ING WHOLESALE BANKING

Initiating coverage

Italy

Ferrovie Nord Milano

The dawn of privatisation

Transport

11/11/05
€1.3

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Initiating coverage

Buy

16 November 2005

Target price: 12 month
€1.9

Reuters
FNMI.MI

Train concessions in Italy could be the next sector to be privatised, in our view. For 2005-10F, we forecast Ferrovie Nord Milano (FNM) sales of 3.9% and EBITDA CAGR of 11.4%. We initiate coverage with a BUY and €1.9 target price.

Regulation. FNM's rail activities are regulated through a form of price-cap mechanism, similar to that in place for motorways and airports. By 2007, the Lombardy Region is required to tender the train concessions, currently managed by FNM. We expect FNM to win these concessions.

Positive 2005-10 outlook. We expect 3.9% and 11.4% in 2005-10F sales and EBITDA CAGR, respectively, and forecast an EBITDA margin of 18.4% in 2010F (from 11.2% in 2004). The main driver could be demand for public transport, which we expect to increase in the near future as concern for the environment grows and as the high price of real estate in Lombardy's main cities, especially Milan, entices people to the suburbs.

BUY rating, with €1.9 TP. We value the company at €1.9 per share on our DCF analysis, using a WACC of 5.5% and long-term growth rate of 3.0%. FNM currently trades on a 2007F PER of 16.7x and an attractive 2007F EV/EBITDA of 4.3x (motorway and airport sector peer group average PER is 28x and EV/EBITDA 9x). With a 30% discount to the peer average, to capture the business differences, FNM's fair value would be €2.5 per share.

Forecasts and ratios

Yr to Dec	Turnover (€m)	Net profit (€m)	Adj EPS (€)	CFPS (€)	Div (€)	Adj PER (x)	EV/EBITDA (x)	Yield (%)
2004	287.7	11.7	0.04	0.55	0.00	30.7	6.0	0.0
2005F	303.6	14.4	0.07	0.14	0.00	18.7	4.9	0.0
2006F	314.7	14.8	0.07	0.16	0.00	18.2	4.5	0.0
2007F	326.2	16.1	0.08	0.19	0.00	16.7	4.3	0.0

Source: Company data, ING estimates

Key ratios (%)

	2004	2005F
EBITDA margin	11.2	13.0
Operating margin	5.3	7.2
Net debt/equity	20.5	18.8
ROA	4.5	6.0
ROE	4.7	7.2

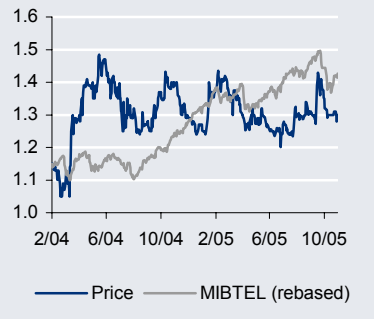
Performance

	12m	3m	Target
Absolute (%)	(7.1)	0.8	45.4
MIBTEL	22,372	25,922	
FTSE E300	1,031.2	1,195.9	
Relative to (%)			
MIBTEL	(19.0)	1.8	
FTSE E300	(22.7)	(2.7)	

Share data

No. of shares (m)	207.1
Volume	137,600
Free float (%)	17.4
Market cap (€m)	146.9
Enterprise value (€m)	192.0
Price/NAV (x)	0.7

Share price performance



Source: ING

SEE THE DISCLOSURES APPENDIX FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

Summary

Shareholders

The Lombardy Region is FNM's main shareholder, with a 57.7% stake. The other shareholders are Ferrovie dello Stato 14.7%, Aurelia SpA (Mr Gavio) 8.0%, Banca Monte Paschi di Siena 2.2% and free float 17.4%.

FNM mainly operates in three sectors

With more than 300km of rail track and 120 train stations, FNM operates in three main rail service sectors; 1) passenger transport (by far the most significant activity), 2) cargo and 3) infrastructure. In addition, FNM operates in the communication and technology market (in a joint venture with Telecom Italia), the energy sector (jointly with Azienda Elettrica Ticinese – AET) and the air services market (with AvioNord), offering tailor-made air services.

