

Executive Radar 2011

European Rail Industry

WHY PRODUCE AN EXECUTIVE RADAR?

As a top strategy consultancy in the rail sector, Roland Berger Strategy Consultants actively supports industry leaders in identifying challenges, uncovering solutions and driving decisive change in their organizations.

We have identified a growing need for dialogue amongst senior railway executives regarding the key issues that drive the industry. Therefore, we launched an "Executive Radar" to support executive-level thinking in the European railway industry.

This survey was conducted between July and September 2011, involving more than 150 top industry executives and representing a broad range of segments and positions in the value chain. The survey captured prevailing trends on two hot topics:

- > How have **liberalization and privatization** already affected companies along the value chain and what will be the biggest challenges in the coming years?
- > Which instruments can increase your companies' **profitability** and strengthen the **sustainability of your financial base**?

Here we present the conclusions and trust you will find them insightful in supporting your strategic thinking and decision making. We would welcome the opportunity to have a more detailed discussion directly with you on any of the issues presented.

THE EUROPEAN RAIL PRACTICE MANAGEMENT TEAM

Stéphane Albernhe ● (Paris)

Christoph Beseler ● (Madrid)

Didier Bréchemier ● (Paris)

Francesco Calvi Parisetti ● (Milan)

Alain d'Oultremont ● (Brussels)

Roland Falb ● (Vienna)

Boris Firsov ● (Moscow)

Pedro Galhardas ● (Lisbon)

Andreas Schwilling ● (Munich)

René Seyger ● (Amsterdam)

Martin Streichfuss ● (Düsseldorf)

Roland Zsilinszky ● (Prague)

THE RESULTS ARE BASED ON CONTRIBUTIONS FROM SENIOR EXECUTIVES ACROSS THE EUROPEAN RAIL INDUSTRY

PROFILE OF RESPONDENTS

Survey responses from **almost 60 top managers from eleven countries** (Austria, Belgium, Czech Republic, Denmark, France, Germany, Netherlands, Poland, Russia, Switzerland, UK)

30 firms represented, covering a **range of business segments** (52% railway undertaking, 18% rail infrastructure, 18% municipal transport, 12% integrated railway company)

59% of the responses are from firms reporting more than **EUR 1 billion in annual revenues**

About **15%** of the participants are **CEOs**

EXAMPLES OF PARTICIPATING COMPANIES



EXECUTIVE SUMMARY (1/2)

OVERALL AGENDA

- > Profitability and financial sustainability are the top concerns for European rail decision makers, followed by quality improvement and growth
-

DEREGULATION, PRIVATIZATION

- > The German rail and municipal transport market structure is regarded as the most attractive one in Europe, followed by Switzerland and the UK, and France for public transport. Overseas, Australia and Japan are role models. As for the management of rail infrastructure, one third of executives prefer separate infrastructure. In France, where a debate on infrastructure management is in progress, respondents are equally in favor of a joint holding or a separate entity (both 38%)
 - > While 47% of the respondents regard privatization as an important step in the transformation of their company, only 21% of all respondents plan privatization until 2020. Independence from politics is seen as the main benefit of privatization, with a significant lead over access to new funds. Many prerequisites have to be implemented (e.g. increasing profitability, reducing investment backlog, establishing public service contracts)
-

PROFITABILITY AND FINANCIAL SUSTAINABILITY

- > In the realization of the strategy, the mobilization of financial resources is regarded as the biggest challenge by 41% of the executives, followed by the mobilization of human resources and shareholders' commitment (both at 22%)
- > To secure sustainable revenues and profits, cost reductions (93% of respondents), service improvements (91%) and infrastructure modernization (86%) are seen as the main challenges

EXECUTIVE SUMMARY (2/2)

PROFITABILITY AND FINANCIAL SUSTAINABILITY (CONTINUED)

- > Competition is the main reason for the challenges, followed by complexity of the value chain
 - > The executives agree on the importance of maintaining, or even achieving, adequate standards in terms of quality of service. This is much more important than price leadership
 - > Actions to improve service delivery and reduce costs are the classic ones: continuous improvement, production process improvements, task forces and asset modernization
-

GROWTH AND GEOGRAPHICAL EXPANSION

- > 21% of all respondents regard growth as the top priority, 32% as second priority. Financial and quality objectives were stated as being more important
 - > Broadening the product/service portfolio is more important (93%) than geographical expansion (88%)
 - > Among the target regions for expansion, Central & Eastern Europe was mentioned by 81%, Western Europe by 78% and the respondent's home country by 74%. Other continents or regions follow with a significant gap (Middle East next with 42%)
-

OUTLOOK 2020

- > Further liberalization and consolidation is anticipated
- > Rail cargo and municipal transport are expected to show intensive M&A activities
- > The industry will benefit from the trend towards a "green" economy by offering environmentally friendly mobility, lobbying and promotion of the environmental benefits of rail and municipal transport

TOPICS

- a. COMPANIES' AGENDAS IN 2011:**
Profitability and financial sustainability are top priority
- b. DEREGULATION AND PRIVATIZATION:**
The regulator's role is key in liberalized markets –
Privatization not key for majority of respondents
- c. PROFITABILITY AND FINANCIAL SUSTAINABILITY:** Mobilization of financial resources and cost reduction represent main challenges
- d. FUTURE GROWTH AND GEOGRAPHICAL EXPANSION:** Growth is not top strategic priority
- e. OUTLOOK FOR THE RAIL BUSINESS ENVIRONMENT IN 2020:** Further liberalization and consolidation anticipated

PROFITABILITY, QUALITY IMPROVEMENT AND GROWTH ARE TOP PRIORITY AMONG RAIL EXECUTIVES

TOP PRIORITY ON COMPANY AGENDAS [5 MOST FREQUENT ANSWERS]

2011



RATIONALE AND INDUSTRY TRENDS

Profitability and financial sustainability is the top concern for European rail decision makers

- > Despite notable productivity increases in recent years, profitability is still too low
- > Intensifying competition is perceived as the main reason
- > Cost cutting and performance improvements are considered to be the main levers for improving profitability

Quality improvement comes second on the agenda

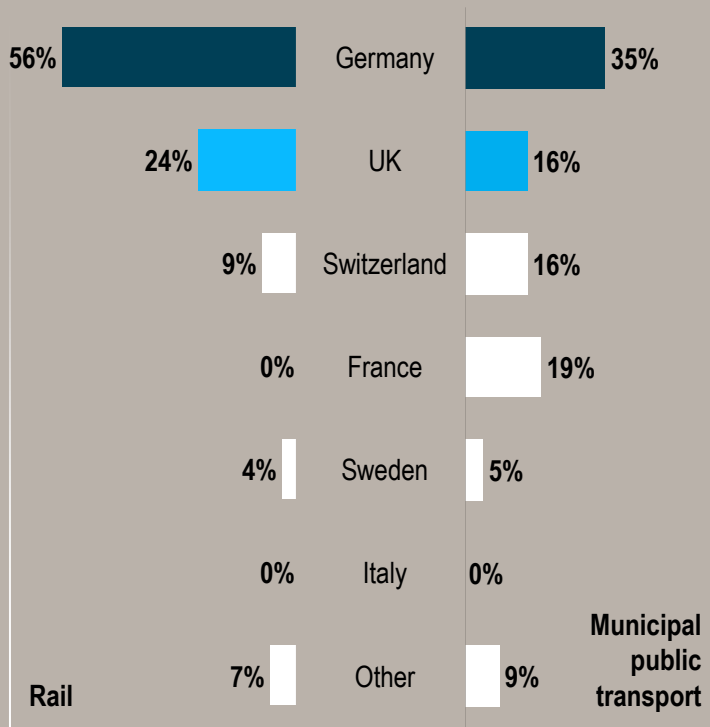
- > Increased intra- and intermodal competition is driving the race for quality

