607)**	**(2,519)**	**4%**

The increase in other costs, net compared to 2016 was primarily due to the rise in services costs, in turn caused by increased costs for outsourced engineering services (geognostical surveys, archaeological explorations, chemical analyses and design assistance services) which were up €2,657 thousand on 2016.

Use of third-party assets also increased due to lease abroad for new branches that were opened or became fully operational during the year (€335 thousand) and leases in Italy for the new Milan offices, following the return of the office spaces to RFI (€134 thousand), and the expansion of the Rome offices due to the larger workforce (€183 thousand).

Both of the increases mentioned above were offset by savings in other operating costs. This was due to the fact that, following the assessment of the probable liabilities arising on disputes underway, accruals of €35 thousand were made to the provision for risks in 2017 compared to €727 thousand in the previous year.

Impairment losses

The company continued to apply a precautionary method in assessing credit risk, maintaining provisions in line with the previous year. This was due to some customers encountering financial problems which drew out average collection times to over nine months.

Net financial expense increased on 2016 and is broken down as follows:

(€'000)	2017	2016	Changes	%
Interest cost	(213)	(309)	96	-31%
Net exchange rate gains (losses)	(2,936)	898	(3,834)	<200%
Interest on intragroup current account	(91)	(42)	(49)	117%
Gains on JV Altinok	670	192	478	<200%
Losses on derivatives	0	(1,599)	1,599	-100%
Other	(7)	341	(348)	-102%
Total	**(2,577)**	**(519)**	**(2,058)**	**<200%**

The main reason behind the increase in net financial expense is the high exchange rate losses incurred. These were caused by the depreciation of the US dollar and the currencies pegged thereto, such as those of the Gulf countries. In addition, the company could not arm itself with effective currency hedges as, above all, the postponement of the collection of receivables from the Saudi Ministry for Infrastructure meant the company's foreign currency cash flow could not be reliably calculated.

Reclassified statement of financial position

(€'000)	31.12.2017	31.12.2016	Changes	%
Net working capital	57,807	58,608	(801)	-1%
Other assets, net	(11,483)	(33,596)	22,113	-66%
Net operating working capital	**46,324**	**25,012**	**21,312**	**85%**
Non-current assets	29,092	27,981	1,111	4%
Equity Investments	350	350	0	0%
Net non-current assets	**29,442**	**28,331**	**1,111**	**4%**
Post-employment benefits	(28,612)	(29,112)	500	-2%
Other provisions	(3,821)	(3,241)	(580)	18%
Post-employment benefits and other provisions	**(32,433)**	**(32,353)**	**(80)**	**0%**
NET INVESTED CAPITAL	43,333	20,990	22,343	106%
Net financial debt	(4,206)	(30,478)	26,272	-86%
Equity	47,539	51,468	(3,929)	-8%
TOTAL COVERAGE	43,333	20,990	22,343	106%

The reclassified statement of financial position shows a significant rise in other assets, net which is almost entirely (€20,806 thousand) due to the split payment regime granted to FS group companies by the 2017 corrective manoeuvre.

Under the new regime, parties receiving invoices no longer pay VAT directly to the issuing parties, but directly to the tax authorities. This led to a radical reduction in Italferr's payables to the tax authorities and a decrease in cash flows expected on collections at year end.

The decrease in equity is chiefly due to the difference between dividends distributed during the year and profits for 2017 (€3,444 thousand).

RISK FACTORS

Italferr is exposed to operational risks due to the type of business that it conducts. Indeed, its main operational risks relate to design and work management/high surveillance activities (risks of accidents, fire and damage to third parties during the performance of work, environmental risks, etc.).
To contain these risks, the company follows procedures and provides information and training in accordance with its legal obligations and to maintain specific certification. In addition, it has adopted a risk management model and begun, with the parent's coordination, the development of an enterprise risk management (ERM) model to efficiently identify, assess and manage risks, based on existing Italian and international best practices.
In addition to the nature of the company's business, the location of its business development generates risks for Italferr. In other words, it is exposed to country risk.

Because of their nature, Italferr's services do not entail fixed investments in the countries where its customers reside. Even when local legislation requires a permanent establishment, the company's policy is to opt for those with legal/tax flexibility enabling it to quickly fulfil local requirements soon after conclusion of the contracts.

Therefore, the risks of political instability in the countries where the company operates relate to employee health and safety while they are abroad and to the company's temporary or permanent inability to continue operations, with a negative impact not only on the recoverability of receivables but on the order backlog as well.
To mitigate the first type of risk, some years ago, Italferr signed an agreement with International SOS, a global leader in assistance and healthcare emergency services (accidents and illness) and security services to better protect employees involved in international activities given the delicate geopolitical situation.
To mitigate the risk of interruptions in operations abroad, as early as the bidding stage (when deciding to bid or not to bid), the company vets the countries in which it is interested in the bidding stage by including, in the initial assessment of business opportunities, the country's political/social situation, even in contexts in which country risk is already an integral part.
The company also protects against such risk by diversifying its portfolio and monitoring gradual developments therein.
Considering the business and market segment only and the above critical factors, Italferr has used these criteria to assemble an order backlog with maximum concentration in countries/geographical segments that combine significant business opportunities with country risk that is below the alert thresholds, as illustrated in the table below.

	% of residual backlog	SACE index (*)
Italy	3.8%	30/100
Europe	14.4%	24/100
Middle East	21.5%	38/100
Latin America	9.4%	48/100
India and Asean	20.5%	58/100
Africa	10.5%	65/100
Turkey, Iran and Central Asia	19.9%	69/100
Total	**100.0%**	**48/100**

The table analyses the residual backlog of contracts acquired on the market at the end of 2017, with a breakdown by geographical segment and indication of the country risk.

The company uses the "War risk" index calculated by SACE (the Italian export credit agency) for each country: to adjust it to the geographical segment considered, the company has calculated the average, weighted by the residual backlog, of SACE's "War and civil uprising risk" indices of the countries in which Italferr operates, grouped by geographical segment.

It is also important to remember that Italferr operates prevalently in Italy, thus firmly mitigating the effects of the country risk.

Indeed, looking at the company's entire portfolio, the foreign contracts, which are more subject to the instability of political variables, only account for 7.9%.

Reference should be made to the notes for a more detailed analysis of credit, liquidity and currency risks, where they are reported as required by IFRS.

INVESTMENTS

The company's investments totalled €5,627 thousand in the year. The huge upswing on 2016 (+96%) is primarily due to investments made as part of the company's digitalisation goal, which is one of the stalwarts of the ten-year business plan (€886 thousand, of which €734 thousand for BIM software, €34 thousand for relevant licenses and €118 thousand for the construction portal). Aside from digitalisation, Italferr also made investments in environmental design and archaeology in order to insource certain activities that had been performed by third parties up to now and the diversification of services provided to customers (€905 thousand, of which €798 thousand to purchase equipment and vehicles for environmental monitoring and €107 thousand for new software).

Investments also entailed upgrades to administrative/management and specialised software used in the company (€1,686 thousand, of which €1,143 thousand for software and €543 thousand for licenses), along with upgrades to the company's documentation system (€222 thousand) and its employee attendance and access system (€64 thousand).

In addition to investments in software, during the year, Italferr invested €1,865 thousand mainly in new hardware as part of the ongoing updating of employees' technical equipment (€766 thousand for work stations, laptop computers, printers, etc.), devices to optimise the IT infrastructure (€287 thousand) and furniture and fittings to replace older items and for the new Milan office (€812 thousand).

PERFORMANCE OF SUBSIDIARIES

Italferr operates in Serbia via its local wholly-owned subsidiary Infrastructure Engineering Services ("I.E.S.").

I.E.S. was set up at the end of 2012 to participate, as part of a joint venture with Italferr, in calls to tender for design projects in Serbia and the Balkan area. However, the subsidiary had to redefine its initial objectives due to the development of the economic situation of the country and Europe in general in recent years, along with cutbacks in infrastructural project funding by the European Commission and EU banks.

Therefore, just like in 2016, I.E.S. continued direct collaborations with Italferr in a design assistance role. Specifically, it focused its activities in supporting the structural design of certain noise pollution reclamation works and some stations as part of contracts assigned to Italferr by RFI. Moreover, using BIM methodology, the subsidiary continued to provide support to the mechanical, electrical and plumbing (MEP) design project acquired by Italferr in Qatar.

2017 production decreased on the previous year and budget due to the time required to formalise the contracts of new projects received from Italferr. I.E.S. attempted to manage this reduction by postponing the new hirings originally planned for the first half of 2017 to the end of the year. However, this measure did not reduce operating costs in proportion to the drop in revenues; thus, profit margins fell.
I.E.S.'s 2017 financial statements highlights are reported below, showing the decrease on prior-year figures.

(€'000)	2017	2016	Changes	%
Revenue	364	495	(131)	-26%
Gross operating profit (loss)	(43)	77	(120)	-156%
Operating profit (loss)	(50)	68	(118)	-174%
Profit (loss) for the year	(68)	57	(125)	<200%
Invested capital	418	569	(151)	-27%
Net financial position	165	57	108	189%
Number of employees (Average FTE)	12.25	12.00	0.25	2%

Despite the net loss for the year, 2017 was a year of transition for I.E.S.. Indeed, forecasts for 2018 are very positive once again thanks to projects already contracted or being contracted from Italferr for the noise pollution reclamation plan and the upgrade of RFI stations and also thanks to the fact that, according to the report of the latest World Economic Forum, Serbia's 2017 macroeconomic figures (inflation, deficit and GDP) were satisfactory and in line with the government's economic stability objectives.
The revival of the economy, and therefore investments, that the country's macroeconomic figures indicate, I.E.S.'s presence in Serbia as a strategic factor for Italferr in exploiting Balkan market opportunities and continuing to develop international business.

TREASURY SHARES

The company neither owns nor sold during the year treasury shares or shares of its parent, Ferrovie dello Stato Italiane S.p.A., directly or indirectly.

RELATED PARTY TRANSACTIONS

Transactions between Italferr and the FS group companies and their transactions with other related parties are carried out correctly with respect to substance and to the parties' mutual financial benefit on an arm's length basis, at terms defined with the assistance of independent experts, when necessary. Intragroup transactions are carried out in the pursuit of the common goal of improving efficiency and therefore creating value for the entire FS group.

These processes and transactions are carried out in accordance with sector regulations, the Italian Civil Code and tax laws, in line with the group's and its own administrative/accounting procedures and considering the specific characteristics of the activities performed by many group companies.

OTHER INFORMATION

Branches

Italferr operates in Italy with local units in Bari, Bologna, Florence, Genoa, Milan, Naples, Palermo, Reggio Calabria, Rome, Turin and Verona.

The company has 13 branches abroad, which are in Abu Dhabi (United Arab Emirates), Brisbane (Australia), Bucharest (Romania), Buenos Aires (Argentina), New Delhi (India), Doha (Qatar), Cairo (Egypt), Istanbul (Turkey), Lima (Peru), Muscat (Sultanate of Oman), Tehran (Iran), San Diego (Venezuela) and Singapore and four offices in Addis Ababa (Ethiopia), Algiers (Algeria), Riyadh (Saudi Arabia) and Tashkent (Uzbekistan).

Court proceedings and litigation

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

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

- particularly serious negligent criminal acts entailing significant damage to the company or that gave rise to the application of restrictive measures;
- negligent criminal acts covered by Legislative decree no. 231/2001;
- additional negligent criminal acts covered by Law no. 190/2012.

Moreover, litigation and significant proceedings pending with employees, third party service providers and/or contractors, the tax authorities, regions, etc., for which, where the relevant conditions are met, accruals have been made to specific

provisions for risks and charges suppliers, are detailed in the notes to the financial statements, to which reference should be made. Similarly, contingent assets and liabilities, as defined by group policies, are reported in the notes to the financial statements to which reference should be made.

Participation in the national tax consolidation scheme

As Italferr meets the requirements of the Consolidated income tax act (article 117 and subsequent articles of Presidential decree no. 917 of 22 December 1986), it has opted to participate in the national tax consolidation scheme (as consolidated company) with FS Italiane (as consolidator).

The company's board of directors exercised this option for the 2016-2018 three-year period beginning with the 2016 tax period.

Disclosure required by article 2497-*ter* of the Italian Civil Code

In 2017, the company did not make any decisions explicitly covered by article 2497-ter of the Italian Civil Code, although it made a number of important decisions in the spirit of fully upholding the guidelines of its only shareholder Ferrovie dello Stato Italiane S.p.A..