Activities regulated by 1997 law ...

The 1997 law regulates FNM's activities. According to the law, the state is required to gradually shift responsibility for the running of local transport to the regions (both passengers and cargo). By 2007, every train concession should be allotted through a tender offer and, until that date, FNM will continue to manage the concessions. FNM is expected to participate in all tenders.

... through a price-cap mechanism

Rail transport is regulated by a form of price-cap mechanism (similar to that in place for motorways and airports). According to the mechanism, the tariff can increase due to, 1) inflation, 2) quality improvement, and 3) investments.

New structure

In July 2005, a new company structure was approved at FNM's extraordinary meeting, according to which FNM Esercizio SpA (100% owned by FNM SpA) spun-off the controlled activities in FNM Trasporti (100% owned by FNM Esercizio), FNM Ingegneria (80% FNM Esercizio and 20% FNM Spa) and Nordcom (52.2% FNM Esercizio and 5.8% FNM SpA). As a result of the reorganisation, FNM SpA directly owns all activities.

1H05 revenues rose by 5.6% …

1H05 sales rose by 5.6% versus 1H04, to €146.2m, mainly thanks to the rail transport business (both passengers and cargo), which grew by 4.0% to €121.8m. The passenger business, in particular, benefited from the tariff increase of 1.8% on 1 September 2004 and a growth in passenger numbers of 2.0% helped by an increase in the rail network of c700,000 train km/year, which came into effect in December 2004.

2005-10F sales CAGR of 3.9%

Our base case assumption is that FNM will win all tenders for train concessions. If so, according to our 2005-10F forecast inflation rate of 1.8% per year, on average, and FNM's total investments of €30m per year, we expect a 3.9% and 11.4% increase in 2005-10F sales and EBITDA CAGR, respectively. The EBITDA margin could reach 18.4% in 2010F (from 11.2% in 2004).

Fair value €1.9 per share

We value the company at €1.9 per share on our DCF analysis, using a WACC of 5.5% and long-term growth rate of 3.0%. We believe the main driver could be demand for public transport, which we expect to increase in the near future as concern for the environment grows and as the high price of real estate in Lombardy's main cities, especially Milan, entices people to the suburbs.

No significant peers listed …

With no listed peers, we compare FNM with motorway and airport companies, taking into account the main differences in terms of business, liquidity (FNM is listed on the Expandi market, ex-Mercato Ristretto), and the privatisation process.

... so EV/EBITDA for motorway and airport companies adopted

FNM currently trades on a 2007F PER of 16.7x and an attractive 2007F EV/EBITDA of 4.3x, versus an average 2007F PER of 28.0x and 2007F EV/EBITDA of 9.0x for the motorways and airports peer group. Making a 30% discount to the average motorways and airports 2007F EV/EBITDA, to take the above-mentioned differences into account, FNM's fair value would be €2.5 per share.

Alternative scenario: Fair value €3

Under an alternative scenario, in which we expect FNM not only to win all train concession tender offers, but also to increase investment in the rail network by €60m per year (a total of €90m per year), we forecast a 3.5% long-term growth (0.5% higher than our base case scenario). This would result in a WACC of 6.5% (versus 5.5%) and, according to these assumptions, FNM's fair value would be €3 per share, with an upside potentially higher than 100%.

In our view, if the stock were to be moved by the regulator from its listing on the Expandi small cap market to be traded on the regular market, increased liquidity would encourage investors to buy the shares. We initiate our coverage with a BUY rating and €1.9 target price.

Investment issues

Positives

Regulated activity with lower business risk. FNM's activity is regulated by a price-cap mechanism so sales can be readily predicted.

Environmental concerns and public transport needs could sustain growth. Pollution is a key issue for cities in the Lombardy Region, especially Milan. In our view, the Lombardy government's response to environmental concerns could be the creation of an inter-regional train transport network. Moreover, as a result of increasing real estate prices over the past two years (more than 50% on average), we believe people are being persuaded to move to the suburbs in greater numbers, increasing the demand for public transport.

Dawn of the privatisation process. The rail transport sector, we believe, could represent the next step of Italian state privatisation in the service areas (after the motorways and airports). The process has already started, and the regions have a 1-2 year time span in which to make tenders.