Growth is the #3 priority, although decision makers' opinions are divided on the importance and readiness of their own companies

- > Profitability is considered both a prerequisite for and a possible result of growth
- > International expansion through partnerships is the aim of most companies' growth strategies
- > M&A activities are thought to be most likely in the cargo segment and municipal transport

GERMANY IS SEEN AS HAVING THE BEST MARKET STRUCTURE IN THE RAIL SECTOR AT PRESENT – ALSO BY INTERNATIONAL EXECUTIVES¹⁾

EUROPEAN COUNTRY WITH BEST MARKET STRUCTURE (VALUE CHAIN ORGANIZATION, CONTRACTING) [% OF ANSWERS]



RATIONALE AND INDUSTRY TRENDS

Germany

- > The country's rail system, although not yet privatized, has reached major targets like the reduction of subsidies, an increase in competition and ease of access and is ranked third on the LIB index²⁾ 2011 ("Advanced")
- > According to the LIB index 2011, 3rd party market share has reached 12% for passenger (pkm) and 25% for cargo (tkm) with a total of about 250 active railway undertakings
- > From 2000 to 2011, Germany's rail modal share has increased from 9.2% to 9.7% in passenger transport and from 16% to 18.5% in cargo (Source: Progrtrans)
- > Municipal transport consists mostly of regional integrated transport systems (Verkehrsverbund) composed of many companies, in which different modes can be used with a single ticket

United Kingdom

- > Ranked No. 1 on the 2011 LIB Index, the United Kingdom has overachieved EU railway legislation in rail and shown significant increases in rail traffic since 2000. On the other hand, it has become a somewhat negative example of railway privatization
- > Municipal public transport is liberalized

France

- > Rail passenger market still completely closed, but improved position according to LIB index 2011 vs. 2007 because of cargo liberalization
- > In contrast, municipal transport is partly run by privately owned companies (dominated by three major players)

"Other" countries for rail include the Netherlands and Belgium

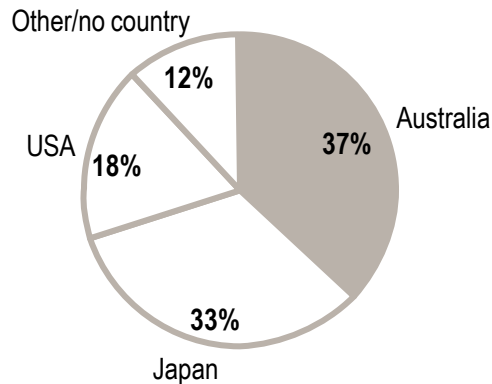
Among "other" countries for municipal, the Netherlands is mentioned most

1) 16% of the respondents are from German companies

2) 3rd edition of rail liberalization index study published by IBM and Prof. Kirchner, University of Berlin

FURTHER AFIELD, AUSTRALIA AND JAPAN FUNCTION AS ROLE MODELS FOR FAIR COMPETITION

COUNTRY OUTSIDE OF EUROPE CONSIDERED AS ROLE MODEL FOR FAIR COMPETITION IN THE RAIL AND PUBLIC TRANSPORT SECTOR [% OF ANSWERS]



RATIONALE AND INDUSTRY TRENDS

Australia

- > Five major freight rail operators; passenger transport regionally focused
- > Infrastructure owned by state and managed by public entity

Japan

- > Six vertically integrated passenger companies with strong regional focus
- > One nationwide cargo operator with access to tracks owned by the passenger rail companies
- > Private competitors can only enter the market with their own infrastructure

Comments by executives on why the selected countries are role models

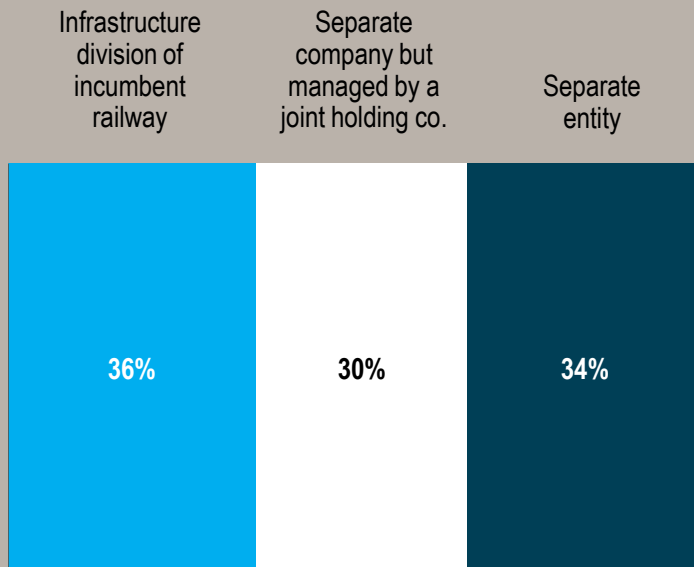
- > Non-discriminative practices, independent track access organization, collaborative model in public transport between integrated rail companies
- > Operations and infrastructure integrated with true competition in operations
- > Good integrated offering for customers (rail and stations run by same entity)
- > Modest but targeted unbundling
- > Sustainably profitable market structure
- > Competition for the route and not on the route
- > Fair competition between road and rail
- > Low prices and fair competition with sustainable margins for operators
- > Highly developed freight transport

Comments on why no country is a role model

- > No mature model as of today
- > No comparison possible because of structure in European countries: Mixture of passenger (short and long distance, high speed) and freight trains, high standards in public transport with true intermodal connections

OPINIONS ON MANAGEMENT OF INFRASTRUCTURE ARE DIVERSE; SEPARATION PREFERRED BY ONE THIRD

WHO SHOULD MANAGE THE INFRASTRUCTURE [% OF ANSWERS]



RATIONALE AND INDUSTRY TRENDS

Different opinions prevail

- > Among the respondents, opinions about the ownership and management of infrastructure vary greatly and are almost equally split between the three options
- > This result reflects the quite diverse discussions and solutions across Europe