OUTLOOK

The push that legislative measures and the government had on reviving infrastructural investments in Italy made a favourable impact on production volumes in Italferr's captive market. 2017 saw the company strengthen a constantly growing trend and an order backlog excellent in both quantity and quality.

Alongside the growth of investments, the increase in the size of the FS group offered an opportunity that Italferr immediately seized (the first projects were contracted from FSE in 2017).

The order backlog and size of the reference market are reassuring for the company's hopes of reaching the future growth in revenues on the captive market forecast in its ten-year business plan.

With regard to the non-captive market, 2017 was impacted by many elements of macro-economic and political uncertainty which prevented the company from achieving the budgeted results.

However, the current economic revival and the mergers and acquisitions that the company will continue to pursue create confidence about Italferr's possibility of quickly bridging the gap formed in 2017 and realigning its performance with that set out in the business plan.

The first positive signs in this regard include the main design project being wrapped up in Argentina and the ever-increasing numbers of contracts acquired in India. Furthermore, the company is also targeting the acquisition of an equity investment which would boost its ability to take advantage of the opportunities India has to offer (according to IMF, the Indian economy will grow by 7.4% by March 2019) and to build a hub with highly-professional personnel at more competitive costs compared to the European average.

The company's financial results in 2017 were positive and decidedly better than the original budget forecasts. Therefore, the company's current situation and short to medium-term expectations confirm that it is able to develop enough business to reach the pre-set financial goals and generate positive cash flows, while maintaining invested capital within acceptable limits.

Rome, 26 February 2018

Board of directors

Chairman

Chief Executive Officer

Financial statements as at and for the year ended 31 December 2017

Financial statements

Statement of financial position

in Euros

	Note	31.12.2017	31.12.2016
Assets			
Property, plant and equipment	*(5)*	24,759,893	24,110,365
Intangible assets	*(6)*	4,332,168	3,870,764
Deferred tax assets	*(7)*	3,745,816	2,631,152
Equity investments	*(8)*	350,149	350,149
Non-current financial assets (including derivatives)	*(9)*	600	600
Other non-current assets	*(10)*	421,861	455,972
Total non-current assets		**33,610,487**	**31,419,002**
Construction contracts	*(11)*	113,376,858	112,517,237
Current trade receivables	*(12)*	65,039,903	54,761,709
Current financial assets (including derivatives)	*(9)*	0	22,342,905
Cash and cash equivalents	*(13)*	9,223,840	8,134,756
Current tax assets	*(14)*	161,576	861,638
Other current assets	*(10)*	9,781,350	7,011,886
Total current assets		**197,583,527**	**205,630,131**
Total assets		231,194,014	237,049,133
Equity			
Share capital	*(15)*	14,186,000	14,186,000
Reserves	*(15)*	30,263,737	29,842,516
Valuation reserves	*(15)*	(4,756,172)	(4,271,573)
Retained earnings	*(15)*	3,593,884	3,593,884
Profit for the year	*(15)*	4,251,229	8,117,126
Total equity		**47,538,678**	**51,467,953**
Liabilities			
Post-employment benefits and other employee benefits	*(16)*	28,612,602	29,112,477
Provisions for risks and charges	*(17)*	3,758,158	3,045,821
Deferred tax liabilities	*(7)*	63,031	195,111
Total non-current liabilities		**32,433,791**	**32,353,409**
Construction contracts	*(11)*	91,861,954	83,479,067
Current trade payables	*(20)*	30,402,594	27,119,098
Current tax liabilities	*(21)*	864,085	2,499,869
Other current liabilities	*(19)*	23,074,443	40,129,737
Current financial liabilities (including derivatives)	*(18)*	5,018,469	0
Total current liabilities		**151,221,545**	**153,227,771**
Total liabilities		**183,655,336**	**185,581,180**
Total equity and liabilities		231,194,014	237,049,133

Income statement

in Euros

	Note	2017	2016
Revenue from sales and services	*(22)*	176,491,482	172,250,351
Other income	*(23)*	1,470,673	213,263
Total revenue		**177,962,155**	**172,463,614**
Personnel expense	*(24)*	94,172,962	87,518,976
Raw materials, consumables, supplies and goods	*(25)*	345,515	370,550
Services	*(26)*	57,950,115	55,535,035
Use of third-party assets	*(27)*	5,316,169	4,566,021
Other operating costs	*(28)*	1,567,172	2,134,875
Costs for internal work capitalised	*(29)*	(52,813)	0
Total operating costs		**159,299,121**	**150,125,457**
Amortisation and depreciation	*(30)*	4,514,946	4,197,173
Net impairment losses	*(31)*	1,485,142	1,368,845
Operating profit		**12,662,946**	**16,772,139**
Financial income	*(32)*	1,910,074	2,326,243
Financial expense	*(33)*	4,486,734	2,845,077
Net financial expense		**(2,576,661)**	**(518,834)**
Pre-tax profit		**10,086,285**	**16,253,305**
Income taxes	*(34)*	5,835,056	8,136,179
Profit from continuing operations		**4,251,229**	**8,117,126**
Profit for the year		**4,251,229**	**8,117,126**

Statement of comprehensive income

in Euros

	Note	2017	2016
Profit for the year		**4,251,229**	**8,117,126**
Items that will not be reclassified to profit or loss:		**(484,599)**	**(347,870)**
Actuarial losses	*(15)*	(637,630)	(457,723)
Tax effect	*(15)*	153,031	109,853
Comprehensive income		**3,766,630**	**7,769,256**

Statement of changes in equity

in Euros

	Equity									
		Reserves								
		Reserves			Valuation reserves					
	Share capital	Legal reserve	Extraordinary reserve	Other reserves	Hedging reserve	Actuarial reserve	Total reserves	Retained earnings	Profit for the year	Total equity
Balance at 1 January 2016	**14,186,000**	**2,837,200**	**26,745,716**	**78,446**	**(1,223,446)**	**(3,923,703)**	**24,514,213**	**3,593,884**	**10,328,400**	**52,622,497**
Dividend distribution							0		(10,147,246)	(10,147,246)
Allocation of profit for the previous year			1,237	179,917			181,154		(181,154)	0
Comprehensive income, of which:							0			
Profit for the year							0		8,117,126	8,117,126
Gains recognised directly in equity					1,223,446	(347,870)	875,576			875,576
Balance at 31 December 2016	**14,186,000**	**2,837,200**	**26,746,953**	**258,363**	**0**	**(4,271,573)**	**25,570,943**	**3,593,884**	**8,117,126**	**51,467,953**
Dividend distribution							0		(7,695,905)	(7,695,905)
Allocation of profit for the previous year			2,941	418,280			421,221		(421,221)	0
Comprehensive income, of which:							0			
- Profit for the year							0		4,251,229	4,251,229
- Losses recognised directly in equity						(484,599)	(484,599)			(484,599)
Balance at 31 December 2017	14,186,000	2,837,200	26,749,894	676,643	0	(4,756,172)	25,507,565	3,593,884	4,251,229	47,538,678

Statement of cash flows

in Euros

	Note	2017	2016
Profit for the year		**4,251,229**	**8,117,126**
Amortisation and depreciation	*(30)*	4,514,946	4,197,173
Provisions and impairment losses	*(24);(31)*	1,110,253	2,080,830
(Gains)/losses on disposal	*(23)*	0	(226)
Change in inventories	*(11)*	(859,621)	2,039,440
Change in trade receivables	*(12)*	(10,278,194)	18,811,331
Change in trade payables	*(20)*	11,666,383	2,057,853
Change in current and deferred taxes	*(34)*	5,835,056	8,136,178
Change in other liabilities	*(19);(21)*	(19,179,984)	7,245,934
Change in other assets	*(10)*	(2,735,353)	(1,967,790)
Utilisation of the provision for risks and charges	*(17)*	(176,414)	(4,352,477)
Payment of employee benefits	*(16)*	(1,359,008)	(1,314,409)
Interest paid/(collected)	*(32);(33)*	3,033,242	1,045,858
Taxes (paid)/collected	*(7);(34)*	(5,739,801)	(6,347,277)
Cash flows from (used in) operating activities		**(9,917,266)**	**39,749,544**
Increases in:			
- property, plant and equipment	*(5)*	(2,663,641)	(962,363)
- intangible assets	*(6)*	(2,964,422)	(1,903,851)
Decreases in:			
- property, plant and equipment	*(5)*	2,186	47,709
Cash flows used in investing activities		**(5,625,877)**	**(2,818,505)**
Change in financial assets	*(8);(9);(32);(33)*	0	257,663
Change in financial liabilities	*(18);(32);(33)*	(3,033,242)	(523,797)
Dividends	*(15)*	(7,695,905)	(10,328,400)
Change in equity	*(15)*	0	181,154
Cash flows used in financing activities		**(10,729,147)**	**(10,413,380)**
Total cash flows generated/(used) in the year		**(26,272,290)**	**26,517,659**
Opening cash and cash equivalents		**30,477,660**	**3,960,001**
Closing cash and cash equivalents		4,205,371	30,477,660
intragroup current account:		*(5,018,469)*	*22,342,905*
bank current accounts:		*9,223,840*	*8,134,755*

Cash flows used during the year include the following captions.

in thousands of Euros

	31.12.2016	Cash flow	Non-cash flow			31.12.2017
Reason for change			Unrealised exchange rate gains	Losses taken to equity	Profit for the year	
Change in financial assets	350	0				**350**
Change in financial liabilities	0	(3,214)	181			**(3,033)**
Dividends	(7,696)	7,696				**(0)**
Change in equity	(51,468)	7,695		486	(4,251)	**(47,538)**

Notes to the financial statements

1 Introduction

Italferr S.p.A. is a company established and domiciled in Italy and organised in accordance with the laws of the Republic of Italy. Its headquarters are in Rome and it is managed and coordinated by Ferrovie dello Stato Italiane S.p.A..

The directors approved the publication of these financial statements on 26 February 2018 and they will be submitted to the shareholders for approval and subsequently filed within the terms of law. The shareholders have the power to make changes to these financial statements.

As the company has opted to exercise its exemption from preparing consolidated financial statements, as permitted by IFRS 10, it has prepared separate financial statements. Ferrovie dello Stato Italiane S.p.A., Italferr's direct parent, prepares the consolidated financial statements. The parent is based at Piazza della Croce Rossa 1, Rome, where the consolidated financial statements are made available in accordance with the terms and methods provided for by current legislation.

KPMG S.p.A. was assigned the engagement to carry out the legally-required audit of the financial statements.

2 Basis of preparation

These financial statements have been prepared in accordance with IFRS (which include International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Union pursuant to Regulation (EC) no. 1606/2002 and in effect at the reporting date ("IFRS"). In particular, the IFRS were applied consistently throughout all the reporting periods covered in these financial statements.

Moreover, these financial statements have been prepared according to the best knowledge of the IFRS and considering the best doctrine in this respect. Any future guidelines and interpretative updates shall be reflected in subsequent years as they arise, in accordance with the methods envisaged over time by such IFRS.

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

The financial statements are comprised of the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and these notes. In particular, the company has prepared:

- the statement of financial position classifying assets and liabilities as current and non-current and separately presenting any assets/liabilities held for sale or included in disposal groups;
- the income statement classifying costs by their nature and separately presenting, where applicable, the profit (loss) from continuing operations and the profit (loss) from discontinued operations;
- the statement of comprehensive income including the profit (loss) for the year and other changes in equity not due to equity transactions with owners;
- the statement of changes in equity separately presenting the profit (loss) for the year and any other changes not recognised through profit or loss;

- the statement of cash flows presenting cash flows from operating activities using the indirect method.

The annual report also includes the directors' report accompanying the financial statements.
These financial statements have been prepared on a going-concern basis, as the directors established that there are no financial or operational indicators or any other indications of critical issues about the company's ability to meet its obligations in the foreseeable future and, specifically, in the next twelve months. Reference should be made to note 5 "Financial risk management" for a description of the company's financial risk management procedures.
The separate financial statements have been prepared on the historical cost basis, except where fair value measurement is mandatory.

3 Main accounting policies

The main accounting policies and measurement criteria used for preparing the financial statements are shown below.