Risks

Liberalisation process. In 2006, Italy will hold general political elections. Even if the liberalisation process were already underway, a new government could steer the regional economic policy on a different course, causing delay to the entire privatisation process.

Tender offers. Sector entry barriers are high, making it difficult for private investors to manage train or railway activities. Nevertheless, there are no guarantees that FNM will continue to manage all of its concessions after the transitional period, ending in 2007.

Interest rates. FNM's current cost of debt is very low compared with the interest rate structure. If FNM were to invest in new infrastructure, the cost of debt could increase.

Valuation

Base scenario: Fair value €1.9 per share

We value the company through a DCF model using the following assumptions:

Fig 1 DCF assumptions

Risk free rate	3.5
Risk premium	4.0
Beta	0.5
Cost of equity – Ke (%)	**5.5**
Gross costs of debt (%)	4.1
Tax rate (%)	32.0
Net cost of debt – Kd (%)	**2.8**
WACC (%)	**5.5**

Source: Company data, ING estimates

Long term growth 3%

We forecast growth of 3% for the long-term. We believe that the main value driver will be demand for public transport, which we expect to increase in the near future for the following reasons:

- **The environment.** Traffic jams are a major problem experienced throughout the Lombardy region, especially in Milan and other large cities, causing a great deal of concern over pollution and health. The Lombardy government's answer to this problem, we believe, is the creation of an integrated inter-regional rail transport network (the first example is the by-pass between Western and Eastern Lombardy);
- **Real estate prices.** Over the past two years the price of real estate in the city of Milan has grown by c50% on average. Many inhabitants of Milan have opted to move out of the city, to experience a better 'quality of life' and benefit from lower property prices. We expect this pattern to continue over the next 5-7 years in Milan and other large cities. We believe that this creates two main consequences:

  1) Higher demand for public transport and an increase in its quality;

  2) The demand for longer distance public transport will increase as the price of properties closer to cities increases.

Bearing these assumptions in mind, our DCF model leads us to forecast a fair value for FNM of €1.9 per share.

Fig 2 DCF model (€m)

	2005F	2006F	2007F	2008F	2009F	2010F	TV
NOPAT	12.7	14.5	15.6	16.9	18.2	19.7	
Capex	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	
D&A	17.7	19.5	22.2	25.8	30.3	35.7	
NWCR & others	(4.6)	(4.0)	(1.0)	2.0	2.0	4.0	
Gross FCFF	(4.2)	(0.0)	6.8	14.7	20.5	29.4	448.8
Multiplier	0.95	0.90	0.90	0.81	0.77	0.73	0.69
FCFF discounted	**(3.9)**	**0.0**	**6.1**	**11.9**	**15.7**	**21.4**	**308.5**

Source: Company data, ING estimates

Fig 3 DCF results (€m)

Sum FCFF	51.1
Terminal value	308.5
Debt	42.3
Minorities	(9.7)
Enterprise Value - EV	**392.3**
EV per share (€)	**1.90**

Source: Company data, ING estimates

We believe the rail sector could represent the next stage of Italian state privatisation in the service areas, after the motorways and airports. The process is already underway and the regions have a 1-2 year time span within which to organise tenders.

Privatisation process already started

The legislative framework, that has frequently suspended the privatisation process in Italy in the past, is already in place with the law of 1997 and both state and regional decrees.

The first steps down the privatisation route have included concessions to manage 'non-train' revenues. For example, Grandi Stazioni (owned by the Benetton family) manages the commercial revenues of eight large Italian train stations; Centostazioni (owned by Save, Venice airport), manages the commercial revenues of 103 of the small to medium sized Italian train stations.

No significant peers listed …

With no listed peer group, we compare FNM with motorway and airport companies, making allowances for the main differences in terms of business, liquidity (FNM is listed on the Expandi market, ex-Mercato Ristretto) and the privatisation process.

… we adopt the motorways and airports EV/EBITDA

FNM currently trades on a 2007F PER of 16.7x and an attractive 2007F EV/EBITDA of 4.3x. This compares with the average 2007F PER of 28x and EV/EBITDA of 9x for the motorway and airport companies. Adopting a 30% discount to the average motorways and airports 2007F EV/EBITDA, to take into account the above-mentioned differences, FNM's fair value would be €2.5 per share.

