



Letter to the Shareholders

Dear Shareholders,

2018 as a financial year represents an important step for the development of your company. The positive operating and economic results, as well as the solid financial position, confirm the trends of last year: together with the deep-rooted competence and the continuous motivation to improve the service, that are the determining factors that make ATM's ambition credible and concrete as a key player in the integrated mobility of Milan and the Metropolitan City.

The dialogue with the Municipal Administration, with the Institutions and the entire industrial and entrepreneurial factors that revolve around Milan is intensified; thus the will of ATM to adhere to the "Milan System" is confirmed, contributing to a design of social and economic growth of a territory that goes beyond simple administrative boundaries.

The shared vision of the Smart City concept and the rapid development of digitization in the metropolis puts ATM at the center of a process that requires acceleration on all topics related to technological innovation, also through cutting-edge experiments. Technology offers possibilities that were unimaginable only a few years ago: ATM's specialized culture and skills make it possible to guide this evolution, to the benefit of customer service.

The public debate has recently focused on the interaction between urbanization processes, demographic changes and pollution problems. ATM therefore confirms sustainability as a necessary and irreplaceable way of responding. Above all ATM cares about environmental sustainability but also focuses - being a publicly-owned company - on social, economic and institutional sustainability.

In the course of 2018 ATM has committed on all these fronts, with concrete projects and laying the foundations for an evolution of the public transport service that will have to be radical. The convinced and structured adoption of sustainable behavior will increase the value of the Company to the benefit of Shareholders and the Community.

From an operational point of view, 2018 confirmed the constant trend of growth in the number of passengers: overall, in contrast

with the national context of the sector, the number of passengers on the entire network served by ATM in the metropolitan area registered an increase of 5%: 789 million people were transported, compared to 750 million in 2017. In the metro, passengers were 369 million, with an increase of 21 million, equal to 6% more than in 2017, which was already a record year that exceeded the extraordinary numbers of Milan Expo 2015.

Even in the presence of this appreciable increase in customers and therefore of a clear greater use of public transport - in line with what the Municipal Administration also promotes - ATM's performance levels are positive: the regularity on the metro was 99%, on the surface network 82% of runs respected the scheduled frequency.

The good quality of the service offered is also proved by the results of the customer satisfaction survey envisaged by the Service Contract: an annual independent certified report carried out in 2018 showed an average score of 7.2 and a general satisfaction level on ATM of 97%.

Some critical issues that emerged during the year, unavoidable in the context of such a complex service, were addressed by the Company with seriousness, determination and professionalism, tapping on the well-established experience that constitutes one of the great strengths of ATM.

The joint work with the Municipal Administration has led to the adoption of measures aimed at further developing the service: some network extensions have been implemented, with the aim of "shortening distances" with neighborhoods and new residential areas. Furthermore, to meet the needs of a metropolis in full evolution in terms of habits and professional needs, two new night lines have been introduced, in addition to those already in service on weekdays and during the weekend.

The fight against fare evasion continued intensively. In particular, also thanks to the recruitments in the control and security sectors, teams composed of security guards and client assistants have constantly and massively guarded the metro stations, as well as itinerant mixed teams dedicated for whole days to particularly sensitive surface lines. The results are the following: passengers checked in 2018 increased by 60% compared to the previous year, from 2.3 million to 3.7 million. The fines have increased by 33%.

The number of the Group employees (9,884) remained substantially stable: 578 hired during the year more than compensated the 492 who left. In the context of company personnel development

policies, particular attention was paid to training, a key factor for professional development: in 2018, 310,000 training hours were offered (190,000 in 2017).

The 2018 financial statements here presented, consistent with last year, have been prepared in accordance with the IAS/IFRS standards. During the year, to give evidence of the actual size of its assets, the Group opted for the valuation of its lands and buildings at fair value, rather than at historical cost, as was the case until the end of 2017. Therefore, the comparative data for 2017 have been restated, as required by the accounting standard IAS 8. The consistency of shareholders' equity as at December 31st, 2018 is equal to Euro 1,204.9 million, with an increase of 110.6 million euros due to the aforementioned change in the criteria of property valuation.