Property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost, net of accumulated depreciation and impairment losses, if any. The purchase or production cost includes any charges that are directly incurred to make assets available for use, as well as dismantlement and removal charges, if any, that will be incurred as a result of contractual obligations that require the asset to be returned to its original conditions. Any financial expense that is directly attributable to the acquisition, construction or production of qualifying assets is capitalised and depreciated on the basis of the useful life of the asset to which it refers. Leasehold improvements or costs to upgrade and transform property, plant and equipment are recognised under assets.

Any charges incurred for ordinary maintenance and repairs are directly charged to profit or loss when incurred. Costs to expand, upgrade or improve the structural elements owned or used by third parties are capitalised when they meet the requirements for separate recognition as assets or as parts of an asset, applying the component approach, whereby a component must be accounted for separately if its useful life can be measured independently.

Depreciation is charged on a straight-line bsis using rates that reflect the assets' useful life.

At least once a year at the reporting date, the company reviews the useful lives of property, plant and equipment and their residual amounts and, if necessary, adjusts them. The only costs relating to land that are depreciated are capitalised reclamation costs.

The following depreciation rates and useful lives are applied:

	Rate	Useful life
Buildings used in operations	3%	33 years
Leasehold improvements	Residual lease term	
Light constructions	10%	10 years
Ordinary office equipment and furniture	12%	12 years
Furnishings	15%	7 years
Machinery, devices and sundry equipment	15%	7 years
Electromechanical and electronic office equipment	40%	2.5 years
Mobile phones	40%	2.5 years
Cars, motor vehicles and similar	25%	4 years

Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance, that can be controlled and can generate future economic benefits. They are recognised at purchase and/or production cost, including any directly-attributable expenses incurred to make the asset available for use, net of accumulated amortisation (except for intangible assets with an indefinite useful life) and impairment losses, if any. Interest expense, if any, that accrues during and for the development of intangible assets, is considered part of the purchase cost. Amortisation begins when the asset is available for use and is charged on a straight-line basis over its estimated useful life. Specifically, the company has the following main intangible assets:

(a) Concessions, licences and trademarks

They are amortised on a straight-line basis over their term.

Costs of software licences, including any expenses incurred to make the software available for use, are amortised on a straight-line basis over the licence term. Any costs relating to software maintenance are expensed when incurred.

(b) Industrial patents and intellectual property rights

They are amortised on a straight-line basis over their useful life.

(c) Research and development costs

Research costs are expensed when incurred, while development costs are recognised among intangible assets if all of the following conditions are met:

- the project is clearly identified and relevant costs can be reliably identified and measured;
- the technical feasibility of the project is proven;
- the intention to complete the project and sell the intangible assets generated thereby is proven;
- there is a potential market or, in the case of internal use, the usefulness of the intangible asset for producing the intangible assets generated by the project is proven;
- the technical and financial resources needed to complete the project are available.

Any development costs recognised among intangible assets are amortised starting from when the result generated by the project can be used. They are amortised over five years.

If the research and development stages of an internal project to produce an intangible asset cannot be separated, the relevant cost is fully expensed as though it were exclusively incurred in the research stage.

The gain or loss arising from the derecognition of an intangible asset is equal to the difference between the net disposal proceeds and the carrying amount of the asset. It is recognised in profit or loss when the asset is derecognised.

Impairment losses on intangible assets and property, plant and equipment

Property, plant and equipment and intangible assets with a finite life

At each reporting date, a test is carried out to check if there is any evidence that property, plant and equipment and intangible assets may be impaired. For this purpose, account is taken of both external and internal sources of information. With respect to internal sources of information, the following must be considered: the obsolescence of or physical wear and tear of the asset, significant changes, if any, in the use of the asset and the economic performance of the asset with respect to expectations. As regards external sources of information, the following must be considered: the trend in the market prices of the assets, any changes in technology, markets or laws, the trend in market interest rates or in the cost of capital used to measure investments.

If any such indication exists, the company estimates the recoverable amount of the asset (impairment test), recognising the impairment loss in profit or loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use, i.e., the present value of the future cash flows expected to be derived from the asset. In calculating value in use, the expected future cash flows are discounted using a discount rate which reflects the time value of money, compared to the investment period and risks specific to the asset. The recoverable amount of an asset that does not generate largely independent cash flows is calculated in relation to the cash generating unit to which this asset belongs.

Impairment losses are recognised in profit or loss when the carrying amount of the asset, or of the related cash generating unit to which the asset is allocated, exceeds its recoverable amount. Impairment losses on cash generating units are first allocated to reduce the carrying amount of the goodwill, if any, allocated to the cash-generating unit and then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit and within the limits of the related recoverable amount. If the reasons behind the impairment loss cease to exist, the carrying amount of the asset is reversed through profit or loss without exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years and had the related amortisation or depreciation been charged.

Investments in subsidiaries, associates, jointly controlled entities and others

Investments in subsidiaries, associates and jointly controlled entities are stated at cost, net of impairment losses.

Investments in companies other than subsidiaries or associates that are not listed in an active market and for which the use of a suitable measurement model is not reliable, are still measured at cost.

When impairment losses arise on equity investments stated at cost, they are recognised in profit or loss. If the reasons for the impairment no longer apply, the previously impaired amount is reinstated up to the asset's historical cost, with the effect recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and available bank deposits and any other forms of short-term investment, with an initial maturity of three months or less. At the reporting date, current account overdrafts are

classified in the statement of financial position as financial liabilities under current liabilities. Cash and cash equivalents are measured at fair value through profit or loss.

Loans, trade payables and other financial liabilities

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

Construction contracts

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

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

Contracts are shown net of allowances, if any, losses to complete contracts and payments on account and advances related to the contract in progress. Differences are recognised under the "Construction contracts" asset caption when positive, while negative differences are taken to the liability caption of the same name.

Employee benefits

Short-term benefits

Short-term benefits comprise wages, salaries, related social security contributions, holidays paid and incentives paid out in the form of bonuses payable in the twelve months after the reporting date. These benefits are accounted for as personnel expense components in the period in which the employees provide their service.

Defined benefit and defined contribution plans

The company has both defined benefit and defined contribution plans in place. The defined contribution plans are managed by third-party fund managers, in relation to which there are no legal or any other obligations to pay additional contributions if the fund does not have sufficient assets to meet the commitments with employees. With respect to the defined contribution plans, the company pays contributions, either voluntarily or as required by contract, into public and private insurance pension funds. Contributions are recognised as personnel expense on an accruals basis. Advance payments for contributions are recognised as an asset that will be repaid or offset against future payments, if due.

A defined benefit plan is a plan that cannot be classified as a defined contribution plan. Under defined benefit plans, the amount of the benefit to be paid to the employee can be quantified only after the termination of the employment

relationship, and is linked to one or more factors, such as age, years of service and remuneration. Therefore, defined benefit obligations are determined by an independent actuary using the projected unit credit method. The present value of defined benefit plans is determined by discounting future cash flows at an interest rate equal to that of (high-quality corporate) bonds issued in the foreign currency in which the liability will be settled and that takes account of the term of the related pension plan. Actuarial gains and losses are fully recognised in profit or loss in the relevant year, taking account of the related deferred tax effect.

Specifically, the company manages a defined benefit plan that consists of post-employment benefits (Italian "TFR"). Italian companies are required to accrue a provision pursuant to article 2120 of the Italian Civil Code, which is treated as deferred remuneration and is based on employees' duration of service and the remuneration they receive during that time. Starting from 1 January 2007, Law no. 296 of 27 December 2006, the "2007 Finance Act" and subsequent decrees and regulations introduced significant amendments to TFR regulations, including the employees' right to choose to transfer the TFR being accrued either to supplementary pension funds or to the "Treasury Fund" managed by INPS (the Italian Social Security Institute). Consequently, the obligation to INPS and the contributions paid into supplementary pension funds are now treated, pursuant to IAS 19 - Employee benefits, as defined contribution plans, while the amounts recognised under post-employment benefits at 1 January 2007 are still treated as defined benefit plans.

The company also has a defined benefit pension plan in place, the "Free Travel Card" (Carta di Libera Circolazione, CLC) that gives current and retired employees and their relatives, the right to use – free of charge or, in some cases, for an admission fee – the trains managed by Trenitalia.

It is recognised in accordance with the above-mentioned actuarial techniques through a provision which reflects the discounted charge for retired employees entitled to benefits, and the benefits accrued for employees in force to be disbursed at the end of their employment. The accounting treatment of the Free Travel Card benefits and the effects arising from actuarial valuations is the same as those of post-employment benefits.

Provisions for risks and charges

Provisions for risks and charges are recognised for certain or probable losses and charges, whose amount and/or due date cannot be determined. They are recognised only when the company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. This amount represents the best estimate of the expenditure required to settle the obligation. The rate used to determine the present value of the liability reflects the current market values and takes account of the specific risk that can be associated to each liability.

Where the effect of the time value of money is material and the settlement dates of obligations can be estimated reliably, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Risks for which a liability is only possible are disclosed in the specific section on contingent liabilities without accruing any provisions.

Revenue

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

Revenue from services is recognised in profit or loss on a percentage of completion basis and only when the outcome of the service can be estimated reliably.

Similarly to that described in relation to construction contracts, revenue from contract work in progress is recognised using the percentage of completion method.

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

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

Dividends

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

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

Cost recognition

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

Income taxes

Current taxes are calculated based on estimated taxable profit and in accordance with ruling tax legislation. Deferred tax assets, related to carry forward tax losses, are recognised when it is probable that future taxable profit will be available against which these losses can be recovered. Deferred tax assets and liabilities are calculated using the tax rates that are expected to be applied in the years in which the differences will be realised or settled.

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

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

Translation of foreign currency amounts

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

FIRST-TIME ADOPTION OF STANDARDS, AMENDMENTS AND INTERPRETATIONS

The following new standards are effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 12 – Income taxes

On 19 January 2016, the IASB issued some amendments to IAS 12 - Income taxes. The document, "Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)" clarifies how to account for deferred tax assets on debt instruments measured at fair value. The amendments apply to annual periods beginning on or after 1 January 2017. [Application of the amendments did not have a material effect on these financial statements due to their nature and/or scope of application].

Amendments to IAS 7 – Statement of cash flows

On 29 January 2016, the IASB published some amendments to IAS 7 - Statement of cash flows. The scope of Disclosure initiative (Amendments to IAS 7) is to improve the presentation of, and disclosures in, IFRS financial statements and resolve some of the critical issues reported by operators. The amendments introduce new disclosures to be included in financial reports for changes in assets and liabilities arising from financing activities. The amendments apply to annual periods beginning on or after 7 January 1. The company has applied such amendments, including the relevant table at the foot of the statement of cash flows.

Annual Improvements to IFRS: 2014-2016 Cycle

On 8 December 2016, the IASB published the "Annual improvements to IFRS 2014-2016 Cycle". The amendments are part of the normal rationalisation and clarification of the IFRS and covered IFRS 1 - First-time adoption of International Financial Reporting Standards, IFRS 12 - Disclosure of interests in other entities and IAS 28 - Investments in associates and joint ventures. The EU endorsed the improvements on 7 February 2018 with Regulation no. 182. The amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while the amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018. Earlier application is permitted for IAS 28 only, though the company did not exercise this option.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS RECENTLY ENDORSED BY THE EUROPEAN UNION, BUT NOT YET ADOPTED

At the preparation date of these financial statements, the competent bodies of the European Union have completed the endorsement process necessary to adopt the following standards and amendments. In accordance with the reporting standards applicable to the company, it decided not to exercise the option for earlier adoption (when provided for).

Estimated effects of the adoption of IFRS 15 and IFRS 9

The company will have to adopt IFRS 15 - Revenue from contracts with customers and IFRS 9 - Financial instruments starting from 1 January 2018. It has analysed the effects of the first-time adoption of such standards on the financial statements. The estimate of such effects on the company's equity at 31 December 2017 is based on the assessments made to date, specifically:

- with regard to IFRS 15, the company does not expect material impacts on the recognition, calculation and measurement of revenue from customers;
- with regard to IFRS 9, the company does not expect material impacts on its financial position, results of operations and cash flows.

- The real effects of the adoption of such standards at 1 January 2018 may change as:
    - the company has not yet completed checking and assessing controls over its new information systems; and
    - the new measurement methods could be modified before the company presents its financial statements related to the year of first-time adoption.