Different opinions by country

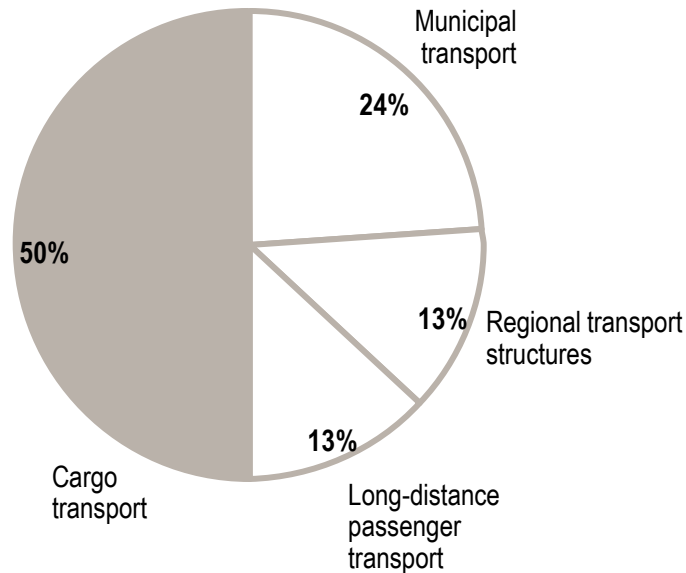
- > Respondents from France are evenly split in favor of management by a joint holding company or a separate entity (both 38%). This echoes the current debate on a suitable rail structure
- > Managers from Germany clearly favor a joint holding company ($\approx 50\%$), while only about 25% prefer separate infrastructure
- > Executives from Switzerland prefer the current model, with infrastructure as a division of the incumbent railway operator ($\approx 80\%$)
- > Respondents from Belgium prefer a separate entity ($\approx 80\%$)

Different opinions by industry segment

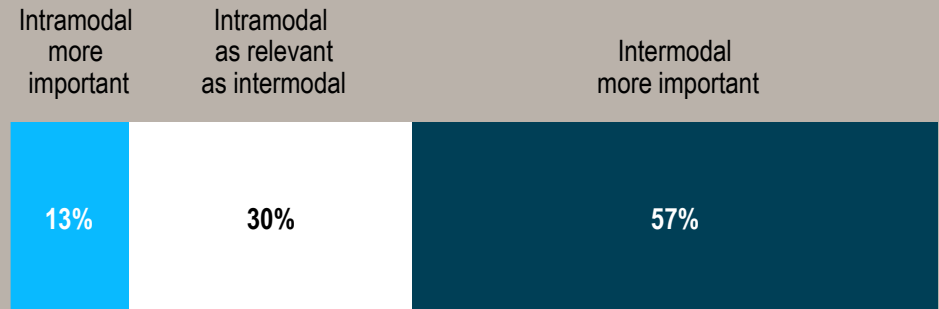
- > Managers from the railway undertaking sector are undecided between the three models
- > Railway infrastructure and municipal transport executives favor a separate entity

INTERMODAL COMPETITION IS EXPECTED TO BE HIGHER THAN INTRAMODAL COMPETITION, WHICH IS HIGHEST IN CARGO

SECTOR WITH FIERCEST INTRAMODAL COMPETITION EXPECTED [% OF ANSWERS]



RELEVANCE OF INTRAMODAL COMPETITION COMPARED TO COMPETITION BETWEEN RAIL AND OTHER MODES OF TRANSPORT [% OF ANSWERS]



RATIONALE AND INDUSTRY TRENDS

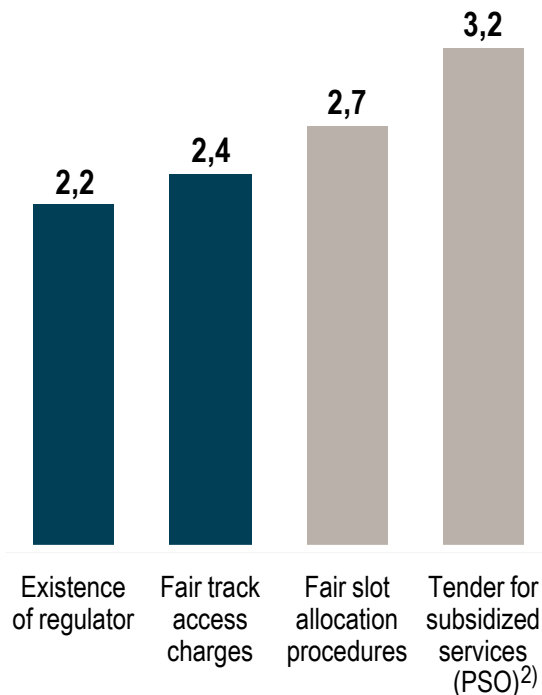
It is noteworthy that competition in regional transport is considered as low as in long-distance passenger transport which does not confirm the current status in many countries

Despite liberalization and the entry of many train companies over the last twenty years, intermodal competition is still seen as much more relevant than competition between railway operators

In regional transport, there is seen more intramodal competition esp. for tenders, while in long-distance only other modes are considered competitors

REGULATORS AND FAIR TRACK CHARGES ARE CONSIDERED THE KEY PREREQUISITES FOR FAIR INTRAMODAL COMPETITION

PREREQUISITES FOR FAIR INTRAMODAL COMPETITION [AVERAGE RANK]¹⁾



1) Low number $\hat{=}$ high importance

2) Public Service Obligation

RATIONALE AND INDUSTRY TRENDS

Important role of regulator in liberalized markets

- > Ensures fair competition between railway undertakings
- > Ensures and supervises non-discriminatory network access
- > Licenses railway companies
- > Supports new entries in the market
- > Has an integrator role for the overall rail system (currently lacking in several separate systems)

Fair track access charges

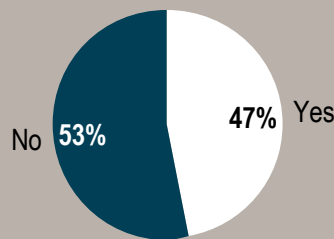
- > Track access charges are at very different levels across Europe
- > Depending on mainly political reasoning, access charges can be set in order to protect the railway system against road transport, to steer competition within the rail system or to generate as much cost coverage as possible
- > Charges should not be discriminatory (no volume discount) and not too expensive (avoid entry barriers)

Other prerequisites which rail executives consider important – quotes

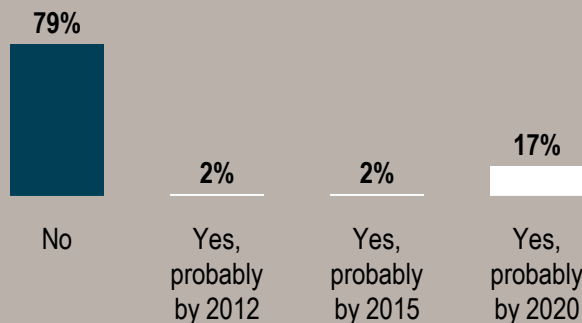
- > A single European railway market, including domestic traffic
- > Strong separation of operation and infrastructure
- > Harmonized social frameworks
- > Real transparency in public tenders
- > Tender conditions that allow a sustainably profitable operation
- > Fair conditions compared to dominant players benefiting from economies of scale and other advantages
- > Access to essential facilities
- > Fair energy prices
- > Road tolls

FOR 47%, PRIVATIZATION IS IMPORTANT FOR TRANSFORMATION, BUT 79% ARE NOT PLANNING FOR PRIVATIZATION UNTIL 2020

DO YOU SEE PRIVATIZATION AS AN IMPORTANT STEP IN THE TRANSFORMATION OF YOUR COMPANY? [% OF ANSWERS]



WILL YOUR COMPANY BE PRIVATIZED IN THE NEAR FUTURE? [% OF ANSWERS]