"Revenues and other operating income" in 2018 amounted to Euro 962.7 million and show a net increase of Euro 38.3 million.

"Operating costs and other charges" amounted to Euro 838.6 million with an increase of Euro 36.1 million; a large part of this increase derives from the increase in personnel costs due to the contract renewal and the increased staff of the Danish subsidiary Metro Service A/S in preparation for the launch of the new Copenhagen metro lines.

The 2018 operating result is equal to 36.9 million euros, with an increase of 6.4 million euros compared to 2017. This result is particularly significant in light of the fact that also in 2018 ATM has provided a greater number of kilometers of travel to the Municipality of Milan, maintaining the value of the fee unchanged, thus demonstrating the capacity to make the management of the operations more efficient.

The Group's operating profit amounted to Euro 18.5 million, compared to Euro 38.7 million in 2017; however the profit for the year adjusted for non-recurring effects amounted to Euro 14.6 million compared to Euro 9.0 million in 2017.

Net invested capital went from Euro 1,274.6 million to Euro 1,302.1 million as at December 31st, 2018, 93% of which is covered by equity, which benefited from the aforementioned effect of the change in the valuation criteria of the properties from historical cost to fair value.

The Group's subsidiaries have all reached a trend budget balance.

The most strategic chapter for long-term development is that of

investments. In 2018 ATM made investments for 173.1 million euros (139.9 million in 2017), of which 152 million were allocated to the renewal of the company fleet.

In particular, a fourth contract, under a framework agreement, was signed for the supply of further 12 Leonardo trains for the M2 metro line. Also within the framework agreement with the supplier, the delivery of 16 Leonardo trains was completed, of which two trains for line 1 and fourteen for line 2. The replacement of line 2 trains has become particularly important also in view of the large renewal project which includes, among other things, a new signaling system.

For the surface fleet, 2018 marks a stage of true revolution. Following the announcement of the Full Electric project in December 2017 - which in fact promptly adopted and implemented what was ratified by the Mayor of Milan at the C40 Together for Climate Summit in October 2017 in Paris - the Company has launched the plan that will lead to the total conversion of the fleet from diesel to electric by 2030. This project is based on well-developed business skills: in fact, 70% of ATM journeys are already carried out by electric vehicles.

Consistent with the conscious choice of environmental sustainability, ATM has continued to purchase only electricity produced from certified renewable sources.

The first 25 electric buses are already in service. To ensure the achievement of the ambitious goal of a fleet without diesel, in 2018 ATM launched a tender for the purchase of 250 electric buses, for a total investment of 210 million euros, with a first supply contract of 40 vehicles.

The total conversion to the electric network requires huge investments not only for the purchase and replacement of vehicles, but also for the construction of four new depots and the restructuring of three existing ones, according to a global revision of the business model. The new structures will be built, in fact, according to the most advanced concepts, with spaces dedicated to the sheltering and management of vehicles in the basement floor, an area above dedicated to public space and a green space available to the district, residents, citizens, visitors.

Still on the subject of sustainable mobility, ATM launched a tender for 80 new bi-directional trams and in May 2018 a framework agreement was signed for 80 new trolleybuses. Both the new trams and the new trolleybuses will offer a greater level of comfort, silence, safety and accessibility, with a simultaneous energy

saving, thanks to the braking energy recovery system.

During the 2018 financial year, some important extraordinary maintenance works were completed for the tramway network of the Municipality of Milan: the redesign of the tracks and the technological upgrade will make the system more reliable and efficient, as well as reducing noise emissions and wear downs. The construction site that had the greatest impact on the city was that of Piazza 5 Giornate, whose work was completed, as scheduled, on 2 September 2018, giving citizens a completely renewed square.

The total revamping of the "4900 series" tramway vehicles is being completed: an additional 11 trams have been put into service, for a total of 44 vehicles out of 51 involved.