IFRS 15 – Revenue from contracts with customers and amendments

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

IFRS 9 – Financial instruments

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

IFRS 16 – Leases

On 13 January 2016, the IASB issued IFRS 16 - Leases, which replaces IAS 17. The document was endorsed by the European Union through its publication on 9 November 2017. IFRS 16 is applicable to annual periods beginning on or after 1 January 2019. The new standard eliminates the different recognition of operating and finance leases, while containing elements that simplify its application. It also introduces the concept of control within the definition of a lease. In particular, in order to determine whether a contract is a lease, IFRS 16 states that a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Earlier application is permitted to entities that also adopt IFRS 15 - Revenue from contracts with customers. In the last quarter of 2017, the company commenced assessing all contracts that are potentially affected by the new standard. At the same time, management considered it opportune to launch a project for the identification of the potential impact of the adoption of the new standard. At the current stage of the project, management is unable to reliably estimate the effect of first-time adoption on the financial statements captions.

Amendments to IFRS 4 – Insurance contracts

On 12 September 2016, the IASB issued some amendments to IFRS 4 - Insurance contracts designed to address the consequences of the different effective dates of IFRS 9 and IFRS 4. Management believes that the amendments to IFRS 4 will not have any significant effects on the measurement of financial statements captions and disclosures, as they are mainly addressed to entities operating in the insurance market.

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

On 20 June 2016, the IASB issued some amendments to IFRS 2 - Share-based payment to clarify how to account for certain share-based payment transactions. The amendments apply to annual periods beginning on or after 1 January 2018, with earlier application being permitted. The EU endorsed the amendments on 26 February 2018 with Regulation no. 289.

ACCOUNTING STANDADRS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

At the date of preparation of these financial statements, the competent bodies of the European Union have not yet completed the endorsement process necessary to adopt the following accounting standards and amendments. The future impacts that these standards, amendments and interpretations may have on the company's financial position and performance are currently being assessed.

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

IFRIC 22 – Foreign currency transactions and advance consideration

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

IFRS 17 – Insurance contracts

On 8 May 2017, the IASB published the new standard IFRS 17 - Insurance contracts, which replaces the current IFRS 4. The scope of this new standard is to increase transparency on profit sources and the quality of realised gains and to improve comparability of results, introducing a single revenue recognition method that reflects services provided. IFRS 17 is applicable to annual periods beginning on or after 1 January 2021. The EFRAG endorsement process is still underway.

Amendments to IAS 40 – Transfers of investment property

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

IFRIC 23 – Uncertainty over income tax treatments

On 7 June 2017, the IASB published IFRIC 23 - Uncertainty over income tax treatments. This interpretation explains how to recognise and measure deferred or current taxes when there is uncertainty about the accounting treatment of such items linked to interpretation doubts not clarified by the relevant tax authorities. The interpretation is applicable to annual

periods beginning on or after 1 January 2019, with earlier application being permitted. The EU endorsement is expected during 2018.

Amendments to IFRS 9 – Prepayment features with negative compensation

On 12 October 2017, the IASB published an amendment to IFRS 9 - Financial instruments. The amendment proposes measuring financial instruments with prepayments, which could give rise to negative compensation, at amortised cost or at fair value through other comprehensive income, depending on the company's business model. The EU endorsement is expected during 2018.

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

On 12 October 2017, the IASB published the amendment to IAS 28 - Investment entities to clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendment also states that IFRS 9 shall be applied to long-term interests before applying IAS 28 so that the entity does not take account of any adjustments to the carrying amount of long-term interests that result from the application of IAS 28. The amendment is applicable to annual periods beginning on or after 1 January 2019, with earlier application being permitted.

Annual Improvements to IFRS: 2015-2017 Cycle

On 12 December 2017, the IASB issued the document "Annual Improvements to IFRS: 2015-2017 Cycle". The amendments introduced are part of the ordinary streamlining and clarification process of IFRS and refer to the following standards: IAS 12 - Income taxes, IAS 23 - Borrowing costs and IFRS 3 - Business combination.

Amendments to IAS 19 - Plan amendment, curtailment or settlement

On 7 February 2018, the IASB published some amendments to IAS 19 - Employee benefits, called "Plan amendment, curtailment or settlement (Amendments to IAS 19), to clarify some accounting aspects related to amendments, curtailments or settlements of defined benefit plans. An entity applies the amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019 or the date on which they are applied for the first time. Early application is permitted. The EFRAG endorsement process is expected to be completed by the second quarter of 2018, while EU endorsement is expected during 2018.

USE OF ESTIMATES AND VALUATIONS

In preparing the financial statements in accordance with IFRS, the directors applied accounting standards and methods, which in some circumstances rely on valuations and estimates based on past experience and on assumptions that are considered to be reasonable and realistic depending on the circumstances. The actual amounts of certain financial statements captions calculated according to the above estimates and assumptions may differ in the future, even materially, from those reported in the financial statements, because of the uncertainty that characterises the assumptions on which the estimates are based. Accordingly, estimates and assumptions are reviewed periodically and the effects of any changes are recognised in profit or loss when they affect the year only. If the revision affects both current and future years, the change is recognised in the year the revision is made and in the related future years.

Accordingly, actual results may differ, including significantly, from these estimates following possible changes in the factors considered in formulating them.

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

Impairment losses

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

Amortisation and depreciation

The cost of property, plant and equipment and intangible assets with a finite useful life and of investment property is depreciated and amortised, respectively, over the estimated useful lives of the assets. The directors determine the useful lives of the group's assets when the assets are purchased. They are based on past experience for similar assets, market conditions and forecasts concerning future events that may have an impact on the useful life. Therefore, the actual economic life may differ from the estimated useful life. The company assesses any technological and sector changes to update residual useful lives on a regular basis. These updates may entail a change in the amortisation and depreciation period and in the amortisation and depreciation rates of future years.

Provisions for risks and charges

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

Taxes

Deferred tax assets are recognised based on the income expected in future years. These expectations depend on factors that may vary over time and determine significant effects on the measurement of deferred tax assets.

Operating segments

At the reporting date, the company does not have debt or equity instruments listed on a regulated market and is part of the consolidation scope of FS Italiane group, which, in accordance with IFRS 8.2.b, prepares consolidated financial statements including segment reporting.

4 Financial risk management

The company's activities expose it to various types of risk as a result of its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk, and interest risk and currency risk in particular.

This section provides information on the company's exposure to each of the risks listed above, the objectives, policies and processes for the management of these risks and the methods used to assess them, as well as capital management. These financial statements also include additional quantitative information. The company's risk management focuses on the volatility of financial markets and is aimed at minimising potential undesired effects on its financial position and results of operations.

CREDIT RISK

The credit risk mainly derives from the company's trade receivables and, more specifically, those with customers outside the FS group.

In order to manage commercial credit risk, the company manages and analyses the risk of all new significant customers, continuously monitors their commercial and financial exposure and monitors the collection of receivables from the public administration within the contractually agreed timeframe.

The following table shows the company's exposure to credit risk at 31 December 2017, compared to the previous year end:

in thousands of Euros

	31.12.2017	31.12.2016
Non-current financial assets (including derivatives)	**1**	**1**
Other non-current assets	**422**	**456**
Construction contracts	115,328	114,193
Provision for losses on contracts	(1,951)	(1,676)
Construction contracts net of the allowance for impairme	**113,377**	**112,517**
Current trade receivables	69,189	57,466
Allowance for impairment	(4,149)	(2,705)
Current trade receivables net of the allowance for impairı	**65,040**	**54,761**
Current financial assets (including derivatives)	**0**	**22,343**
Cash and cash equivalents	**9,224**	**8,135**
Other current assets	4,159	4,152
Allowance for impairment	(135)	(154)
Other current assets net of the allowance for impairment	**4,024**	**3,998**
Total exposure net of the allowance for impairment *	192,088	202,211

* not including tax assets and equity investments

The following table illustrates exposure to credit risk by counterparty, as both an amount and a percentage, excluding cash and cash equivalents:

in thousands of Euros

	31.12.2017		31.12.2016	
	Amount	**%**	**Amount**	**%**
Public administration, Italian government and regions	16	0.0%	18	0.0%
Ordinary customers	123,170	67.4%	135,734	69.9%
Financial institutions	1	0.0%	1	0.0%
Other debtors	59,676	32.6%	58,323	30.1%
Total exposure net of the allowance for impairment	182,863	100%	194,076	100%

The following tables shows a breakdown of financial assets and trade receivables at 31 December 2017 and 2016, grouped by overdue amounts and exposures, excluding cash and cash equivalents:

in thousands of Euros

	31.12.2017					
	Not yet due	Past due by				
		0-180	180-360	360-720	over 720	Total
Public administration, Italian government and regions (gross)		16			1,003	1,019
Allowance for impairment					(1,003)	(1,003)
Public administration, Italian government and regions (ne	**0**	**16**	**0**	**0**	**0**	**16**
Ordinary customers (gross)	120,959	2,784	826	3,138	560	128,267
Allowance for impairment	(2,071)		(353)	(2,140)	(533)	(5,097)
Ordinary customers (net)	**118,888**	**2,784**	**473**	**998**	**27**	**123,170**
Financial institutions	**1**					**1**
Other debtors (gross)	59,419	492			(100)	59,811
Allowance for impairment	(135)					(135)
Other debtors (net)	**59,284**	**492**	**0**	**0**	**(100)**	**59,676**
Total exposure net of the allowance for impairment	178,173	3,292	473	998	(73)	182,863

in thousands of Euros

	31.12.2016					
	Not yet due	Past due by				
		0-180	180-360	360-720	over 720	Total
Public administration, Italian government and regions (gross)	5	13		1	1,004	1,023
Allowance for impairment				(1)	(1,004)	(1,005)
Public administration, Italian government and regions (net)	**5**	**13**	**0**	**0**	**0**	**18**
Ordinary customers (gross)	121,060	14,306	3,027	534	183	139,110
Allowance for impairment	(1,676)		(1,103)	(427)	(170)	(3,376)
Ordinary customers (net)	**119,384**	**14,306**	**1,924**	**107**	**13**	**135,734**
Financial institutions	**1**					**1**
Other debtors (gross)	58,532		46	(123)	22	58,477
Allowance for impairment	(154)					(154)
Other debtors (net)	**58,378**	**0**	**46**	**(123)**	**22**	**58,323**
Total exposure net of the allowance for impairment	177,768	14,319	1,970	(16)	35	194,076

In the above tables, the "Ordinary customers" caption refers to trade receivables from third parties along with receivables for construction contracts, showing the relevant portion of the provision for losses on contracts which amounted to €115,328 thousand (of which 93% with group companies) and €1,951 thousand, respectively, at 31 December 2017. Amounts overdue by more than 360 and 720 days and the relevant allowance for impairment mainly refer to the receivable due from Società Italiana Condotte D'Acqua, 60% of which was impaired due to its improbable collection.

LIQUIDITY RISK

Liquidity risk is the risk that the company may be unable to meet its obligations related to financial liabilities to be settled by transferring liquid funds or other financial assets. Cash flows, cash requirements and the liquidity of group companies are generally monitored and centrally managed by the finance section of the parent's Finance, control and asset unit, to ensure efficient and effective management of financial resources.

As part of its group's centralised cash pooling arrangement, Italferr has access to an overdraft facility in the intragroup current account at competitive conditions with respect to the market, and this enables it to cover the cash requirements of its operating activities.

The following table shows the due dates of financial liabilities and trade payables at 31 December 2017 and 2016, including interest to be paid:

in thousands of Euros

31.12.2017	Carrying amount	Contractual cash flows	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
Financial liabilities	**5,018**		**5,018**				
Trade payables	30,403		30,249				
Construction contracts	91,862			91,862			
Trade payables	**122,265**		**30,249**	**91,862**			

Financial liabilities fully refer to the balance of the intragroup current account held with the parent.

in thousands of Euros

31.12.2016	Carrying amount	Contractual cash flows	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
Trade payables	27,119		27,119				
Construction contracts	83,479			83,479			
Trade payables	**110,598**		**27,119**	**83,479**			

MARKET RISK

Market risk is the risk of fluctuations in the fair value or future cash flows of a financial instrument following variations in market prices due to changes in exchange rates, interest rates or debt instrument quotations.

In the performance of its operations, Italferr is mainly exposed to the risks of fluctuations in exchange rates. Its objective is to maintain its exposure to such risk at acceptable levels, simultaneously optimising returns on investments.

Currency risk

The company is mainly active in Italy and, therefore, has only limited exposure to currency risk deriving from the various currencies in which it operates.

Italferr's main contracts in foreign currencies at year end were those acquired in Qatar, India, Uzbekistan and Iran. Except for the contract in Uzbekistan, expressed in US dollars, the other contracts are expressed in local currency.