RATIONALE AND INDUSTRY TRENDS

Privatization

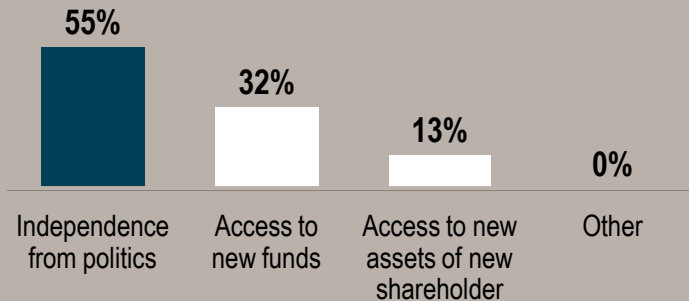
- > Managers of several large incumbents and one municipal transport company expect their companies to be privatized
- > Competition has increased significantly in liberalized markets but non-privatized incumbent railways still tend to play a dominant role
- > Access to private capital has been improved and efficiency increased
- > Infrastructure mostly remains under government control (renationalization after severe accidents in UK)
- > Mixed success so far: Efficiency has improved significantly, but targeted modal splits have often not been achieved

Schedule of privatization

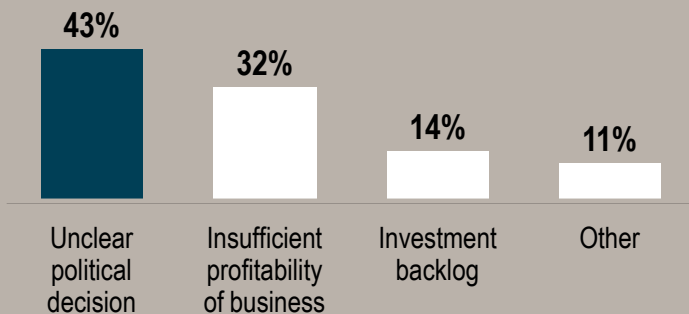
- > Liberalization and privatization are tied to a political process which lasts decades and requires broad backing from all stakeholders
- > Privatization is often bound to an IPO which, among other factors, depends on the current state of the financial markets – this may cause delays to the schedule
- > Companies have to meet certain criteria to be ready for privatization: Therefore, major challenges include an increase in profitability, an enormous investment backlog or established public service contracts

INDEPENDENCE FROM POLITICS IS MAIN BENEFIT FROM PRIVATIZATION – POLITICAL PROCESS IS BIGGEST CHALLENGE

MAIN BENEFITS OF PRIVATIZATION FOR YOUR COMPANY [% RANKED NO. 1]



MAIN CHALLENGES TO BE MASTERED BEFORE PRIVATIZATION [% RANKED NO. 1]



RATIONALE AND INDUSTRY TRENDS

Currently, **politicians** often **exert influence and pressure**, although corporate governance is quite autonomous. Examples:

- > Construction of and stops at stations
- > Fare setting
- > Employment conditions

Privatization is often a prerequisite for **obtaining funds** from private investors

Other answers for **BENEFITS of privatization**

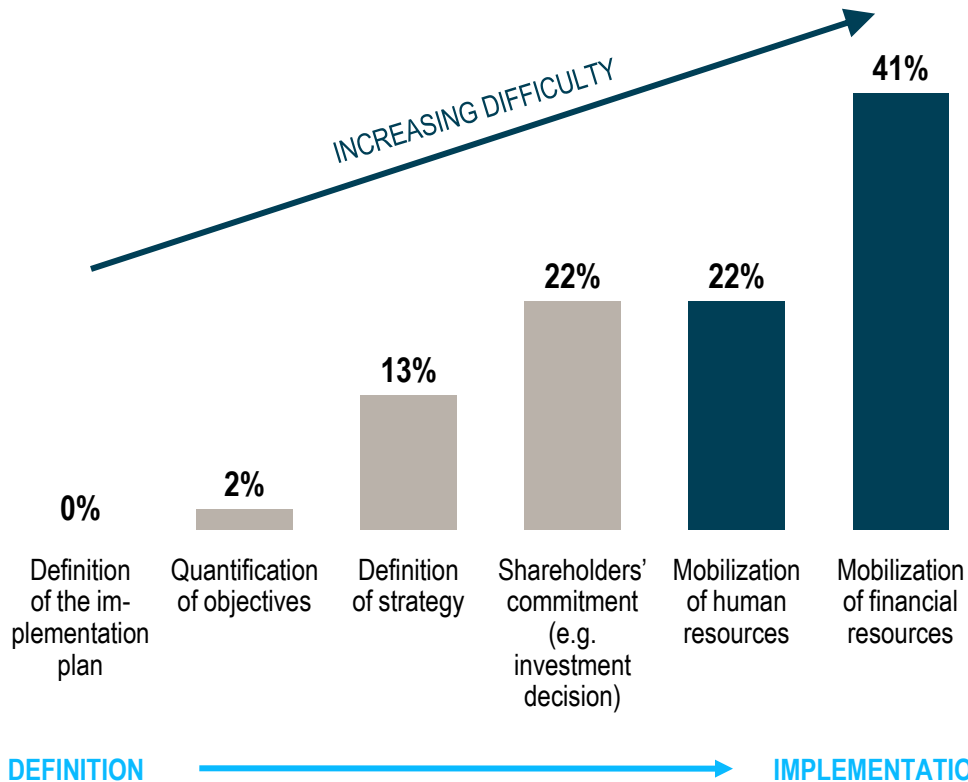
- > Privatization is of no interest in municipal transport
- > A beneficial development that simplifies matters
- > Stronger evolution and easier management
- > Company-wide spread of a (free market) business culture

Other answers for **CHALLENGES of privatization**

- > Economic stability
- > Financing of infrastructure
- > Ownership decisions
- > Social acceptance
- > Business-minded non-profit management

MOST RESPONDENTS STATE DIFFICULTIES IN ACHIEVING THEIR STRATEGY BUT NOT IN DEFINING IT

BIGGEST CHALLENGES TO DEFINING AND ACHIEVING STRATEGY [% SELECTED AS NO. 1]



RATIONALE AND INDUSTRY TRENDS

Mobilization of financial resources

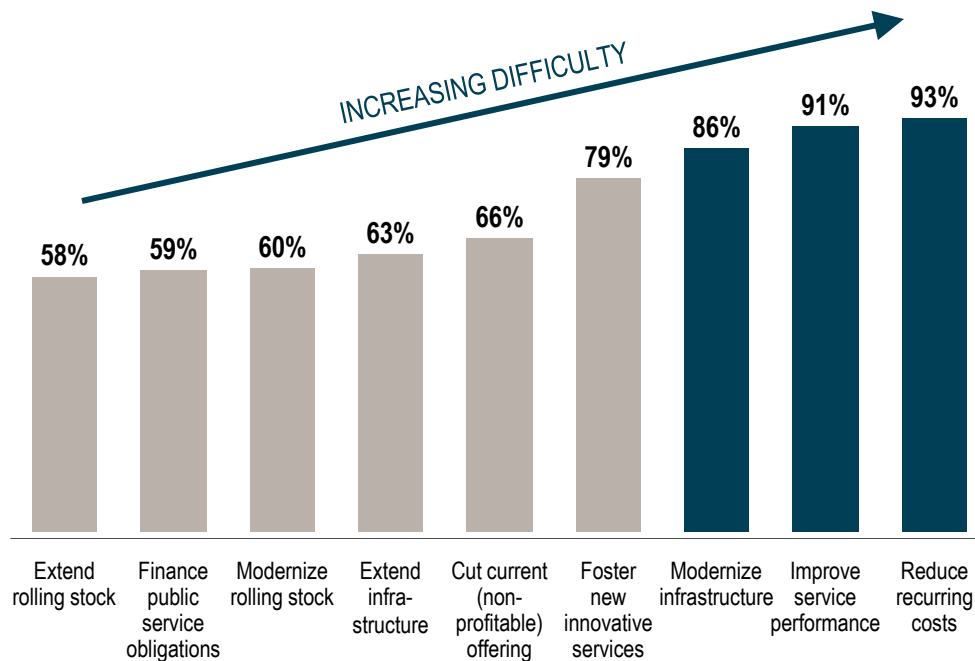
- > Demanding government funding is not a promising strategy, as in the past – especially given the huge public budget deficits. Additional funding sources and cash flow maximization essential
- > Shortcomings in efficiency could be cured with a restructuring program
- > Companies which rate the shortcoming of financial resources as their No.1 challenge make up the majority in Western Europe (France, Germany, Switzerland, Austria and Belgium); only 10% are from Eastern Europe