In our view, if the stock were to be moved by the regulator from its listing on the Expandi small cap market to be traded on the regular market, increased liquidity would encourage investors to buy the shares. We initiate our coverage with BUY rating and €1.9 target price.

Alternative scenario

The alternative scenario: fair value €3

Under an alternative scenario, in which we expect FNM to not only win all the concession tender offers, but also to increase investment in infrastructure by €60m per year (total €90m per year), we forecast a 3.5% long-term growth (0.5% more than our base case scenario). This would result in a WACC of 6.5% (versus 5.5%) and, according to these assumptions, the FNM fair value would be €3 per share, with an upside potentially higher than 100%.

Financials

FNM mainly operates in three sectors

FNM operates in three business areas. 1) The transport of passengers and goods is by far the most important business, representing 81.4% of 2004 revenues. 2) Bus transport generated 1.4% of 2004 revenues. 3) Other businesses include aviation, electricity, engineering, real estate and telecommunications which together contributed 17.2% of 2004 revenues.

Reorganisation approved

The reorganisation plan was approved at the shareholders meeting in July 2005. According to the plan, FNM Esercizio's activities have been conferred to FNM SpA. The plan did not substantially change FNM's SpA business activities, and the consolidated P&L account show FNM Esercizio as being 100% owned.

1H05 revenues rose by 5.6% …

1H05 sales rose by 5.6% versus 1H04 to €146.2m, mainly thanks to the train transport business (both passengers and cargo), which grew by 4% to €121.8m. The passenger business in particular benefited from:

- Tariff increases of 1.8% which came into effect on 1 September 2004;
- A 2.0% increase in passenger numbers due to the growth in offer of c700,000 train km per year, which took place in December 2004.

… and costs by 5.2%

Total costs in 1H05 rose by 5.2% to €142m. The increase is mainly due to:

- Personnel (5.2% to €66.7m) – employee numbers increased to 2,951 (from 2,860 in 1H04) and new salary contracts rose by 2.2%.
- Cost of services rose by 5.9% to €51.9m due to an increase in traffic volumes and extraordinary maintenance costs.

Capex of €32.8m during 1H05

As far as the financial position is concerned, FNM has a net cash position of €27m (€45.5m at the end of December 2004), a result of:

- Negative operative cash flow of €22m, mainly due to an increase of commercial credits;
- Net investments of €24.1m, as a results of fixed assets capex of €32.8m and sales of properties of €8.7;

2005-10F outlook

Base case scenario

2005-10F sales CAGR of 3.9%

Our base case assumption is that FNM will win all the concessions. If so, according to our 2005-10F forecast for an inflation rate of 1.8% on average and FNM's total investments of €30m per year, we expect revenues as shown in Figure 4.

Fig 4 Sales breakdown – base case scenario (€m)

	2003	2004	2005F	2006F	2007F	2008F	2009F	2010F
Train	217.8	234.2	243.6	250.9	258.4	266.2	274.1	282.4
Bus	4.20	4.18	4.2	4.2	4.2	4.2	4.2	4.2
Other	40.0	49.3	55.8	59.7	63.6	68.4	74.1	80.9
Sales	**262.0**	**287.7**	**303.6**	**314.7**	**326.2**	**338.8**	**352.5**	**367.5**

Source: Company data, ING estimates

We forecast 2005-10F sales (and tariffs) CAGR of 3.9%, of which 2.1% growth is due to programmed investments.

We expect the two big cost areas will continue to be personnel and services. Employee cost is forecast to grow by 2% on average during 2005-10F, as a result of a 1.7% increase in wages and 0.5% rise in the number of employees.

As for the costs of services, we forecast that quality improvements (necessary for tariff increases) will maintain relatively high expenses (3% on our 2005-10F CAGR forecast).

According to our base assumption, FNM's EBITDA margin could increase reaching 18.4% in 2010F (from 11.2% of 2004) with an 11.4% CAGR.