The following table shows the notional amount of Italferr's exposure to currency risk at 31 December 2017 and 2016.

in foreign currency/thousands

31.12.2016		in foreign currency by Euros	Balance in foreign currency			Equivalent value in Euros
	Currency	Exchange rate at 31.12.2016	Trade receivables	Trade receivables	Gross exposure in the stat. of fin. pos.	Net exposure in EUR
AED	UAE dirham	3.87		(1)	**(1)**	**(0)**
AUD	Australian dollar	1.96		(5)	**(5)**	**(3)**
BGN	Bulgarian lev	1.96		(1)	**(1)**	**(1)**
DZD	Algerian dinar	116.38	6,269	(2,202)	**4,067**	**35**
EGP	Egyptian pound	19.21		(260)	**(260)**	**(14)**
ETB	Ethiopian birr	23.73	838	(103)	**735**	**31**
INR	Indian rupee	71.59		(448)	**(448)**	**(6)**
OMR	Oman rial	0.41	1,031	(84)	**947**	**2,337**
PEN	Peruvian nuevo sol	3.54		(6)	**(6)**	**(2)**
QAR	Qatar riyal	3.84	13,974	(2,509)	**11,465**	**2,988**
RON	Romanian new leu	4.54	797	(3,843)	**(3,046)**	**(671)**
SAR	Saudi Arabian riyal	3.95	29,400	(6,168)	**23,232**	**5,875**
TRY	Turkish lira	3.71	1	(263)	**(262)**	**(71)**
USD	US dollar	1.05	477	(240)	**237**	**225**
VEF	Venezuelan bolivar	10.50		(35)	**(35)**	**(3)**
						10,720

in foreign currency/thousands

31.12.2017		in foreign currency by Euros	Balance in foreign currency			Equivalent value in Euros
	Currency	Exchange rate at 31.12.2017	Trade receivables	Trade payables	Gross exposure in the stat. of fin. pos.	Net exposure in EUR
AUD	Australian dollar	1.53		(21)	**(21)**	**(14)**
DZD	Algerian dinar	137.83	5,661	(1,531)	**4,130**	**30**
EGP	Egyptian pound	21.33	162	(192)	**(30)**	**(1)**
ETB	Ethiopian birr	32.78	559	(16)	**543**	**17**
INR	Indian rupee	76.61		(14,093)	**(14,093)**	**(184)**
IRR	Iranian rial	4326.40		(43,490)	**(43,490)**	**(10)**
OMR	Oman rial	0.46		(1)	**(1)**	**(2)**
QAR	Qatar riyal	4.37	10,662	(3,696)	**6,966**	**1,596**
RON	Romanian new leu	4.66	797	(2,493)	**(1,696)**	**(364)**
SAR	Saudi Arabian riyal	4.50		(1,022)	**(1,022)**	**(227)**
TRY	Turkish lira	4.55	255	(35)	**220**	**48**
USD	US dollar	1.20	774	(221)	**553**	**461**
VEF	Venezuelan bolivar	11.97		(35)	**(35)**	**(3)**
						1,346

CAPITAL MANAGEMENT

The company's objective with respect to capital risk management is to safeguard its ability to continue as a going concern in order to ensure returns to shareholders and benefits to the other stakeholders. It also intends to maintain an optimal capital structure in order to reduce the cost of debt.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

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

in thousands of Euros

31.12.2017	Loans and receivables	Liabilities and loans and borrowings	of which hedges
Non-current financial assets	1		
Other non-current assets	422		
Construction contracts	113,377		
Current trade receivables	65,040		
Current financial assets	0		
Cash and cash equivalents	9,224		
Current tax assets	162		
Other current assets	9,781		
Current trade payables		122,264	
Other current liabilities		23,938	
Current financial liabilities		5,018	

in thousands of Euros

31.12.2016	Loans and receivables	Liabilities and loans and borrowings	of which hedges
Non-current financial assets	1		
Other non-current assets	456		
Construction contracts	112,517		
Current trade receivables	54,762		
Current financial assets	0		
Cash and cash equivalents	8,135		
Current tax assets	862		
Other current assets	7,012		
Current trade payables		110,598	
Other current liabilities		42,630	

5 Property, plant and equipment

The opening and closing balances of property, plant and equipment and changes therein are shown in the table below. The assets' estimated useful lives did not change during the year.

in thousands of Euros

	Land and buildings	Other assets	Assets under construction and payments on account	Total
Historical cost	25,749	27,320		53,069
Depreciation and impairment losses	(2,829)	(24,969)		(27,798)
Balance at 1.1.2016	**22,920**	**2,351**	**0**	**25,271**
Investments		963		963
Depreciation	(670)	(1,406)		(2,076)
Disposals and decreases[1]		(48)		(48)
Total changes	**(670)**	**(491)**	**0**	**(1,161)**
Historical cost	25,749	28,082		53,831
Depreciation and impairment losses	(3,499)	(26,222)		(29,721)
Balance at 31.12.2016	**22,250**	**1,860**	**0**	**24,110**
Investments		2,663		2,663
Depreciation	(669)	(1,342)		(2,011)
Disposals and decreases[1]	(2)			(2)
Total changes	**(671)**	**1,321**	**0**	**650**
Historical cost	25,741	26,398		52,139
Depreciation and impairment losses	(4,162)	(23,217)		(27,379)
Balance at 31.12.2017	**21,579**	**3,181**	**0**	**24,760**

in thousands of Euros

Disposals and decreases[1]	Land and buildings	Other assets	Assets under construction and payments on account	Total
Historical cost	(8)	(369)		(377)
Depreciation	6	369		375
	(2)	**0**	**0**	**(2)**

As seen in the table above, investments for the year more than doubled on 2016 figures. Indeed, the company purchased fixed switchboards (€607 thousand) and new vehicles (€191 thousand) for environmental monitoring in 2017. The aim is to insource data survey activities (on noise, air quality, etc.) that had been entrusted to third parties up to now, while simultaneously developing environmental engineering services.

Furthermore, in order to furnish the new Milan office and as part of the routine replacement of older materials, Italferr acquired furniture and fittings for €812 thousand, in addition to personnel hardware (fixed work stations and laptops) for €648 thousand.

The remaining investments chiefly related to upgrading the IT infrastructure (€287 thousand).

Disposals of the year referred to the sale of a site box? that can no longer be used (€8 thousand), the sale of IT material that had been fully amortised due to obsolescence (€364 thousand) and non-existent assets due to the theft of laptops. Overall, disposals generated losses of €2 thousand.

At 31 December 2016, there are no mortgages or liens on property, plant and equipment.

6 Intangible assets

The opening and closing balances of intangible assets and changes therein are shown in the table below.

in thousands of Euros

	Industrial patents and intellectual property rights	Assets under development and payments on account	Other	Total
Historical cost	9,797	196	19,350	29,343
Amortisation and impairment losses	(9,157)	0	(16,098)	(25,255)
Balance at 1.1.2016	**640**	**196**	**3,252**	**4,088**
Investments	481	219	1,204	1,904
Transfers in the year		(193)	193	0
Amortisation	(441)		(1,680)	(2,121)
Total changes	**40**	**26**	**(283)**	**(217)**
Historical cost	10,278	222	20,747	31,247
Amortisation and impairment losses	(9,598)	0	(17,778)	(27,376)
Balance at 31.12.2016	**680**	**222**	**2,969**	**3,871**
Investments	577	606	1,781	2,964
Transfers in the year	0	(151)	151	0
Amortisation	(495)		(2,008)	(2,503)
Total changes	**82**	**455**	**(76)**	**461**
Historical cost	10,855	677	22,679	34,211
Amortisation and impairment losses	(10,093)	0	(19,786)	(29,879)
Balance at 31.12.2017	762	677	2,893	4,332

Investments in intangible assets also increased notably on 31 December 2016.

The investments of the year referred to:

In thousands of Euros

Investments	
Business Information Modelling (B.I.M.) software	734
Acquisition of software licences	577
WEB new application development and upgrades	529
Documentation system upgrades	222
Accounting and reporting system development	221
Construction platform	118
Software platform for environmental monitoring and geology	107
Employee attendance and access system upgrades	64
Other	392
Total	**2,964**

7 Deferred tax assets and liabilities

The table below shows deferred tax assets and deferred tax liabilities at 31 December 2017 and changes of the year due to the main temporary differences between carrying amounts and the related tax amounts.

in thousands of Euros

	31.12.2016	Incr.(Decr.) through profit or loss	Incr. / (Decr.) through OCI	31.12.2017
Provisions per risks and charges and impairment subject to taxation on realisation	1,674	1,020		2,694
Other items	957	(58)	153	1,052
Deferred tax assets:	**2,631**	**962**	**153**	**3,746**
Deferred taxes on unrealised exchange rate gains	(195)	132		(63)
Deferred tax liabilities	**(195)**	**132**	**0**	**(63)**

Changes in deferred tax assets mainly relate to amounts to be recovered on accruals to the provision for contractual risks and the provision for risks and charges. Changes in deferred tax liabilities fully relate to unrealised exchange rate gains.

8 Equity investments

The following tables give a breakdown of equity investments by category and showing changes in 2017 and 2016.

in thousands of Euros

	Carrying amount at 31.12.2017	Carrying amount at 31.12.2016	Changes
Equity investments in:	**351**	**351**	**0**
Subsidiaries	350	350	0
Jointly controlled entities	1	1	0

In July 2017, Italferr set up a joint venture in Turkey with the local company SWS after it had acquired a works management contract as part of Project Marmaray. The carrying amount is Italferr's share of the investment (50.1%) set at TRY1,000 (equal to €0.1 thousand).

The following is a list of investments in subsidiaries, associates and jointly controlled entities, comparing their carrying amounts and the company's share of their equity.

In thousands of Euros

	Registered office	Share capital	Profit (loss) for the year	Equity at 31.12.2017	Invest. %	Share of equity (a)	Carrying amount at 31.12.2017 (b)	Difference (b-a)
Equity investments in subsidiaries								
I.E.S.	Belgrade - Serbia	350	(68)	584	100%	584	350	(234)
Investments in jointly controlled entities								
Italferr - Altinok joint venture	Istanbul - Turkey	0	518	518	50.1%	260	1	(259)
Italferr-SWS & Italferr Adi Ortakligi joint venture		0	(34)	(34)	50.1%	(17)	1	(16)

The following is a summary of the financial statements highlights of the associates and jointly controlled entities.

in thousands of Euros

	% of ownership	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Costs	Profit (loss) for the year
31.12.2017										
Jointly controlled entities										
Italferr - Altinok joint venture	50.1%	687	10	697	(179)	(518)	(697)	1,402	(884)	518
Italferr-SWS & Italferr Adi Ortakligi joint vent	50.1%	54	2	56	(89)	33	(56)	36	(70)	(34)
31.12.2016										
Jointly controlled entities										
Italferr - Altinok joint venture	50.1%	1,382	21	1,403	(257)	(1,146)	(1,403)	2,083	(937)	1,146

9 Current and non-current financial assets (including derivatives)

in thousands of Euros

Financial assets	Carrying amount								
	31.12.2017			31.12.2016			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Receivables from banks for attached amounts	1		**1**	1		**1**		0	**0**
Other financial assets	**1**		**1**	**1**		**1**		**0**	**0**
Intragroup current account	**0**	**0**	**0**		**22,343**	**22,343**		**(22,343)**	**(22,343)**
Total	1	0	1	1	22,343	22,344	0	(22,343)	(22,343)

The change during the year fully refers to the balance of the intragroup current account held with the parent, which was negative at the reporting date (as commented on in note 18).

10 Other current and non-current assets

These consist of the following:

in thousands of Euros

Other current and non-current assets	31.12.2017			31.12.2016			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Tax consolidation asset from parent			**0**		2,949	**2,949**		(2,949)	**(2,949)**
Other intragroup assets		237	**237**		326	**326**		(89)	**(89)**
VAT assets		5,693	**5,693**		65	**65**		5,628	**5,628**
Sundry receivables	422	1,186	**1,608**	456	796	**1,252**	(34)	390	**356**
Advances to suppliers		1,655	**1,655**		1,927	**1,927**		(272)	**(272)**
Prepayments and accrued income - third parties		1,145	**1,145**		1,103	**1,103**		42	**42**
Total	**422**	**9,916**	**10,338**	**456**	**7,166**	**7,622**	**(34)**	**2,750**	**2,716**
Allowance for impairment		(135)	**(135)**		(154)	**(154)**		19	**19**
Total exposure net of the allowance for impairment	**422**	**9,781**	**10,203**	**456**	**7,012**	**7,468**	**(34)**	**2,769**	**2,735**

The tax consolidation asset refers to IRES advances, net of current taxes. The item has a nil balance due to the increase in 2017 current taxes compared to the previous year.