Mobilization of human resources

- > Main challenge is to change team mindsets drastically when developing services and shifting to leaner ways of working (e.g. responsiveness, customer orientation)

COMPANIES SEE AN URGENT NEED TO SUCCEED IN BOTH COST REDUCTION AND SERVICE IMPROVEMENTS

TOPICS REPRESENTING CHALLENGES TO SECURING SUSTAINABLE REVENUES AND PROFITABILITY [% ANSWERED WITH YES]



RATIONALE AND INDUSTRY TRENDS

Reduce recurring costs – typical levers are:

- > Size of the network
- > Schedule
- > Maintenance
- > Sales cost, incl. channel optimization
- > Overhead

Improve service performance

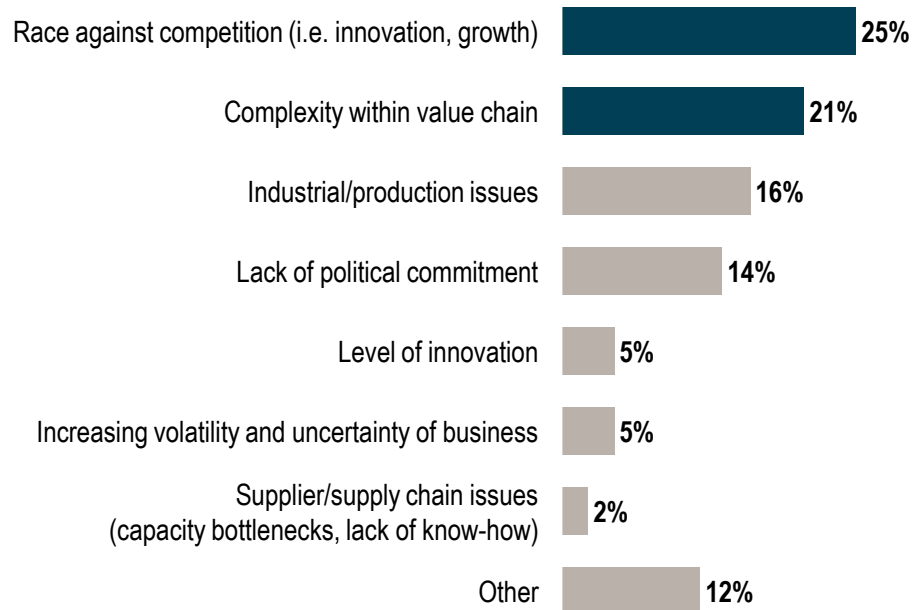
- > Japan achieves a benchmark in reliability, performance and network usage by operating automated planning and management systems (central and automated network management, communication and signal management)
- > Switzerland is a benchmark for reliability and punctuality thanks to large investments in infrastructure and a continuous emphasis on quality of operations

Modernize infrastructure

- > High-speed networks are expected to be a strong driver for growth in Europe
- > Besides the expansion of infrastructure, replacement and modernization are needed. This includes tracks, stations and rail control equipment

COMPETITION IS IDENTIFIED AS THE MAIN CAUSE OF THE MANY CHALLENGES THAT RAILWAY COMPANIES FACE

WHY ARE YOU FACING THESE CHALLENGES TODAY? [% SELECTED AS NO. 1]



RATIONALE AND INDUSTRY TRENDS

Race against competition

- > Emerging intra- and strong intermodal competition is increasing both the pressure on pricing and the quality expectations of customers
- > Key success factors include up-to-date market knowledge, systematic fare tracking for rail, air and road, dynamic price and capacity management and a clear service strategy (e.g. number of stops)

Complexity within value chain, for instance

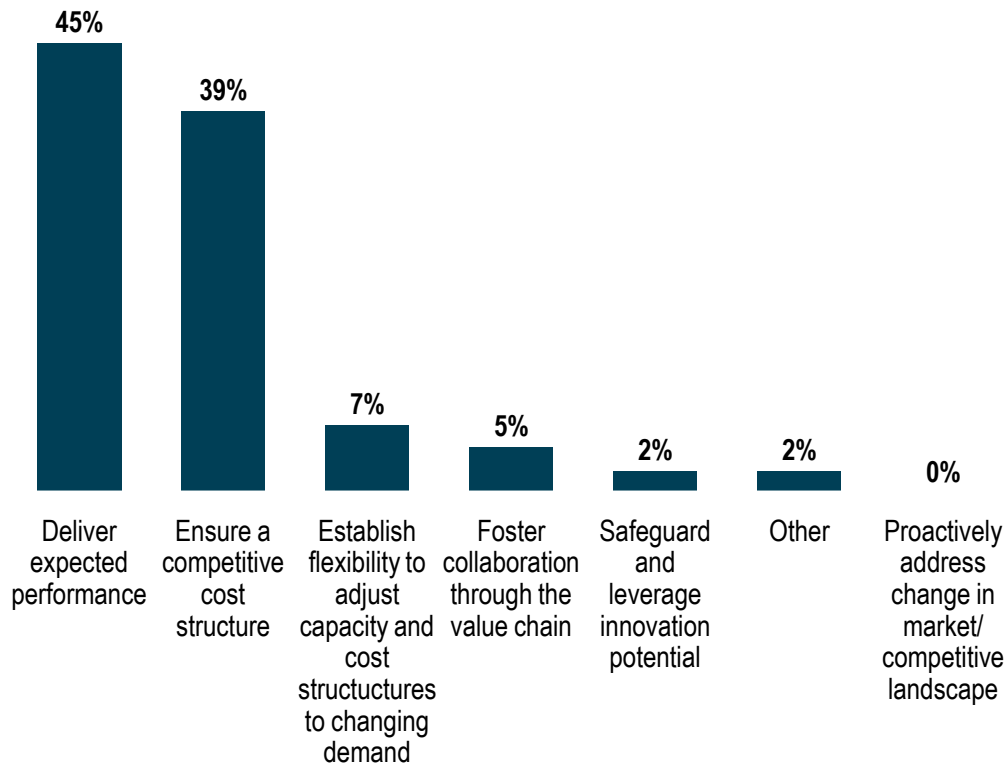
- > Interlinked planning, including coping with political influence
- > Operation of a complex network
- > Optimization of revenues with sales strategies, pricing and revenue management

