

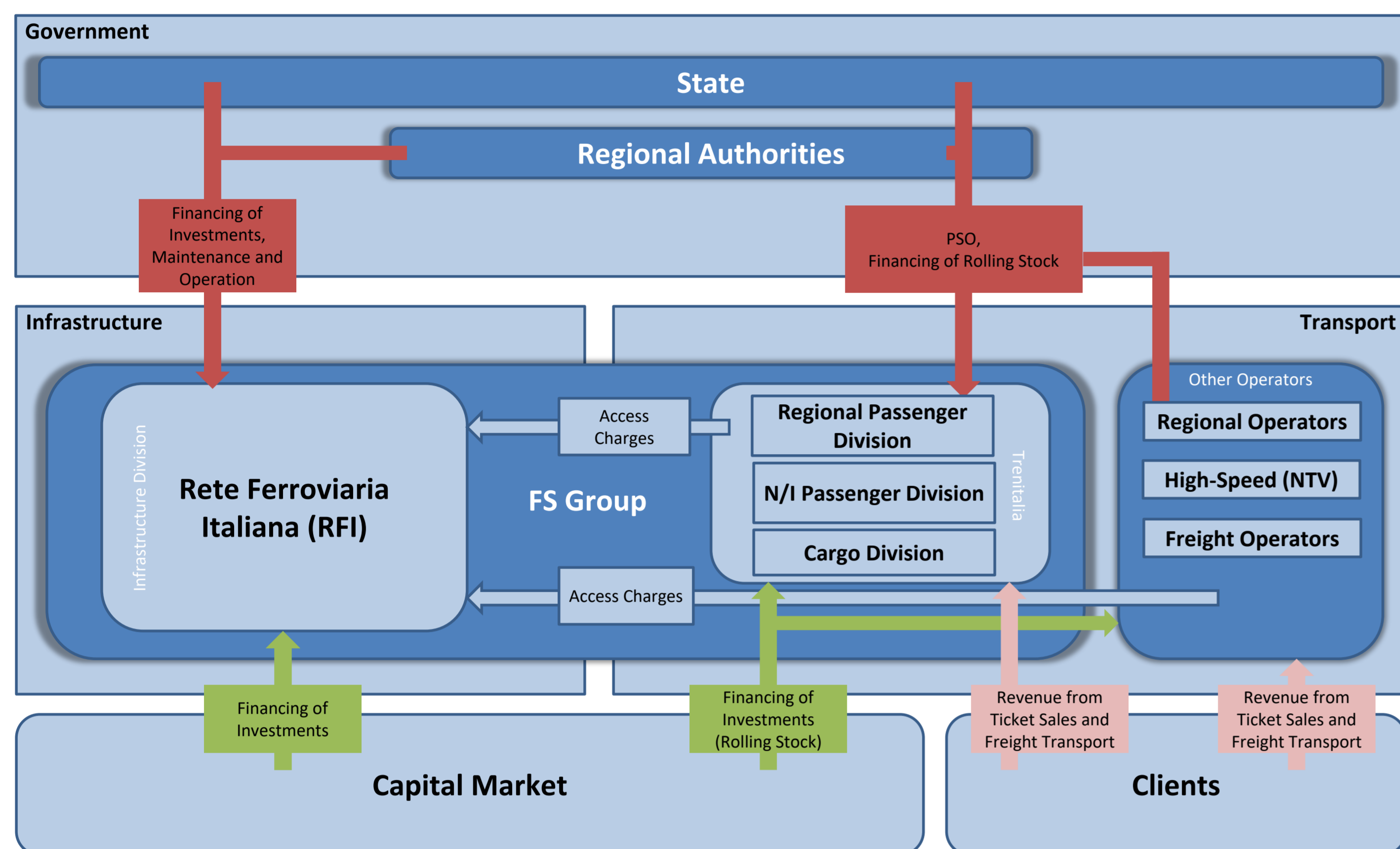
Public Budget Contributions to the Italian Rail Sector

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Organizational Structure

Main Operators

Ferrovie dello Stato (FS) Group is the parent company of the national railway and infrastructure companies. Trenitalia SpA, a part of the group, operates long distance, regional as well as freight services. The infrastructure is owned by Rete Ferroviaria Italiana (RFI), a part of the Ferrovie dello Stato (FS) Group. In 2012 Nuovo Trasporto Viaggiatori (NTV), a private company, started with high-speed services on the RFI network. Beside Trenitalia SpA some smaller companies offer regional as well as freight services. The market share of competitors, thus, is comparatively small.