VAT assets refer to advances paid to the tax authorities (€5,352 thousand), while the remaining amount (€341 thousand) relates to the monthly payments made under the split payment regime which was also extended to FS group companies starting from July 2017.

Sundry receivables (€1,186 thousand) consist of receivables from personnel and social security institutions (€598 thousand) and the foreign branches' VAT assets (€567 thousand). This caption also includes tax assets for withholdings in Venezuela (€135 thousand), which were completely impaired as they are unlikely to be recovered.

The non-current portion of sundry receivables almost entirely refers to guarantee deposits paid to third parties for leases (€396 thousand).

Advances to suppliers (€1,655 thousand) are for engineering service engagements assigned to third parties and not yet completed.

Other current and non-current assets broken down by geographical segment are as follows:

in thousands of Euros

Other current and non-current assets	31.12.2017			31.12.2016			Change		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Italy	79	8,864	**8,943**	86	4,852	**4,938**	(7)	4,012	**4,005**
Other European countries (non-Euro EU)	1	34	**35**	1	18	**19**	0	16	**16**
Other non-EU European countries	1	39	**40**	1	25	**26**	0	14	**14**
Other countries	341	844	**1,185**	368	2,117	**2,485**	(27)	(1,273)	**(1,300)**
Total	**422**	**9,781**	**10,203**	**456**	**7,012**	**7,468**	**(34)**	**2,769**	**2,735**

11 Construction contracts

Construction contracts under receivables refer to the gross amount due from customers for contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings.

Conversely, construction contracts under payables refer to the gross amount due to customers for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

in thousands of Euros

	31.12.2017			31.12.2016		
	Receivables	Payables	Net	Receivables	Payables	Net
RFI	103,241	(85,208)	**18,033**	84,280	(78,885)	**5,395**
Other group companies	2,593	(132)	**2,461**	3,720	(964)	**2,756**
Other customers	7,543	(6,522)	**1,021**	24,517	(3,630)	**20,887**
Total	**113,377**	**(91,862)**	**21,515**	**112,517**	**(83,479)**	**29,038**

The following table details work in progress, calculated as the sum of costs incurred and profits (losses) recognised, advances/payments on account and the provision for losses on contracts, consisting of estimated expected future losses on contracts showing losses.

in thousands of Euros

	31.12.2017				31.12.2016			
	Work in progress	Advances and payments on account	Provision for contractual risks	Net exposure	Work in progress	Advances and payments on account	Provision for contractual risks	Net exposure
RFI	1,432,882	(1,409,975)	(4,874)	**18,033**	1,321,697	(1,313,926)	(2,376)	**5,395**
Other group customers	19,375	(16,908)	(6)	**2,461**	19,311	(16,446)	(109)	**2,756**
Other customers	152,802	(151,773)	(8)	**1,021**	129,407	(108,169)	(351)	**20,887**
Total	**1,605,059**	**(1,578,656)**	**(4,888)**	**21,515**	**1,470,415**	**(1,438,541)**	**(2,836)**	**29,038**

12 Current and non-current trade receivables

All trade receivables are current and are detailed below:

in thousands of Euros

	31.12.2017	31.12.2016	Change
Third party customers	12,879	24,452	(11,573)
Government authorities and other public administration	1,019	1,019	0
Intragroup assets	55,291	31,996	23,295
Total	**69,189**	**57,467**	**11,722**
Allowance for impairment	(4,149)	(2,705)	(1,444)
Total net of the allowance for impairment	**65,040**	**54,762**	**10,278**

The increase in trade receivables from group companies is entirely due to higher volumes of revenue from the associate RFI which were concentrated in the last few months of 2017.

Third party customers decreased on the previous year end despite the higher revenue for the year, above all thanks to the collection of receivables from the Saudi Public Investment Fund and the Oman Railways due to the respective contracts being completed.

The allowance for impairment increased by €1,444 thousand on 31 December 2016 due to the worsening of certain overdue positions for which the risk of collection has significantly risen since the previous year end.

The following table shows the maximum exposure to credit risk, broken down by geographical segment:

in thousands of Euros

	31.12.2017	31.12.2016	Change
Italy	59,212	37,482	21,730
Eurozone	258	362	(104)
Other non-EU European countries	473	452	21
Other countries	9,246	19,171	(9,925)
Total	**69,189**	**57,467**	**11,722**

13 Cash and cash equivalents

As can be seen in the table below, this caption basically comprises bank and postal accounts, with the relevant balance referring to liquid funds kept in current accounts and not transferred to the intragroup current account held with the parent.

The increase on the previous year end is due to collections received from some foreign customers in the last quarter of 2017.

in thousands of Euros

	31.12.2017	31.12.2016	Change
Bank and postal accounts	9,209	8,116	1,093
Cash and cash equivalents	15	19	(4)
Total	**9,224**	**8,135**	**1,089**

14 Tax assets

in thousands of Euros

	31.12.2017	31.12.2016	Change
IRAP	161	861	(700)
IRES	1	1	0
Total	**162**	**862**	**(700)**

Tax assets refer to IRAP (regional tax on productive activities), generated by the difference between taxes of the year and advances paid.

15 Equity

Changes in the main equity captions in 2017 and 2016 are analysed in the table at the beginning of these notes.

Share capital

The company's entirely subscribed and paid-up share capital at 31 December 2017 consists of 14,186 ordinary shares with a nominal amount of €1,000 each, for a total of €14,186,000.

Legal reserve: this reserve did not change during the year, as in 2007 it reached the legal minimum of 20% of share capital and amounts to €2,837 thousand;

Extraordinary reserve: this reserve amounts to €26,750 thousand, showing a slight increase on the previous year end due to the undistributed portion of the profit for 2016;

Other reserves. These consist of the following:

- *Reserve as per art. 13 of Leg. decree no. 124/1993 (€33 thousand):* this reserve includes the portions of net profit for the year accrued up to 2000 and equal to 3% of post-employment benefits transferred to complementary pension schemes. Pursuant to article 13.6 of Legislative decree no. 124/1993, an amount not exceeding 3% of the annual accrual of post-employment benefits transferred to complementary pension funds was deductible for income tax purposes, provided that the deductible amount was accrued in a specific equity reserve. Article 13.6 was repealed by article 3.1.*c*).1 of Legislative decree no. 47/2000;
- *Translation reserve (€226 thousand)*: this reserve includes net unrealised exchange rate gains which, pursuant to article 2426.8-bis of the Italian Civil Code, must be taken to a non-distributable reserve until they are realised. At 31 December 2017, the portion of realised gains amounted to €463 thousand which, therefore, represents the available portion;

Actuarial reserve: this reserve has a negative balance of €4,756 thousand and includes the actuarial losses on employee benefits taken directly to equity, net of the €1,637 thousand tax effect.

Retained earnings: this reserve amounts to €3,594 thousand. It was set up in 2010 upon the first-time adoption of the IFRS and includes the adjustments to the opening balances (1 January 2009) of post-employment benefits, the Free

Travel Card and non-current assets, net of the related tax effect, as well as the change in the profit for 2009 due to the restatement of balances for first-time adoption of the IFRS.

Profit for the year

The profit for 2017 from continuing operations amounts to €4,251 thousand. The following table shows the origin, availability and possibility of distribution of equity captions, along with their use in the past three years:

in thousands of Euros

Origin	Balance at 31.12.2017 (a+b)	Unavailable portion (a)	Available portion (b)	Possibility of use	Summary of use in the past three years		
					Share capital increase	Coverage of losses	Dividends
Share capital	**14,186**	**14,186**					
Income-related reserves:							
Legal reserve	2,837	2,837					
Extraordinary reserve	26,750		26,750	A,B,C			
Reserve as per art. 13 Leg. decree no. 124/93	33		33	B			
Translation reserve	644	181	463	A,B,C			
IFRS reserve	(4,756)	(4,756)					
Retained earnings	3,594	3,594					
TOTAL	**43,288**	**16,042**	**27,246**	**0**	**0**	**0**	**0**

A: To increase share capital

B: To cover losses

C: For dividends

16 Post-employment benefits and other employee benefits

These consist of the following:

in thousands of Euros

	31.12.2017	31.12.2016
Present value of post-employment benefit obligations	28,294	28,826
Present value of Free Travel Card obligations	319	286
Total present value of obligations	**28,613**	**29,112**

The following table shows changes in the present value of the liability for defined employee benefit obligations.

in thousands of Euros

	31.12.2017	31.12.2016
Defined benefit obligations at 1 January	29,112	29,651
Service cost	8	9
Interest cost (1)	214	308
Actuarial (gains) losses recognised in equity	638	458
Advances/utilisations and other changes	(1,359)	(1,314)
Total defined benefit obligations	**28,613**	**29,112**

(1) through profit or loss

Actuarial assumptions

The main assumptions for the actuarial estimate process are described below:

	2017	2016
Discount rate - post-employment benefits	0.51%	0.60%
Discount rate - Free Travel Card	1.67%	1.31%
2017 annual rate of increase - post-employment benefits	2.63%	
2018-2019 annual rate of increase - post-employment benefits		
2019-2020 annual rate of increase - post-employment benefits		
2021-onwards annual rate of increase - post-employment benefits		
2017 inflation rate - post-employment benefits	1.50%	1.50%
2018 inflation rate - post-employment benefits		
2019-2020 inflation rate - post-employment benefits		
2021-onwards inflation rate - post-employment benefits		
2017 inflation rate - Free Travel Card	1.50%	1.50%
2018-2019 inflation rate - Free Travel Card		
2019-2020 inflation rate - Free Travel Card		
2021-onwards inflation rate - Free Travel Card		
Expected rate of employee turnover	3.00%	3.00%
Expected rate of advances	2.00%	2.00%
Mortality rate	RG48 mortality rate published by RGS	
Incapacity	INPS tables broken down by age and sex	
Pension age	100% once the requirements of the mandatory general insurance have been met	

The results of the sensitivity analyses are reported below, showing the effects that would have been recorded in terms of changes in the present value of liabilities for defined benefit obligations, following reasonably possible changes in actuarial assumptions.

The table shows the average duration of the defined benefit obligations and the disbursements provided by the plan.

	POST-EMPLOYMENT BENEFITS	CLC
Inflation rate +0.25%	28,561,329	343,705
Inflation rate -0.25%	28,030,186	295,110
Discount rate +0.25%	27,869,829	308,717
Discount rate -0.25%	28,730,140	329,254
Turnover rate +1%	28,155,373	
Turnover rate -1%	28,445,569	
Duration of plan	7	16
Year 1 benefits	2,947,725	11,801
Year 2 benefits	2,039,787	12,631
Year 3 benefits	3,852,711	13,816
Year 4 benefits	2,955,016	15,009
Year 5 benefits	3,440,096	16,220

17 Provisions for risks and charges

The following table shows the opening and closing balances and changes in the year of the provisions for risks and charges.

in thousands of Euros

	31.12.2016	Accruals	Utilisations	Release of over-accruals	31.12.2017
Litigation with employees	683		(80)	(21)	582
Litigation with third parties	2,362	35	(96)	21	2,322
Employee bonuses to be defined	0	854			854
Total other provisions	**3,045**	**889**	**(176)**	**0**	**3,758**

There was a constant gradual decrease in litigation with employees during the year, also thanks to the favourable outcome of some disputes for the company. Therefore, after the utilisations related to the settlement of some disputes and payment of legal fees, the provision was further reduced on the basis of the assessment of the probability of Italferr being ruled against in disputes in progress.

The provision for "litigation with third parties" was set up to cover risks of the company losing pending lawsuits. It was adjusted according to the estimate of probable contingent liabilities.

In 2016, the provision also included the estimated liabilities that could have arisen for the company following its dispute with the Piedmont Regional Court of Auditors Public Prosecutor. However, the Court of Cassation ruled in favour of Italferr, citing lack of jurisdiction for the Court of Auditors.

The increase in "Employee bonuses to be defined" is due to the accrual of the 2017 performance bonus that had not yet been paid at the reporting date.