Other reasons for challenges include – quotes:

- > Government funding for infrastructure expansion
- > Uncertainty of political commitment
- > High and inflexible personnel costs
- > Public financing
- > Unstable financial markets

DELIVERING THE EXPECTED PERFORMANCE IS REGARDED AS MORE IMPORTANT THAN ENSURING COMPETITIVE COSTS

WHAT ARE THE KEY FACTORS FOR SECURING SUSTAINABLE REVENUES AND PROFITABILITY [% SELECTED AS NO. 1]



RATIONALE AND INDUSTRY TRENDS

Delivering the expected performance is considered most important and can be measured as

- > Punctuality
- > Safety
- > Quality of rolling stock
- > Service (sales, operations)

Cost structure is considered top priority by 39% of the managers, thus also more important to them than performance

Collaborative models are regarded as an enabler to deliver expected performance and ensure a competitive cost structure

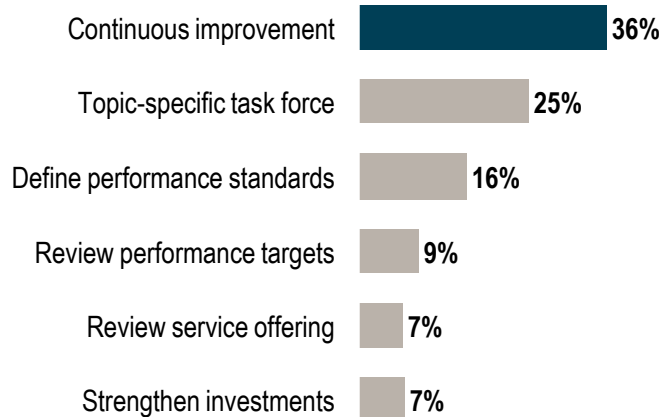
Innovation (change in market) is not seen as top priority to secure profitability

Other challenges include – quotes:

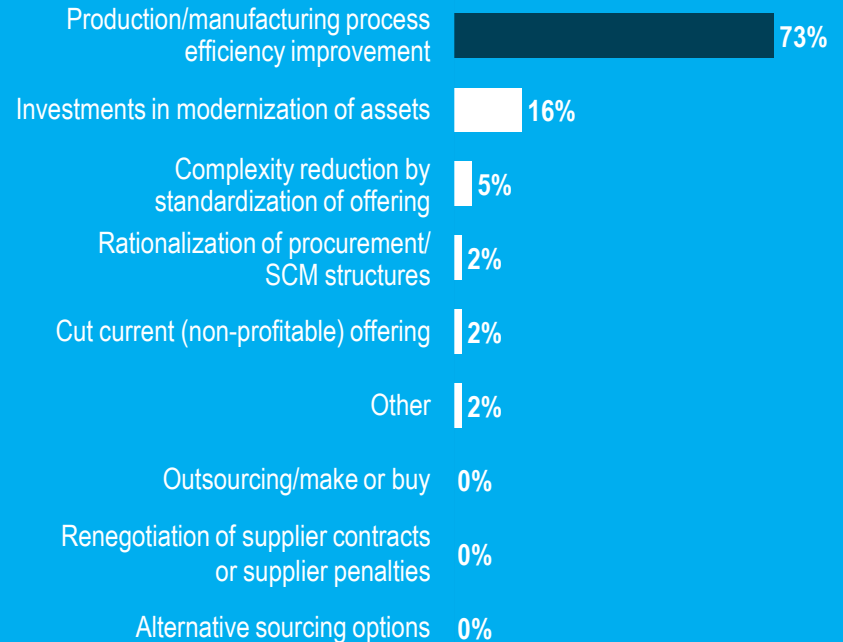
- > Exceeding expected performance
- > HR development
- > Managing relationship with government
- > Reducing regulation

COMPANIES PUT THEIR TRUST IN CONVENTIONAL MEASURES TO IMPROVE PERFORMANCE AND COST POSITION

WHAT IS YOUR COMPANY'S PREFERRED APPROACH FOR ACHIEVING PERFORMANCE IMPROVEMENT? [% RANKED NO. 1]



WHAT IS YOUR PREFERRED APPROACH FOR REDUCING RECURRING COSTS? [% RANKED NO. 1]



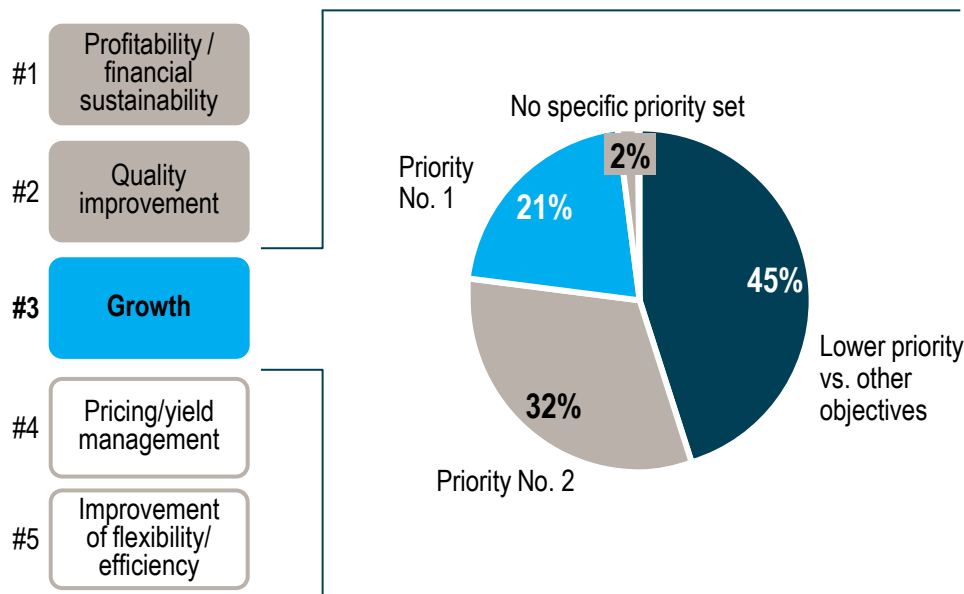
Other approaches to reduce recurring costs mentioned by executives include

- > Improvements in IT and telecom
- > Reorganization of industrial organizations

GROWTH IS TOP PRIORITY FOR JUST 20% OF MANAGERS

PRIORITY ALLOCATED TO GROWTH VS. OTHER OBJECTIVES (EFFICIENCY, QUALITY IMPROVEMENT, ETC.) IN YOUR STRATEGY [% OF ANSWERS]

TOP PRIORITY ON COMPANY AGENDAS [5 MOST FREQUENT ANSWERS]