Fig 5 EBITDA margin trend – base case scenario (€m)

	2003	2004	2005F	2006F	2007F	2008F	2009F	2010F
EBITDA	26.3	32.1	39.4	43.8	48.2	53.6	60.1	67.7
EBITDA margin (%)	10.0	11.2	13.0	13.9	14.8	15.8	17.1	18.4

Source: Company data, ING estimates

At the end of the period FNM could have c€128m net cash.

Alternative scenario

In an alternative scenario we foresee that FNM not only wins all the concessions, but also invests heavily in the infrastructure to maximise the return on tariffs and optimise the financial structure.

Under this scenario we believe FNM's investment could be €90m per year (€60m more than the base case scenario). We expect 2005-10F CAGR of 8.7% as a result of a mix of 3.5% tariff increases and a 10.0% volume increase (train km/year).

Fig 6 Sales breakdown – alternative scenario – (€m)

	2003	2004	2005F	2006F	2007F	2008F	2009F	2010F
Train	217.8	234.2	243.6	260.6	284.1	311.1	340.6	374.7
Bus	4.20	4.18	4.2	4.2	4.2	4.2	4.2	4.2
Other	40.0	49.3	55.8	59.7	63.6	68.4	74.1	80.9
Sales	**262.0**	**287.7**	**303.6**	**324.5**	**351.9**	**383.7**	**419.0**	**459.8**

Source: Company data, ING estimates

In our view, investment return could more visible beyond the forecast period (as a matter of fact we are talking about long term view investments).

Under the alternative scenario the EBITDA margin at the end of 2010F could be 26.5% (in line with the EBITDA margin of Italian airports), while the EBITDA 2005-10F CAGR would be 25.3%.

At the end of 2010F, debt to equity ratio would be 0.6x assuring, a more efficient financial structure.

Fig 7 EBITDA margin trend – alternative scenario (€m)

	2003	2004	2005F	2006F	2007F	2008F	2009F	2010F
EBITDA	26.3	32.1	39.3	48.1	61.8	78.9	98.0	121.7
EBITDA margin (%)	10.0	11.2	13.0	14.8	17.6	20.6	23.4	26.5

Source: Company data, ING estimates

Fig 8 FNM income statement (€m)

Yr to Dec	2003	2004	2005F	2006F	2007F
Turnover	262.0	287.7	303.6	314.7	326.2
Total operating revenues	262.0	287.7	303.6	314.7	326.2
Costs of goods sold	(17.7)	(20.7)	(21.3)	(22.2)	(23.1)
Staff costs	(119.2)	(127.1)	(130.3)	(132.9)	(135.5)
Other operating costs	(98.8)	(107.8)	(112.5)	(115.9)	(119.4)
Depreciation	(16.5)	(16.8)	(17.7)	(19.5)	(22.2)
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0
Total operating costs	(234.5)	(251.7)	(260.5)	(268.3)	(277.1)
EBIT before exceptionals	9.8	15.3	21.7	24.3	26.0
Operating exceptionals	0.0	0.0	0.0	0.0	0.0
Profit/loss on sale of tangible fixed assets	0.0	0.0	0.0	0.0	0.0
EBITA	**9.8**	**15.3**	**21.7**	**24.3**	**26.0**
Operating profit	**9.8**	**15.3**	**21.7**	**24.3**	**26.0**
EBITDA	**26.3**	**32.1**	**39.4**	**43.8**	**48.2**
Income from associates (pre-tax)	0.0	0.0	0.0	0.0	0.0
Net interest income	0.8	0.7	0.8	(1.0)	0.0
Investment income	0.0	0.0	0.0	0.0	0.0
Net financial charges	0.8	0.7	0.8	(1.0)	0.0
Adj pre-tax profit	7.9	12.9	19.5	20.3	23.0
Exceptionals & GW	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	**7.9**	**12.9**	**19.5**	**20.3**	**23.0**
Taxes	(6.9)	(5.2)	(6.3)	(6.5)	(7.4)
Extraordinary items (net)	0.3	2.9	0.0	0.0	0.0
Group profit	1.3	10.6	13.3	13.8	15.6
Minorities	1.6	1.1	1.1	1.0	0.5
Net profit	**2.9**	**11.7**	**14.4**	**14.8**	**16.1**
Net attributable profit	2.9	11.7	14.4	14.8	16.1
Adj net attributable profit	2.6	8.8	14.4	14.8	16.1
Net attributable profit from ordinary ops	2.6	8.8	14.4	14.8	16.1
Dividend on ordinary shares	0.0	0.0	0.0	0.0	0.0
Retained earnings	2.9	11.7	14.4	14.8	16.1