Infrastructure

RFI receives an annual revenue contribution from the state and additional investment grants from national, regional as well as European funds. According to the Annual Report of FS Italiane investments into the conventional as well as into the high speed network have been financed by equity contributions to FS Italiane until the end of 2005. We therefore considered the equity contribution as support for infrastructure investments. With beginning of 2006 the support scheme changed, investment grants are now paid directly to RFI.

Transport

Regional as well as some long distance services run with state support. Freight transport services operated by Trenitalia SpA also received public support. However, the Public Service Compensation for freight transport has been discontinued in 2015.

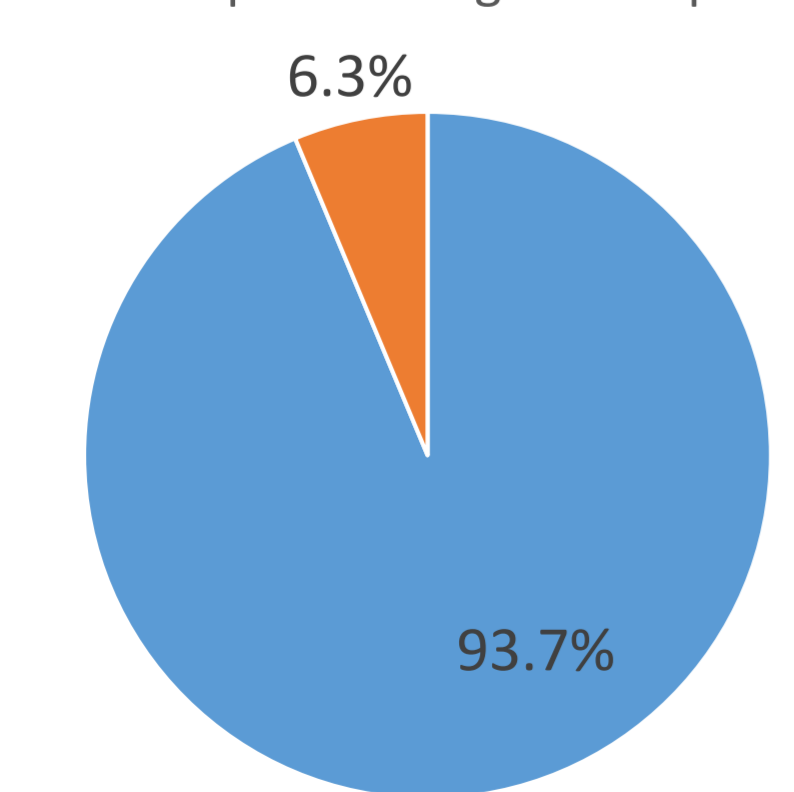
Other

For the High-Capacity project (a railway link between Turin, Milan, Rome and Naples) a joint-stock company called Infrastrutture SpA (ISPA) was founded in 2002. ISPA raised funds on the capital market and provided them to RFI-TAV (TAV was responsible for the development of the high-speed network). Since the State was bearing most of the risk, it has been decided that the debt issued by ISPA has to be treated as government debt because RFI-TAV will not be able to repay most of the provided loans without additional government support. The inclusion into public accounts was completed by a debt assumption, i.e. a capital transfers from the Italian government to RFI-TAV in 2006.

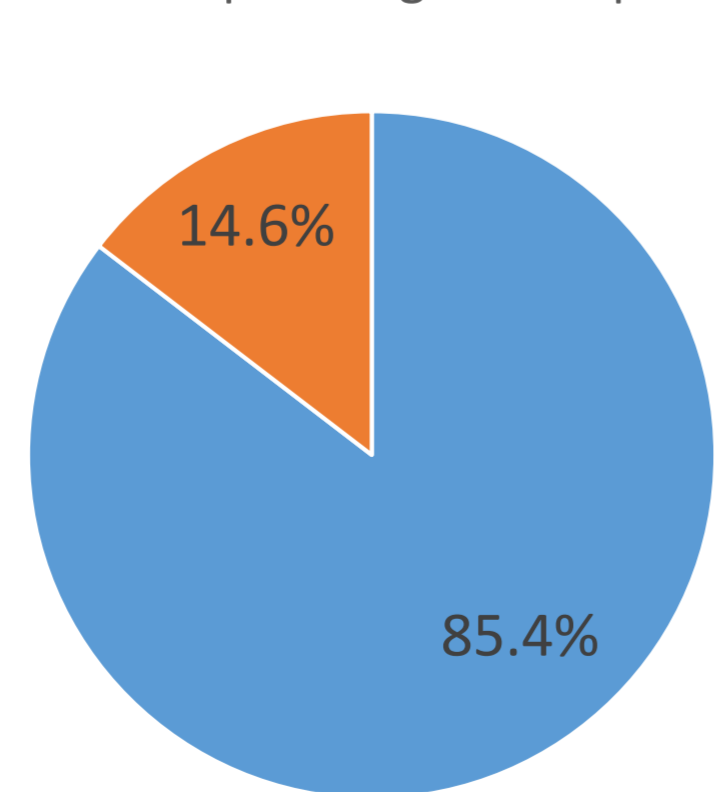
Industry Characteristics (2015)