RATIONALE AND INDUSTRY TRENDS

Growth is not the top priority

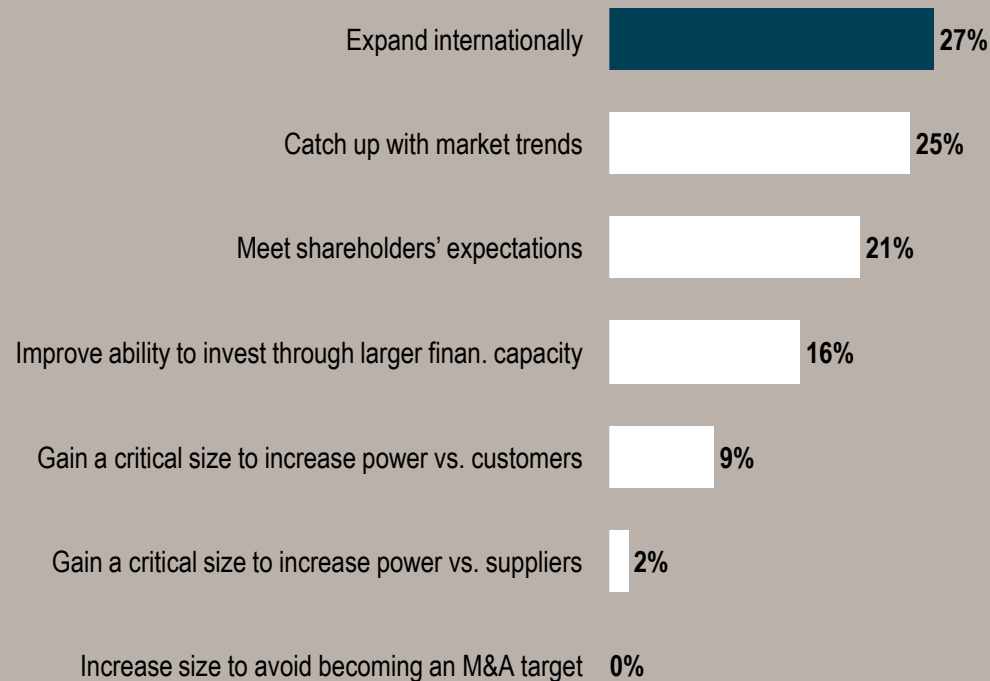
- > Despite the rail market being an expanding industry and despite the growing economy, growth is not considered the top priority

Financial and quality objectives more important

- > Growth objective is outpaced by financial objectives such as profitability and cash position improvement. It seems that the ongoing transformation process in the rail industry still requires financial consolidation and adaptation to the new structures before companies can focus on growth
- > Also, quality improvement is of higher priority for executives, which might be due to increased competition

THE MAIN MOTIVATIONS FOR GROWTH ARE INTERNATIONAL EXPANSION AND FOLLOWING THE MARKET TREND

MOTIVATION FOR GROWTH [% OF ANSWERS RANKED NO. 1]



RATIONALE AND INDUSTRY TRENDS

International expansion

- > Internationalization is on the agenda, especially for incumbent railway companies
- > For them, there may be more opportunities abroad as they already dominate the home market
- > Expansion helps to compensate for declining domestic revenues because of liberalization
- > International expansion can help companies to conquer profitable markets and to divert the competitive playing field away from the home country

Catch up with market trends

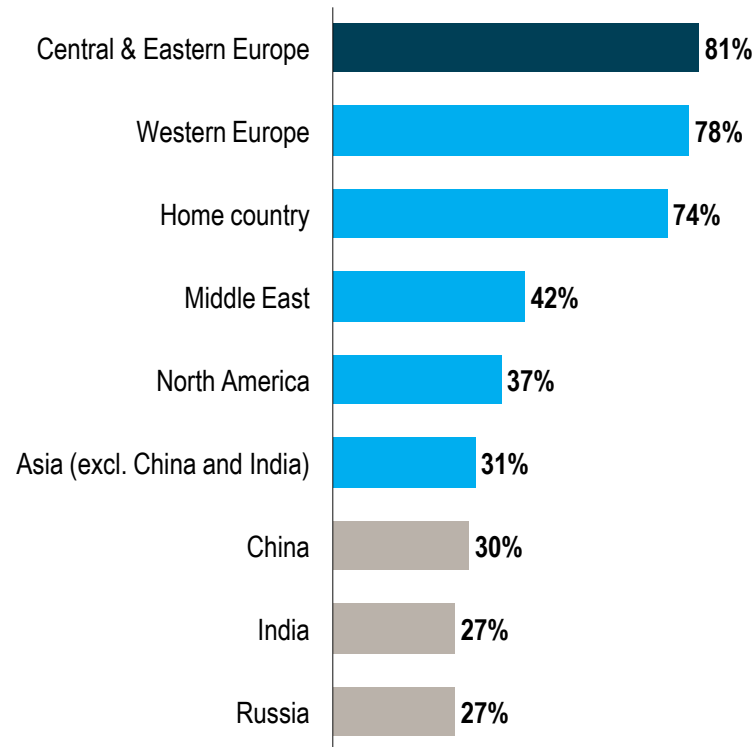
- > One of the main rationales is not to lose market share in the growing market

Meet shareholders' expectations

- > Shareholders are setting aggressive growth targets to reach pre-crisis levels or in cases where the government is the shareholder, to prepare the company for IPO

EUROPE IS THE TARGET GROWTH REGION OF CHOICE FOR EUROPEAN RAILWAYS

TARGET REGIONS/COUNTRIES FOR DEVELOPMENT [% ANSWERING "YES"]



RATIONALE AND INDUSTRY TRENDS

Central & Eastern Europe

- > Transformation is even less mature than in Western European countries, therefore there are many opportunities, and first mover advantage can still be achieved
- > There are large railway systems and a long railway tradition
- > Growth rates are expected to outpace those of Western European countries
- > Manager from almost all countries (Western as well as CEE countries) selected CEE as a target region

Western Europe

- > Remains a dynamic region due to the liberalization and privatization of large and medium-sized railway companies
- > There are many opportunities for partnerships, joint ventures and market consolidation
- > Transformation has progressed and experience has been acquired, therefore easier to assess opportunities

Middle East

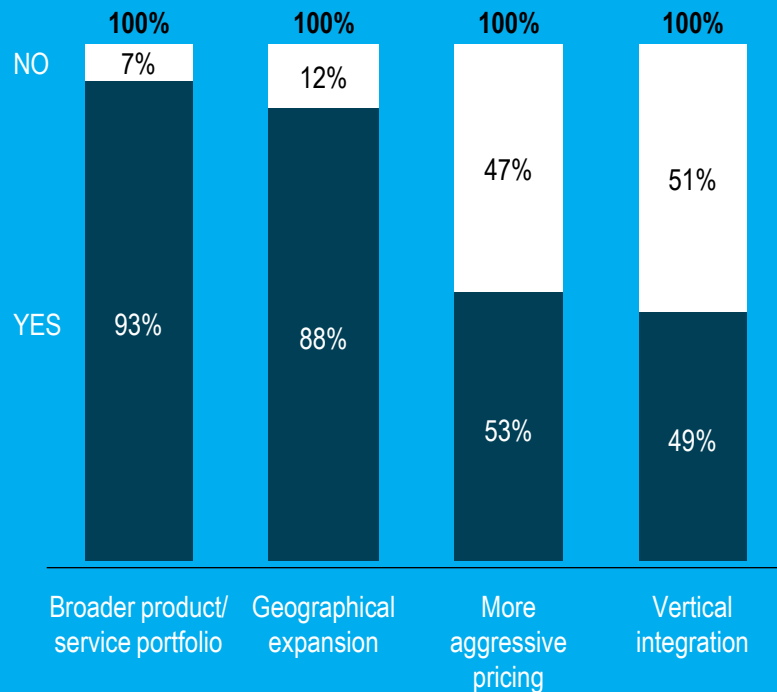
- > Despite the lack of railway history and the rather small market, high growth rates and local investment plans attract European companies in search of growth