Source: Company data, ING estimates

Fig 9 FNM balance sheet (€m)

Yr to Dec	2003	2004	2005F	2006F	2007F
S/T investments	0.0	0.0	0.0	0.0	0.0
Cash & cash equivalents	0.0	0.0	0.0	0.0	0.0
Inventories	15.0	16.1	16.0	17.0	18.0
Trade receivables	68.7	59.5	60.0	65.0	68.0
Other current operating assets	0.0	0.0	0.0	0.0	0.0
Total current assets	**83.7**	**75.6**	**76.0**	**82.0**	**86.0**
Goodwill	0.0	0.0	0.0	0.0	0.0
Other intangible assets	4.9	6.2	7.0	8.0	9.0
Tangible fixed assets	279.3	260.1	278.2	298.7	324.2
L/T investments	2.1	2.0	2.0	2.0	3.0
Total fixed assets and L/T investments	286.3	268.3	287.2	308.7	336.2
Total assets	**370.0**	**343.9**	**363.2**	**390.7**	**422.2**
S/T debt	0.0	0.0	0.0	0.0	0.0
S/T hybrid debt	0.0	0.0	0.0	0.0	0.0
Trade payables	200.4	105.0	110.0	120.0	125.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0
L/T debt	(19.8)	40.7	40.1	42.3	52.2
L/T hybrid debt	0.0	0.0	0.0	0.0	0.0
L/T non-interest-bearing liabilities	0.0	0.0	0.0	0.0	0.0
Total liabilities	**180.6**	**145.7**	**150.1**	**162.3**	**177.2**
Minority interests (equity)	6.7	4.5	5.0	5.5	6.0
Shareholders equity	182.7	193.7	208.1	222.9	239.0
Total liabilities & group equity	**370.0**	**343.9**	**363.2**	**390.7**	**422.2**
Ratios (%)					
EBITDA margin	10.0	11.2	13.0	13.9	14.8
Operating margin	3.7	5.3	7.2	7.7	8.0
EBITDA growth		22.0	22.9	10.9	10.2
Operating profit growth		55.9	42.3	11.5	7.2
Adj tax rate	87.3	40.4	32.0	32.0	32.0
ROE	1.4	4.7	7.2	6.9	7.0
ROACE	0.7	4.5	6.0	6.3	6.2
Net debt/equity	(10.5)	20.5	18.8	18.5	21.3
Valuation (x)					
EV/turnover	0.5	0.7	0.6	0.6	0.6
EV/EBITDA	5.1	6.0	4.9	4.5	4.3
Adj PER	103.6	30.7	18.7	18.2	16.7
Price/NAV	0.8	0.8	0.7	0.7	0.6
P/FCFPS	7.3	6.3	(439.2)	118.6	27.4
Adj PEG		0.1	0.3	6.8	1.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, ING estimates

Fig 10 FNM cash flow (€m)

Yr to Dec	2003	2004	2005F	2006F	2007F
EBITDA (CF)	26.3	32.1	39.4	43.8	48.2
Change in working capital	30.0	87.3	(4.6)	(4.0)	(1.0)
Change in provisions	0.0	0.0	0.0	0.0	0.0
Operating cash flow (pre-tax)	56.3	119.4	34.8	39.8	47.2
Cash taxes	(6.9)	(5.2)	(6.3)	(6.5)	(7.4)
Operating cash flow (after-tax)	49.4	114.2	28.6	33.3	39.8
Net financial charges	0.8	0.7	0.8	(1.0)	0.0
Capital expenditure (net of disposals)	(13.3)	(72.3)	(30.0)	(30.0)	(30.0)
Free cash flow	**36.9**	**42.6**	**(0.6)**	**2.3**	**9.8**