18 Current and non-current financial liabilities (including derivatives)

in thousands of Euros

Carrying amount	31.12.2017			31.12.2016			Differences		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Financial liabilities									
Intragroup current account		5,018	**5,018**		0	**0**		5,018	**5,018**
Total	**0**	**5,018**	**5,018**	**0**	**0**	**0**	**0**	**5,018**	**5,018**

The intragroup current account held with the parent showed a negative balance at 31 December 2017, whereas the previous year-end balance was positive thanks to the collections received from RFI towards the end of the year.

19 Other current and non-current liabilities

in thousands of Euros

	31.12.2017			31.12.2016			Differences		
	Non-current	current	Total	Non-current	current	Total	Non-current	current	Total
Other tax liabilities		2,845	**2,845**		2,611	**2,611**	0	234	**234**
Social security charges payable		10,402	**10,402**		11,558	**11,558**	0	(1,156)	**(1,156)**
VAT liabilities		0	**0**		15,114	**15,114**	0	(15,114)	**(15,114)**
Other liabilities		9,541	**9,541**		10,670	**10,670**	0	(1,129)	**(1,129)**
Accrued expenses and deferred income		286	**286**		177	**177**	0	109	**109**
Total	**0**	**23,074**	**23,074**	**0**	**40,130**	**40,130**	**0**	**(17,056)**	**(17,056)**

Other tax liabilities (€2,845 thousand) includes the withholdings applied to employees and freelancers to be transferred to the tax authorities.

Social security charges payable (€10,402 thousand) include accrued 14th monthly pay and holidays accrued but not yet taken, along with payables to Inarcassa of €4,893 thousand.
The decrease on the previous year end is chiefly due to the drop in contributions due to Inarcassa (€908 thousand) as a result of lower overall revenue from engineering services provided in Italy compared to 2016.

VAT liabilities show a nil balance due to the extension of the split payment regime to FS group companies. Under the new regime, parties receiving invoices no longer pay VAT directly to the issuing parties, but directly to the tax authorities, thus leading to a radical reduction in Italferr's payables to the tax authorities.

"Other liabilities", amounting to €9,541 thousand, include payables to personnel for remuneration accrued but not yet paid (€5,267 thousand) and holidays accrued but not yet taken at 31 December 2017 (€2,306 thousand).
The caption also includes the tax consolidation liability (€808 thousand) and refers to advances paid to the tax authorities for 2017 IRES, net of current taxes.

Re

20 Current and non-current trade payables

The company's trade payables are all current and are broken down as follows:

in thousands of Euros

	31.12.2017	31.12.2016	Change
Trade payables	19,608	19,546	62
Intragroup trade payables	10,794	7,573	3,221
Total	**30,402**	**27,119**	**3,283**

The following table details intragroup trade payables by counterparty:

in thousands of Euros

	31.12.2017	31.12.2016	Change
Ferrovie dello Stato Italiane	3,460	2,541	919
Bus Italia - Rail Service	87	87	0
Fercredit	388		388
Ferservizi	4,108	1,680	2,428
FS Patrimonio Immobiliare	105	126	(21)
FS Sistemi Urbani	3	23	(20)
GS Immobiliare	302	583	(281)
GS Rail	34	94	(60)
I.E.S.	69	304	(235)
Metropark	0	0	0
RFI	1,109	1,039	70
Trenitalia	1,129	1,096	33
Total	**10,794**	**7,573**	**3,221**

The increase in payables to the parent and to Ferservizi is mostly due to accrued costs for services received but not yet billed.

21 Tax liabilities

in thousands of Euros

	31.12.2017	31.12.2016	Change
Foreign tax liabilities	864	2,500	(1,636)
Total	**864**	**2,500**	**(1,636)**

This caption shows the balance of taxes due on income generated abroad net of advances made. For comparability purposes, the balance at 31 December 2016 was reclassified to this caption from other liabilities.

22 Revenue from sales and services

Revenue from sales and services is detailed in the tables and notes below.

in thousands of Euros

	2017	2016	Change
Revenue from engineering services	178,544	172,286	6,258
Provision for contractual risks	(2,053)	(35)	(2,018)
Total revenue from sales and services	**176,491**	**172,251**	**4,240**

Revenue from engineering services include both revenue earned on services finalised during the year and the change in long-term contract work in progress.

Both components of revenue from engineering services along with the provision for losses on contracts are detailed in the following table broken down by counterparty.

in thousands of Euros

	2017				2016				
	Revenue	Change in WIP	Prov. for contr. risks	Total (a)	Revenue	Change in WIP	Prov. for contr. risks	Total (b)	Change (a-b)
RFI	36,457	111,185	(2,499)	145,143	72,414	53,220	46	125,680	19,463
Other group customers	3,837	65	100	4,002	4,458	(1,731)	(62)	2,665	1,337
Intragroup	**40,294**	**111,250**	**(2,399)**	**149,145**	**76,872**	**51,489**	**(16)**	**128,345**	**20,800**
Italian and EU third parties	1,614	1,224		2,838	4,476	1,599	(19)	6,056	(3,218)
Non-EU third parties	1,992	22,170	346	24,508	33,815	4,035		37,850	(13,342)
Third parties	**3,606**	**23,394**	**346**	**27,346**	**38,291**	**5,634**	**(19)**	**43,906**	**(16,560)**
Total	**43,900**	**134,644**	**(2,053)**	**176,491**	**115,163**	**57,123**	**(35)**	**172,251**	**4,240**

The large increase in the variation in the provision for contractual risks compared to the previous year (€2,018 thousand) was, above all, due to the contraction of profit margins on contracts already acquired at the end of the previous year as a result of the drop in fees due to activities being completed, or due to more activities being needed with respect to initial forecasts. The increase in work in progress with RFI compared to the previous year is due to the growth in production volumes thanks to new contracts acquired which, accordingly, were not completed during the year.

23 Other income

Other income is detailed in the table below:

in thousands of Euros

	2017	2016	Change
Training	37	26	11
Gains	1	1	0
Fines for breach by third parties	42	10	32
Prior year income adjusting revenue	0	0	0
Revenue and other income	1,391	176	1,215
Total	**1,471**	**213**	**1,258**

Revenue from training (€37 thousand) relates to training courses that Italferr organised and sold to third parties and to the associate RFI.

Revenue and other income rose by €1,215 thousand on 2016, mainly thanks to the settlement agreement with RFI which led to the early resolution of the Milan office lease contract.

24 Personnel expense

As seen in the following table, this caption increased (€6,654 thousand), almost fully due to the growth in the workforce (94%) caused by the higher production volumes in the captive market where activities are prevalently carried out internally due to their nature and legislative requirements.

in thousands of Euros

	2017	2016	Change
Wages and salaries	59,316	54,595	4,721
Social security charges	16,590	15,276	1,314
Other expense for employees	6,429	6,889	(460)
Post-employment benefits	4,118	3,851	267
Free Travel Card service costs	9	8	1
Accruals and releases for employees	854	1,036	(182)
Employees	**87,316**	**81,655**	**5,661**
Wages and salaries	129	97	32
Social security charges	59	26	33
Consultants and freelancers	**188**	**123**	**65**
Temporary, seconded and work experience staff	5,148	4,383	765
Other personnel expense	1,521	1,358	163
Other costs	**6,669**	**5,741**	**928**
Total	94,173	87,519	6,654

The average workforce is broken down by category as follows:

average FTE

	2017	2016	Change
Managers	61	61	0
Junior managers	629	630	(1)
White collars	520	440	80
Total employees	**1,210**	**1,131**	**79**
Temporary staff	98	91	7
Freelancers	2	1	1
Total flexible staff	**100**	**92**	**8**
Total	1,310	1,223	87

25 Raw materials, consumables, supplies and goods

They amount to €346 thousand and include costs incurred to purchase consumables, small office devices, small equipment and IT material of negligible value. The change on the previous year is illustrated in the table below.

in thousands of Euros

	2017	2016	Change
Materials and consumables	346	371	(25)
Total	**346**	**371**	**(25)**

26 Services

Services are broken down as follows:

in thousands of Euros

	2017	2016	Change
Engineering services	34,809	32,152	2,657
Administrative and IT services	6,114	6,412	(298)
Travel and accommodation	5,927	5,856	71
Facilities	3,899	3,768	131
Professional services	2,350	2,698	(348)
Utilities	1,028	1,052	(24)
Insurance	1,015	1,429	(414)
External communications and advertising	126	137	(11)
Maintenance, cleaning and other contracted services	55	68	(13)
Other	2,627	1,963	664
Total	**57,950**	**55,535**	**2,415**

The €2,415 thousand increase is mainly due to growing costs for outsourced engineering services due to high production volumes.

"Other" increased 34% on the previous year (€664 thousand), above all because the 2016 balance included prior year items due to the reduction of waste disposal fees charged by the Rome Municipality following the revision of the square metres occupied by the previous office located in Via Marsala and due to updated estimates (€197 thousand)

27 Use of third-party assets

These costs are detailed in the table below:

in thousands of Euros

	2017	2016	Change
Lease payments, building management costs and registration tax	3,385	2,742	643
Long-term hires	1,270	1,192	78
Other hires	33	20	13
Other payments	628	612	16
Total	**5,316**	**4,566**	**750**

The increase in lease payments, including building management costs (€643 thousand), is due to the higher lease costs for foreign branches which became operational in 2017, in addition to the lease of the new Milan office and new office spaces in Rome following the increase in the workforce.

"Other payments" include instalments paid for trademark use (€530 thousand) related to the royalties paid to FS Italiane to use the parent's trademark in Italy and abroad.

28 Other operating costs

This caption fell by 27% on 2016, almost exclusively thanks to the decreased accruals to the provision for litigation with third parties, as can be seen in the following table.

in thousands of Euros

	2017	2016	Change
Contribution for Free Travel Card for leisure use	763	764	(1)
Local property and waste disposal taxes	300	299	1
Membership fees	115	119	(4)
Entertainment expenses	29	11	18
Other taxes and duties	72	3	69
Other	253	207	46
Losses	0	5	(5)
Accruals and releases	35	727	(692)
Total	**1,567**	**2,135**	**(568)**

29 Costs for internal work capitalised

These amount to €53 thousand and refer to activities carried out internally to develop the BIM methodology.

30 Amortisation and depreciation

They total €4,515 thousand and are broken down in the following table. Reference should be made to notes 5 and 6 for further information.

in thousands of Euros

	2017	2016	Change
Amortisation	2,503	2,121	382
Depreciation	2,012	2,076	(64)
Total	**4,515**	**4,197**	**318**

31 Impairment losses/(reversals of impairment losses)

in thousands of Euros

	2017	2016	Change
Net impairment losses on receivables	1,485	1,369	116
Total	**1,485**	**1,369**	**116**

This caption increased by €116 thousand due to the adjustment to the allowance for impairment on the basis of estimates of the probability of collecting receivables still outstanding at year end.

32 Financial income

This caption is broken down as follows.

in thousands of Euros

	2017	2016	Change
Financial income on derivatives	0	37	(37)
Sundry financial income	1	393	(392)
Dividends	670	192	478
Exchange rate gains	1,239	1,704	(465)
Total	**1,910**	**2,326**	**(416)**

Sundry financial income dropped significantly on 2016 as the previous-year balance included €370 thousand in default interest invoiced to the Romanian Railways due to late payments of fees due to Italferr.

Dividends (€670 thousand) fully refer to Italferr's share of dividends distributed by the Italferr/Altinok joint venture during the year.

"Exchange rate gains" is comprised of 79% realised gains and 21% unrealised gains. They mainly derive from exchange rate differences on payments/payables with suppliers expressed in Saudi, Omani and Turkish currencies.

33 Financial expense

Financial expense is detailed in the table below:

in thousands of Euros

	2017	2016	Change
Financial expense on payables	2	12	(10)
Financial expense for employee benefits	213	309	(96)
Financial expense on derivatives	0	1,636	(1,636)
Sundry financial expense	97	82	15
Exchange rate losses	4,175	806	3,369
Total	**4,487**	**2,845**	**1,642**

Exchange rate losses are almost all realised (98%) and mainly derive from receivables/collections from customers expressed in Saudi, Qatari and Omani currencies.

The main reason behind the increase in net financial expense is the high exchange rate losses incurred. These were caused by the depreciation of the US dollar and the currencies pegged thereto, such as those of the Gulf countries. In addition, the company could not arm itself with effective currency hedges as, above all, the postponement of the collection of receivables from the Saudi Ministry for Infrastructure meant the company's foreign currency cash flow could not be reliably calculated.