Also in the 2018 financial year important works were carried out on the infrastructure of the M2 line. These works are necessary for the introduction of a new signaling system, put to tender in March 2019. The new signaling, fully covered by government financing, will guarantee the line - which is registering the highest growth rates - better performance in terms of efficiency, raising capacity by 30%, from 40 thousand to 52 thousand passengers per hour.

Another fundamental driver of development is technological innovation, the paradigm and catalyst for any change in this era of accelerations. In ATM, technology is an element that runs through all business processes and will result in better usage and access to services and information from customers.

Among the most significant initiatives in terms of user experience there is certainly the introduction of contactless credit card payments on the metro, a project launched in June 2018 and which now has an average of 60,000 transactions per day. ATM is the first company in Italy and among the top ten in the world to offer its customers this technology which, in addition to the practicality of use, allows the automatic calculation of the cheapest fare, the so-called "best fare". The launch of contactless payments represents a concrete step in the digital transformation process that began in 2015 with the introduction of the ATM App and the sale of travel tickets via SMS.

ATM also participates in the 5G technology testing projects underway in Milan. The introduction of this technology will allow in the future to effectively extend the same mode of payment with contactless cards also on surface vehicles, thus achieving the objective of progressively dematerializing all travel tickets.

Following the in-depth review already begun in 2017, the Board of Directors of ATM implemented a series of initiatives during 2018 to further strengthen corporate governance processes. Among the most relevant: the introduction, in July, of a new integrated procedure for managing whistle-blowing reports; the transition to a new Anti-corruption Model adopted on a voluntary basis and integrated with the updated Model 231; the adoption of the guidelines of the Internal Control and Risk Management System.

On the organizational side, the Board of Directors introduced the redesign of the Audit and Internal Control Department and the Compliance system, led by a new Internal Auditor with proven experience and professionalism; the creation of a new Risk Management function with the appointment of the company Chief Risk Officer on the subject of risk management, a complex Enterprise Risk Management project (“ERM”) was launched; and lastly, the creation of a “Coordination Team” between all the internal control functions and the so-called company assurance providers, an innovation that places ATM at the frontier of best practices.

All these initiatives aim to make ATM a “best-in-class” company also in terms of corporate governance, an increasingly important factor in the assessment of any company and particularly relevant in light of the public nature of your company.

Finally, it is worth mentioning the renewal of the Supervisory Board, replacing the previous one that remained in office for two three-year terms.

From the corporate point of view, the merger between ATM S.p.A. and ATM Servizi S.p.A. became effective, with accounting and tax effects starting from January 1st, 2018. The transaction confirmed the premises of cost-effectiveness and efficiency, for which it was approved in December 2017.

In April 2018, the extension until October 31st, 2020 of the LPT Service Contract and the Supplementary Services Contract were signed.

Even in this transitory framework for the choices of trust in the management of LPT, with a long-term view, in October 2018 the strategic industrial plan of the ATM Group was approved, then presented on April 1st, 2019 to the Ordinary Shareholders’ Meeting of ATM S.p.A. for the approval of strategic guidelines.

In particular, some key dimensions have been taken into consideration: the growing of the mobility sector in favor of

collective and shared transport, the change in the habits of the consumers of Milan, the technological macro-trends with impact on transport, the issue of sustainability as a key factor to development and livability. On these key dimensions, 40 operational projects have been defined to make ATM a digital champion, an industry benchmark, also extracting the full potential from all the non-core assets of the company and enhancing the human resources of the Company as true drivers of change.

Dear Shareholders, 2018 was a decisive year to put into practice what we had committed to do. ATM continues to express its vocation for service and the will to look ahead, even in an extremely ambitious way, to contribute to raising the quality of life of the citizens of Milan, city users and the ever-increasing number of tourists: customers all to whom we must offer the best vision of an ever more attractive, welcoming, competitive Milan.

Milan, April 1st, 2019

For the Board of Directors
The Chairman
Luca Bianchi