Source: Company data, ING estimates

Company profile

Regulated business

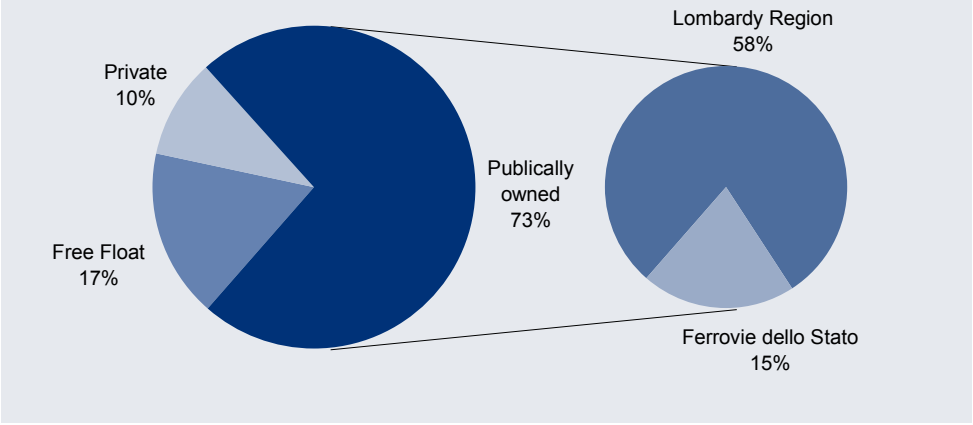
FNM's activity is regulated by 1997 laws. According to the law, the state was required to gradually shift responsibility for the running of local transport (both passengers and cargo) to the regions. Maintenance of the railway concessions was to be established by the regions within a transitional period ended in 2003. Since December 2003, the regions have been required to organise the sale of the concessions through tender offer and by 2007 every concession should be allotted. FNM will participate in all tenders. According to the law, FNM is required to continue managing the concessions until they are allotted.

Rail transport is regulated by a price-cap mechanism (similar to that in place in the motorway and airport sectors). According to the mechanism, the tariff can increase due to, 1) inflation, 2) quality improvement, and 3) investments.

Shareholders

The Lombardy Region is FNM's main shareholder with a 57.7% stake. The other shareholders are Ferrovie dello Stato 14.7%, Aurelia SpA (Mr Gavio) 8%, Banca Monte Paschi di Siena 2.2% and free float 17.4%.

Fig 11 Ferrovie Nord Milano shareholders



Source: Company data

Company with long history

FNM was founded in 1877 to build and manage railway tracks in the Lombardy Region. The railway network was developed mainly in the north-west of Lombardy, connecting Milan with Novara, Varese, Laveno, Como and Erba-Asso.

In 1985, FNM became a Holding Company (to co-ordinate the technical and financial aspects of the various companies of the Group) and was divided into two controlled operative companies, Ferrovie Nord Milano Esercizio – railway activities; Ferrovie Nord Milano Autoservizi – road transportation services.

In 1993 FNM acquired management of the Brescia-Iseo-Edolo railway line and some road services in the province of Brescia.

The big non-state Italian operator

Today, FNM is the most important integrated transport group in the Lombardy Region and the most important non-state Italian operator in this field. The group is transforming itself in order to create a new concept of transport. Ferrovie Nord Milano is aware of the need for public transport and is dedicated to developing a policy that broadens and differentiates its activities.

The parent company Ferrovie Nord Milano SpA is listed on the 'Mercato Expandi', a segment of the Milan stock exchange, and its main shareholder is the Lombardy Region.

Challenge is to modernise the business

FNM's mission is the organisation and management of public transport services, responding to new challenges to transport people, goods and information. As a result the group is transforming itself into:

- A multi-utility company, forming alliances in order to face future challenges, not only in the local transport sector, but also in the field of public utilities.
- A player in the public utilities arena, growing through business development in both national and international markets.

FNM mainly operates in three sectors

FNM operates in three main service sectors; 1) passenger transport (by far the most significant activity), 2) cargo and 3) infrastructure. In addition, FNM operates in the communication and technology market (in a joint venture with Telecom Italia), the energy sector (jointly with Azienda Elettrica Ticinese – AET) and the air services market (with Avionord), offering tailor-made air services.