Length of Line in use:	17,037 Kilometer (2014)
Passenger-Kilometer:	52.207 billion
Ton-Kilometer:	20.781 billion
Passenger-Ton-Kilometer:	72.988 billion
Modal Split Freight Transport:	14.6 % (2014)
Modal Split Passenger Transport:	6.3 % (2014)

Modal Split Passenger Transport



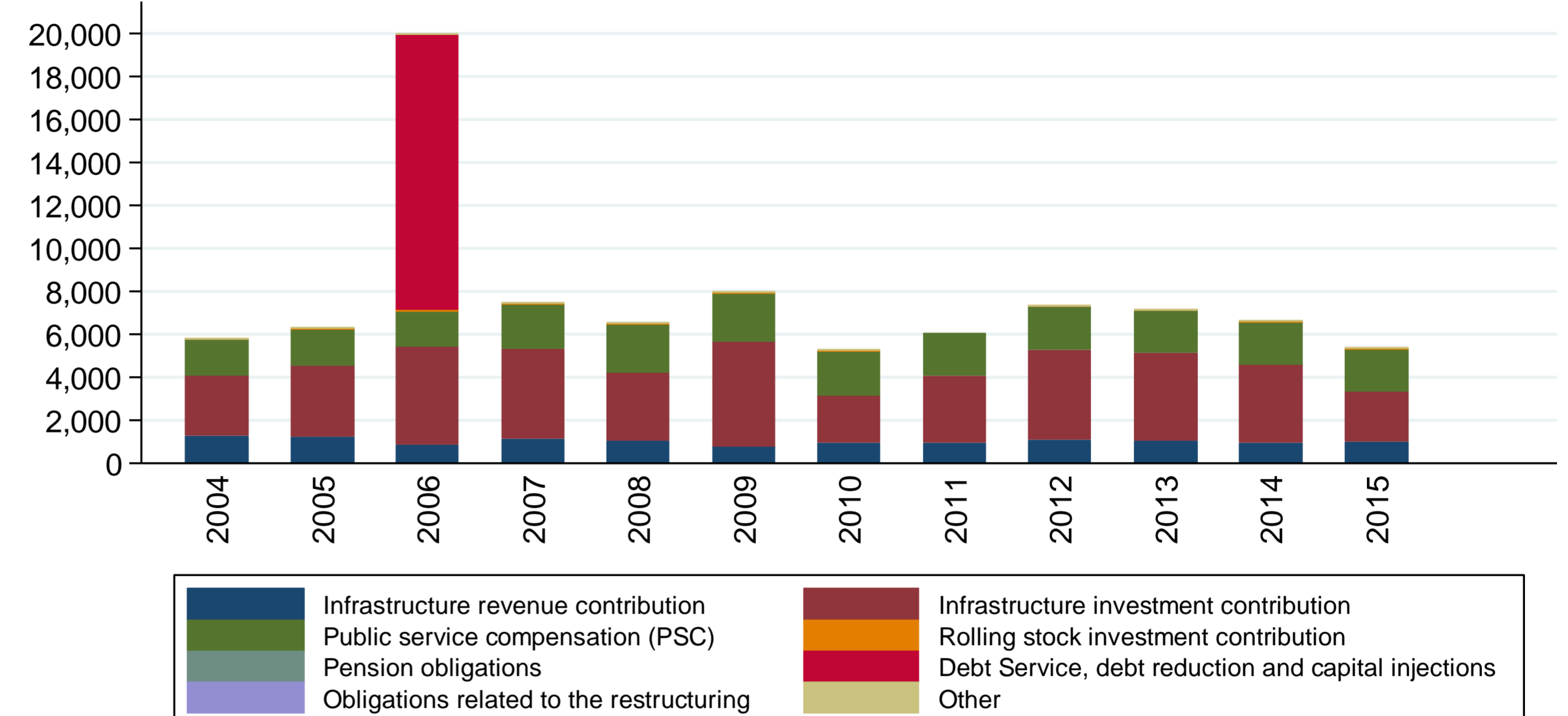
Modal Split Freight Transport



Source: European Commission - Transport in Figures, Eurostat

Financing

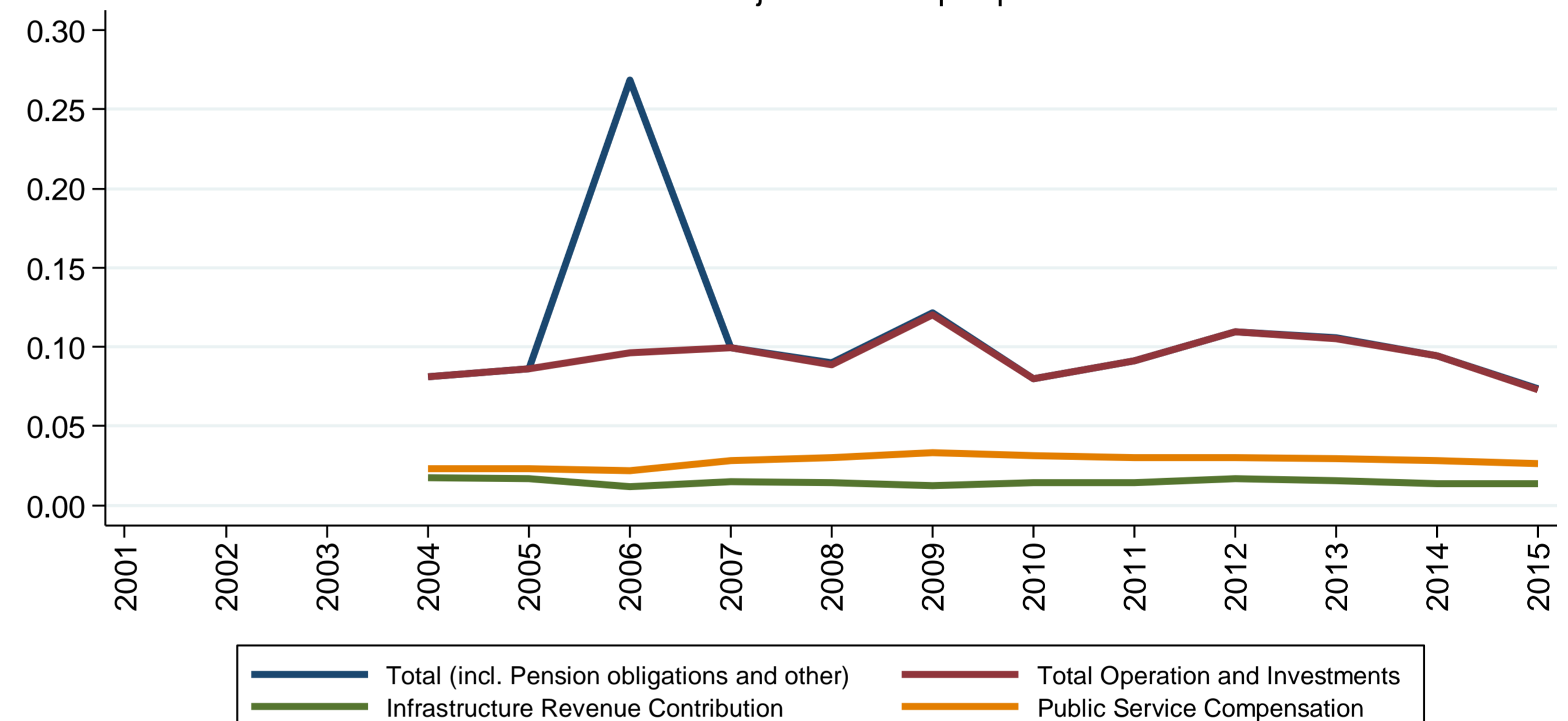
Public budget contributions to the Italian railway sector
in million PPP adjusted Euro



Development of Public Budget Contributions

Public budget contributions to the Italian railway sector tend to fluctuate over the observation period. Not taking into account the capital transfer in 2006 (debt assumption), contributions reached their peak in 2009. After an strong decrease of investment contributions in 2010, the level of public funds for investments recovered by 2013. In 2015, 2.4 billion Euro have been granted for infrastructure investment, 1.9 billion for Public Service Obligations, 0.9 billion as revenue contributions to the infrastructure manager and 36 million for rolling stock investments. Accordingly, each passenger-ton-kilometer was on average supported with 7.3 cents. Of which 1.4 cents were related to the operation of the infrastructure, 2.6 cents to the operation of public services and 3.3 cents to investments.