34 Income taxes, including current and deferred

The table below details income taxes:

in thousands of Euros

	2017	2016	Change
IRAP	909	1,230	(321)
IRES	3,910	4,531	(621)
Current foreign taxes	2,403	1,438	965
Income on participation in the national tax consolidation scheme			0
Deferred tax income and expense	(1,094)	526	(1,620)
Deferred foreign tax income and expense			0
Adjustments for income taxes relative to prior years	(293)	411	(704)
Accruals and releases			0
Total	**5,835**	**8,136**	**(2,301)**

The caption decreased overall due to both the drop in taxable profit compared to 2016 and the IRES rate being cut from 27.5% to 24% under the 2016 Stability Act starting from 1 January 2017.

The only increased item is the portion of current foreign taxes that was impacted by the substitute tax paid in Saudi Arabia and Algeria that is difficult to recover in the Italian tax return.

Net deferred taxes include €522 thousand in reversals of IRES tax assets of previous years, €232 thousand on unrealised profits, net of deferred tax assets relating to accruals to the provisions for risks and the allowance for impairment (€1,543 thousand).

Adjustments for income taxes relative to previous years are generated by lower income taxes in Saudi Arabia when the local tax return was prepared (€305 thousand), net of the higher recovery in Italy of taxes paid in Oman than was expected (€165 thousand).

A reconciliation of taxation calculated at the theoretical and actual rates is reported below for the purposes of providing complete information.

Reconciliation of the actual tax rate

in thousands of Euros

	2017		2016	
	Amount	%	Amount	%
Profit for the year	4,251		8,117	
Total income taxes	5,835		8,136	
Pre-tax profit	10,086		16,253	
Theoretical IRES (national tax rate)	**2,421**	24.00%	**4,470**	27.50%
Lower taxes				
Other decreases		0.00%	(1,305)	-8.03%
Greater taxes				
Accruals to provisions	1,044	10.35%	494	3.04%
Prior year expense	152	1.51%	198	1.22%
Lower deferred tax income due to decrease in IRES rate as from 2017	0	0.00%	85	0.52%
Other increases	293	2.91%	589	3.62%
Total current taxes (IRES)	**3,910**	38.76%	**4,531**	27.88%
IRAP	909	9.01%	1,230	7.57%
Foreign taxes	2,403	23.83%	1,438	8.85%
Difference on estimated prior year taxes	(293)	-2.91%	411	2.53%
Total deferred tax	(1,094)	-10.85%	526	3.24%
Total	**5,835**	**57.85%**	**8,136**	**50.06%**

35 Contingent assets and liabilities

The company has not recognised any contingent assets. However, it discloses contingent liabilities in connection with the disputes described below. It has not recognised accruals in the specific provisions because it believes that its risk of losing the disputes is only possible, not probable.

CIVIL AND ADMINISTRATIVE PROCEEDINGS

- L.EDI.S.S. S.r.l. summonsed RFI and Italferr, claiming compensation for damage due to non-payment of sub-contractor fees;
- Consorzio Stabile T &T summonsed RFI and Italferr, claiming compensation for damages on the grounds of the illegitimacy and illicitness of contract termination to the contractor's detriment
- in 2016, the Lazio Regional Tax Department began a general tax inspection on Italferr, covering 2011 IRAP. The inspection was completed on 29 September 2016 with the preparation of the preliminary assessment report on which basis, on 15 December 2016, the company received an assessment notice challenging the tax treatment of the contribution due to Trenitalia for the free transport of Free Travel Card holders and ordering the taxation of such contribution for IRAP purposes.

Italferr appealed against the assessment notice on 8 February 2017. The appeal is currently pending before the Rome Provincial Tax Commission whose ruling has not yet been handed down.

On 19 December 2017, Italferr received another similar assessment notice on 2012. Accordingly, the company applied for a routine mutually-agreed assessment settlement procedure (as per article 6.2 of Legislative decree no. 218/1997) and the relevant procedure is still underway. Should it have an unfavourable outcome, Italferr will appeal against any ruling as it did for 2011.

In 2017, the Rome Provincial Tax Commission ruled on three other cases for other group companies related to the same kind of assessments received by Italferr with contrasting outcomes. Indeed, one concluded with the appeal being fully accepted, in another it was partial rejected and in the third fully rejected.

36 Audit fees

Pursuant to article 37.16 of Legislative Decree no. 39/2010 and article 2427.16-bis of the Italian Civil Code, the total fees due to the independent auditors are €72 thousand, including the fees paid for other audit services (€3 thousand) and non-audit services (€10 thousand).

37 Directors' and statutory auditors' fees

The following fees were paid to directors and statutory auditors for the performance of their duties:

in thousands of Euros

	2017	2016	Change
Directors (*)	156	119	37
Statutory auditors	40	41	(1)
Total	**196**	**160**	**36**

(*) These include all amounts envisaged for the positions of Chairman and Chief Executive Officer, as well as any performance-based amounts, according to the arrangement. The amount also includes the fees for the remaining directors.

In addition to the above fees, the independent members of the Supervisory Body received fees of €41 thousand for 2017.

38 Management and coordination

The financial statements highlights of the direct parent are reported below:

	in thousands of Euros	
	31.12.2016	**31.12.2015**
Assets		
Total non-current assets	42,539,698	41,564,011
Total current assets	5,268,296	4,728,356
Total assets	**47,807,994**	**46,292,367**
Equity		
Share capital	36,340,433	36,340,433
Reserves	7,120	(99,643)
Retained earnings (losses carried forward)	0	0
Profit for the year	638,773	137,380
Total equity	**36,986,326**	**36,378,170**
Liabilities		
Total non-current liabilities	7,299,976	6,569,168
Total current liabilities	3,521,692	3,345,029
Total liabilities	**10,821,668**	**9,914,197**
Total equity and liabilities	**47,807,994**	**46,292,367**

	2016	**2015**
Revenue	156,691	146,961
Operating costs	(167,266)	(145,146)
Amortisation and depreciation	(19,994)	(23,672)
Net reversals of impairment losses	(1,055)	(13,300)
Accruals		(2,969)
Net financial income	565,905	176,921
Income taxes	104,492	(1,415)
Profit for the year	**638,773**	**137,380**

39 Related parties

Related parties have been identified in accordance with IFRS (reference should be made to the table on page 85 for details).

Transactions with key managers

The general conditions that govern transactions with key managers and the parties related to them are not more favourable than those applied, or that could have been reasonably applied, to similar transactions with managers other than key managers associated to the same entities at market conditions. The fees paid to key managers are as follows:

in thousands of Euros

	2017	2016
Short-term benefits (*)	1,268	1,366
Post-employment benefits	95	97
Termination benefits	338	0
Total	**1,701**	**1,463**

(*) This amount does not include the variable benefits to be paid in 2017 which should not exceed approximately €310 thousand, once assessments of the achievement of group targets have been performed.

Other related party transactions

The main transactions between the company and its related parties, which were all carried out on an arm's length basis, are described below.

Name	Receivables	Payables
Subsidiaries		
I.E.S. d.o.o.		Trade and other: services
Italferr - Altinok joint venture	Trade; Financial: shareholder loans	
JV Italferr-SWS	Trade; Financial: shareholder loans	
Parent		
Ferrovie dello Stato Italiane	Trade and other: services; funding of training; group VAT Financial: intragroup current account	Trade and other: services and trademark use; group VAT; guarantees Financial: intragroup current account
Other companies		
BBT	Trade and other: services	
Busitalia Rail Service		Trade and other: services
Centostazioni		Trade and other: leases
Fercredit		Trade and other: factoring
Ferrovie del Sud Est	Trade and other: engineering services	
Ferservizi		Trade and other: leases and services
FS Sistemi Urbani	Trade and other: engineering services Financial: guarantee deposits	Trade and other: leases
Grandi Stazioni Immobiliare		Trade and other: leases
Grandi Stazioni Rail	Trade and other: engineering services	Trade and other: leases
Italcertifer	Trade and other: engineering services	
Metropark		Trade and other: services
RFI	Trade and other: engineering services, lease payments. Financial: guarantee deposits	Trade and other: leases and services
TELT	Trade and other: services	
Trenitalia	Trade and other: engineering services	Trade and other: services

Name	Receivables	Payables
Other related parties		
Alleanza Assicurazioni		Trade and other: employee benefits
AMUNDI (pension fund)		Trade and other: employee benefits
ANAS		Trade and other: services
ENI		Trade and other: services
Eurofer		Trade and other: employee benefits
EXPO2015	Trade and other: engineering services	
Gruppo Enel		Trade and other: services
HDI Assicurazioni		Trade and other: employee benefits
Mediolanum Vita		Trade and other: employee benefits
Poste group		Trade and other: services
Previndai		Trade and other: employee benefits

Trade and other transactions:

The following table summarises financial statements balances as at and for the year ended 31 December 2017 resulting from related party transactions.

in thousands of Euros

Name	31.12.2017				2017	
	Receivables	Payables	Guarantees	Commitments	Costs	Revenue
Parent	**5,940**	**(3,606)**			**(2,003)**	**300**
Ferrovie dello Stato Italiane	5,940	(3,606)			(2,003)	300
Subsidiaries		**(68)**			**(295)**	
I.E.S. doo		(68)			(295)	
Other associates	**163,071**	**(92,494)**			**(7,043)**	**152,460**
BBT	68					
Busitalia Rail Service		(87)			(83)	
Fercredit		(388)				
Ferservizi		(4,108)			(4,377)	
FS Sistemi Urbani		(3)			(79)	
Grandi Stazioni Rail	195	(34)			(14)	47
Grandi Stazioni Immobiliare		(302)			(688)	
Metropark					(8)	
RFI	160,086	(86,317)			(473)	148,955
Trenitalia	2,722	(1,255)			(1,321)	3,458
Other related parties	**805**	**(562)**			**(609)**	**100**
Cassa depositi e prestiti						1
ENI					(13)	
Eurofer		(236)			(288)	
EXPO2015	805	(1)				
Fondazione FS						98
ANAS group					(10)	
ENEL group		(5)			(40)	1
HDI Assicurazioni		(7)				
Mediolanum Vita		(2)				
Pioneer Invest.		(1)				
Previndai		(296)			(313)	
Other social security funds		(14)			55	

Financial transactions:

in thousands of Euros

Name	31.12.2017				2017	
	Receivables	Payables	Guarantees	Commitments	Costs	Income
Parent						
Ferrovie dello Stato Italiane	0	(5,018)	(15,353)		(91)	1
Other associates						
RFI			15,353			
TOTAL	**0**	**(5,018)**	**0**	**0**	**(91)**	**1**

40 Guarantees and commitments

The company has neither issued nor received collateral. However, it has issued the following sureties to group companies and third parties as guarantees:

- sureties of €15,353 thousand, including €313 thousand granted by the parent to RFI (formerly TAV) for advances received on HS/HC contracts, and €15,000 thousand to guarantee currency risk hedging derivatives. In addition, it issued a €56 thousand surety to ENPAIA to guarantee leases and €72 thousand in connection with disputes pending with the tax authorities;
- bid bonds in the form of bank sureties of €20,712 thousand to other parties in order to participate in calls for bids or for the payment of advances and performance bonds.

In turn, Italferr received performance bonds for awarded contracts in the form of sureties of €21,318 thousand.

41 Events after the reporting period

- On 1 February 2018, the audit on the BIM management system carried out at the company by ICMQ concluded with positive results. Italferr is the first Italian engineering company to attain this certification for design, procurement and works management.
- On 6 February 2018, a delegation from FS Italiane, including Italferr, signed a cooperation agreement with Indian Railways. The first step of the agreement provides for carrying out a feasibility study by summer for upgrading the New Delhi - Jaipur railway line.
- On 8 February 2018, to follow up on the MoU signed in China on 2 December 2017, Italferr welcomed a delegation of top management from the Chinese company CRSCD. During the meeting, the parties reaffirmed their common objectives aimed at developing design synergies on foreign markets to support mutual growth.

42 Proposed allocation of the profit for the year

The company's financial statements as at and for the year ended 31 December 2017 show a profit for the year of €4,251,229.28.

We propose [•]

- distributing a dividend of €4,248,707, or €299.50 to each of the 14,186 shares;
- allocating the residual profit for the year, equal to €2,522.28, to the extraordinary reserve.

Rome, 26 February 2017

Board of directors

Chairman

Chief Executive Officer