Passengers: Rail and road

FNM operates in both rail and road sectors through three companies: FNM Esercizio, FNM Trasporti and FNM Autoservizi.

After Ferrovie dello Stato (FS), FNM Esercizio is the most important railway company in Italy with more than 300 kilometres of rail network and 120 railway stations distributed on five lines in the hinterland north of Milan and in the provinces of Brescia, Como, Novara and Varese. Running more than 500 trains every day, over 50 million passengers are transported each year.

FNM Autoservizi owns more than 10 million km of bus routes and over 200 buses transport more than 6 million passengers each year. It provides the Lombardy Region with suburban bus transport services in the provinces of Milan, Brescia, Como, Cremona and Varese, integrating and completing the FNM Trasporti railway network.

Finally, FNM manages the only railway link between Milan city centre and Malpensa Airport, the Malpensa Express. The service travels between Ferrovie Nord's Cadorna station and the intercontinental airport hub in only 40 minutes.

Fig 12 Passengers transported (m)

	2003	2004	2005F	2006F	2007F	2008F	2009F	2010F
Abitual passengers	48.15	48.93	49.67	50.46	51.32	52.19	53.08	53.98
Malpensa express	1.47	1.53	1.59	1.66	1.72	1.80	1.89	1.98
Iseo	1.03	1.08	1.12	1.17	1.22	1.28	1.34	1.41
Total	**50.65**	**51.54**	**52.38**	**53.29**	**54.26**	**55.27**	**56.31**	**57.37**

Source: Company data, ING estimates

Goods: FNM Cargo

FNM manages the transportation of goods through 100% owned FNM Cargo, the first operator to take advantage of the liberalisation of goods transportation in Italy. In turn, FNM Cargo controls Cargo Clay, a leading company in the transportation of clay for the production of ceramics, having acquired 70%of its capital in April 2003.

Infrastructure: FNM Ingegneria

FNM Ingegneria designs and co-ordinates the development of railway infrastructure and the modernisation and maintenance of FNM Esercizio's rail network. It also offers its know-how to the Italian and international markets. Recent projects included the link with the intercontinental hub, Malpensa Airport, which was completed in record time, while ongoing projects include the four-fold extension of the Milano Bovisa to Milano

Cadorna line, the modernisation of the Brescia-Iseo-Edolo line and the realisation of the Castellanza tunnel.

Telecommunications: NordCom

NordCom was formed from a joint venture between FNM and Telecom Italia and is the new arrival in the Information and Communication Technology market. NordCom combines technological competence with organisational expertise, offering companies and Public Administration innovative solutions and integrated systems that allow complete control of information, processes and knowledge. The company's ongoing projects include the Lombardy Region's infomobility service for passengers in Lombardy, the virtual campus of the Università dell'Insubria, the Catasto electronic land registry programme for Town Councils in Val Camonica and the supply of services for Lombardy Region's new socio-sanitary information system.

Energy: NordEnergia

Owned 60% by Ferrovie Nord Milano Esercizio and 40% by Azienda Elettrica Ticinese, NordEnergia's aim, within the framework of the process implemented by GRTN to build merchant lines, is to create and manage a long-distance power line importing electricity from Switzerland via the link between Mendrisio (Switzerland) and Cagno (Italy).

Air transportation: AvioNord

AvioNord is the aviation company of Gruppo Ferrovie Nord Milano that offers air transport services using its own and third party fleets. AvioNord organises and co-ordinates rescue operations and the transportation of body organs. It offers passenger transport services and carries out an important territorial monitoring service.

Reorganisation

New structure

In July 2005, to answer to new and differing passenger needs, FNM's extraordinary meetings approved a new company structure, according to which FNM Esercizio SpA (100% owned by FNM SpA) spun off the controlled activities in FNM Trasporti (100% owned by FNM Esercizio), FNM Ingegneria (80% FNM Esercizio and 20% FNM Spa), and Nordcom (52.2% FNM Esercizio and 5.8% FNM SpA).

As a result of the reorganisation, FNM SpA directly owns all activities.

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