

PRESS RELEASE

**TRENORD AND REGIONE LOMBARDIA SIGNED THE NEW PUBLIC SERVICE
CONTRACT FOR THE REGIONAL RAIL TRANSPORT IN LOMBARDY**

Milan, 29 November 2023 – Today Trenord – the 50-50% joint venture between FNM and Trenitalia – signed with Regione Lombardia the new Public Service Contract for the regional rail transportation in Lombardy.

The new Service Contract is effective for the period 1 December 2023 – 30 November 2033 and establishes the public service obligations, specifying the operating program to be carried out, the fares to be applied as well as the conditions and quality objectives to be met, in compliance with the regulations of the Transport Regulatory Authority (ART)¹.

The production development defined by the Contract over the ten-year period of the entrustment envisages an increase of up to 10 million train-km compared to the base year 2022 (+25%). The target production of 50.5 million train-km per year will be implemented taking into account the network capacity and will depend on significant infrastructure releases planned by national and regional infrastructure managers. The projection of passenger demand to the year 2033 forecasts a total volume of 272 million passengers to that date (compared to 151 million in the base year 2022), equivalent to 1 million average daily/weekday passengers. Such growth is estimated based on a study of user mobility behaviour, as well as on positive effects related to exogenous/administrative attractor and demand-generating events that are expected during the entrustment period and on the planned increase in production. Production and demand developments are particularly evident from 2025-2026 and will be checked periodically by the parties in case of deviation from forecasts.

Fare revenues, collected and retained by Trenord confirming the current net-cost approach of the Contract, are expected to grow by more than 50% compared to 2022 in line with demand developments.

¹ The drafting of a railway service contract is subject to the regulations issued by ART and in particular to resolutions n° 48/2017, n° 120/2018 and n° 154/2019.

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Determination and updating methods of fares fit into the regional regulatory framework that provides for (i) the annual adjustment of fares according to a price-cap mechanism that links the adjustment to inflation to service quality indicators, and (ii) a progressive development of the integrated zone system STIBM (Sistema Tariffario Integrato del Bacino di Mobilità - Integrated Mobility Fare System).

The economic-financial equilibrium is ensured, in addition to tariff revenues, by the Service Contract contribution equal to an average value of EUR 536 million annually for 10 years, disbursed in monthly instalments, consistent with the resources already made available by Regione Lombardia. The consideration was valued based on the Economic and Financial Plan (EFP) model required by the relevant regulations – thus overcoming the previous "catalog" system – to guarantee the economic-financial equilibrium of the Contract. For the purpose of determining the compensation, the reasonable profit margin component was quantified by applying to the Regulatory Asset Base, calculated taking into account IFRS16 principles, a return (WACC) of 7.45% nominal pre-tax, as per ART Resolution No. 49/2023, valid throughout the first regulatory period 2024-2028.

Effectiveness and efficiency targets have also been defined and formalized within the Plan for Achievement of Regulatory Targets, identified by ART Resolution n° 120/2018 for the period 2024-2028. An efficiency target is guaranteed in the EFP, consistent with the guidelines indicated by ART and exceeding the reduction in unit operating cost (€/train-km) over 5 years required by ART.

Investments financed directly by Trenord of more than EUR 400 million are envisaged, mainly pertaining to planned second-level maintenance and improvements on rolling stock owned by Trenord and Trenitalia, upgrading of maintenance facilities, IT developments and new technologies (including the H2iseO project).

The rolling stock fleet currently into service is composed of 470 trains, of which 192 are owned by Trenitalia and FNM leased to Trenord (113 and 79, respectively), trains owned by Trenord, in very limited quantities, 129 trains purchased by Ferrovienord with resources from Regione Lombardia, entered into service from 2007, and 130 new trains from the Regione Lombardia's purchase program launched in 2017. The fleet development program envisages the completion by 2025 of the 2017 purchase program of 214 new trains (of which 130 are already into service), aimed at renewing the fleet to replace the oldest elements, financed entirely by Regione Lombardia and implemented through Ferrovienord under the terms of the Public Service

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Contract for the management of the railway infrastructure. This rolling stock is made available to Trenord for the entire duration of the Contract on free loan for use, and cyclical maintenance of the fleet is directly borne by Regione Lombardia. A marginal amount of additional rolling stock is currently quantified as 15 high-capacity trains leased from FNM and 14 hydrogen trains, of which the first batch of 6 trains are financed with FNM's own funds and leased to Trenord, and the remaining 8 may be financed with additional public resources, or alternatively also leased from FNM. The EFP therefore envisages a total fleet of 503 trains in 2033, without considering any additional rolling stock purchase programs being implemented by Regione Lombardia.

Lastly, the new Contract provides for an annual verification of the economic-financial equilibrium, in compliance with the provisions of Regulation (EU) 1370/2007, in the event of deviation of the net result greater than/less than 0.5% of total operating revenues from the EFP forecasts, with consequent application of the Risk Matrix for the allocation of responsibilities and the related adjustment. Annual variations from EFP in exogenous production costs such as track access charges, electricity costs, diesel/hydrogen consumption, and depreciation and amortization charges are borne by Regione Lombardia. In the event of fare revenues lower than the EFP forecasts, Trenord assumes, among other things, the risk related to the effectiveness of anti-evasion actions, availability of production factors (including personnel) and the risk of reduced demand (with the exception of the airport connection service), without prejudice to possible revisions of the EFP at the end of the first regulatory period or for other causes provided for in the Contract. On the other hand, Regione Lombardia is responsible for, among other things, the lack of inflation-related tariff adjustments where due, the activation and modification of the regional STIBM tariff system and IVOL (lo Viaggio Ovunque in Lombardia) tickets, impacts on demand due to exogenous factors and/or administrative choices or delays in planned infrastructure works. It is up to the parties to propose additions inherent to consistency and appropriateness of the contents of the Contract during the first two years of the Contract's term.

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Short description of the Group

FNM is the leading integrated sustainable mobility Group in Lombardy. It is the first organisation in Italy to combine railway infrastructure management with road transport and motorway infrastructure management in order to offer an innovative model for managing mobility supply and demand that optimises flows and that is environmentally and economically sustainable. It is one of Italy's leading non-state investors in the sector. FNM S.p.A. is a Joint-Stock Company that has been listed on the Italian Stock Exchange since 1926. The majority shareholder is Regione Lombardia, which holds a 57.57% stake.

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