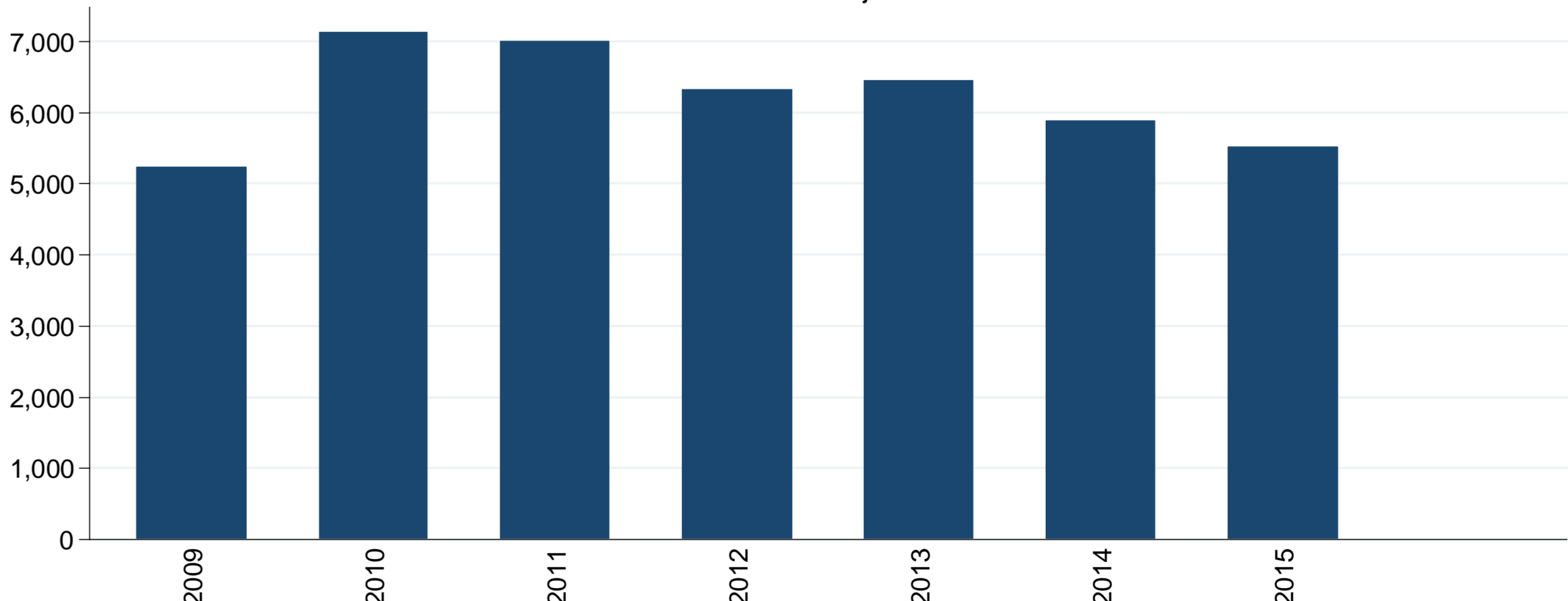
Public budget contributions to the Italian railway sector
in PPP adjusted Euro per ptkm



Financing Structure

Italy uses a hybrid model where both, transport service operators and infrastructure managers, receive an almost equal share of total financial contributions. Contributions for the operation of the infrastructure and public services made up approximately 40-50 percent of overall budget for the sector. RFI covered nearly 50% of operating expenses from access charges, while Trenitalia covered almost 80% of operating expenses by market based revenue in 2015.

Liabilities Rete Ferroviaria Italiana (RFI)
in million PPP adjusted Euro



Financing of Investments and Sustainability

Non-current liabilities tend to decrease in recent years. Since the majority of investments is financed from public contributions there is no pressure on RFI to raise funds on the capital market. However, most of the debt is on the balance sheet of the Holding FS, since it has a cash pooling function. The FS Group has been rated BBB+ (Stable) by Fitch. However, compared to other state owned railway undertakings like Deutsche Bahn (AA-), the rating for FS is comparatively low.