Asia

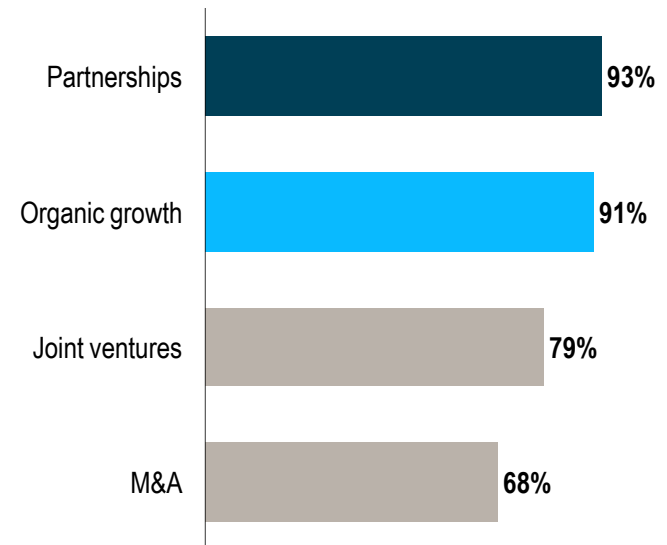
- > The huge potential is counteracted by the difference in markets and culture

COMPANIES RELY ON SERVICE RATHER THAN PRICE LEADERSHIP WHEN IT COMES TO GROWTH

GROWTH OPTIONS SELECTED [% OF ANSWERS]

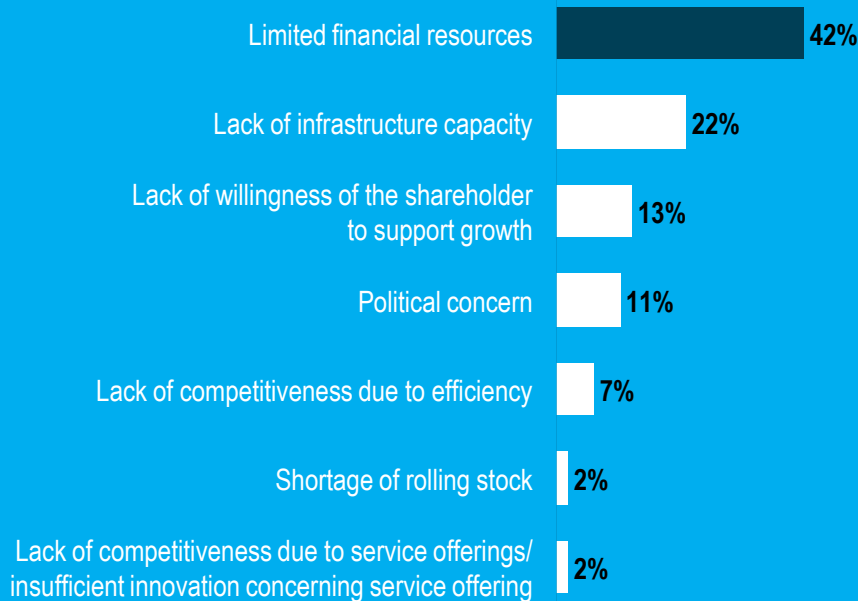


ELEMENTS OF GROWTH PLAN [% ANSWERING "YES"]

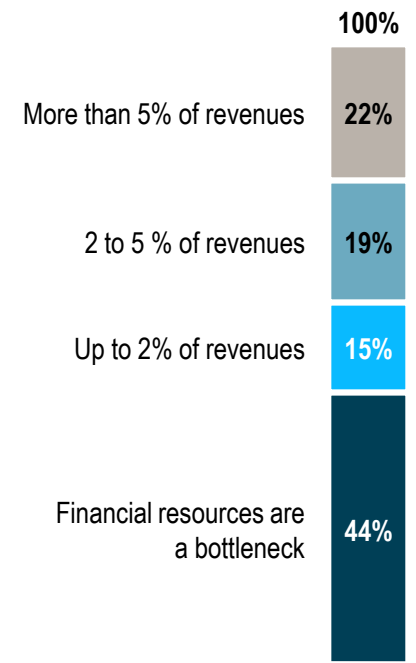


MAIN BOTTLENECK FOR FASTER GROWTH IS CLEARLY A LACK OF FINANCIAL RESOURCES

WHAT LIMITS GROWTH? [% OF ANSWERS RANKED NO. 1]

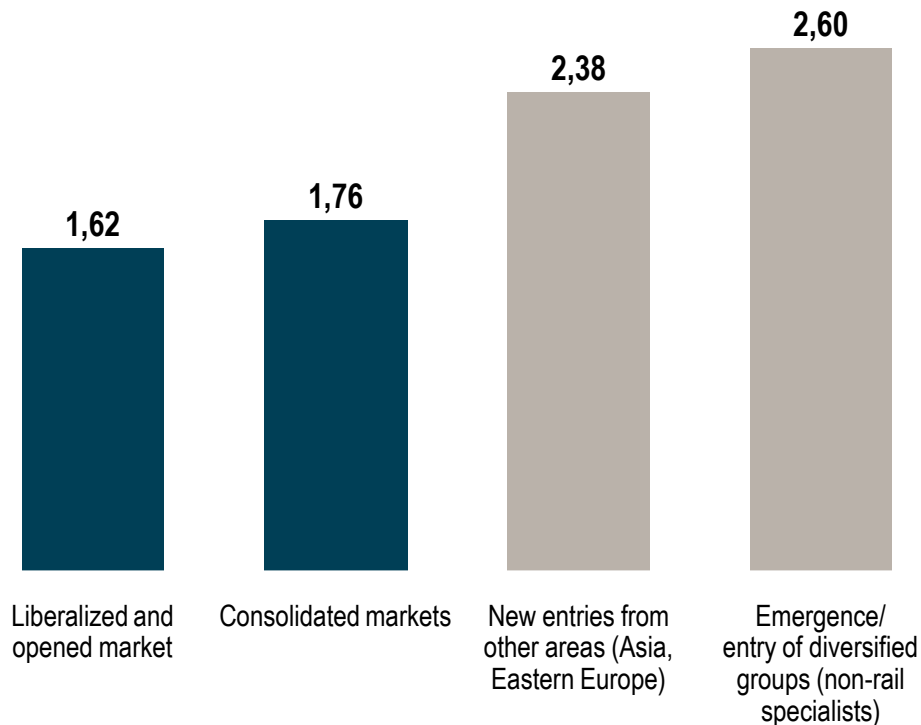


WHAT FINANCIAL RESOURCES ARE NEEDED TO FINANCE THE GROWTH STRATEGY? (PER ANNUM) [% OF ANSWERS]



VISION 2020: FURTHER LIBERALIZATION AND CONSOLIDATION ANTICIPATED – EXPECTED DIFFERENCES COMPARED TO TODAY (1/2)

VISION FOR BUSINESS ENVIRONMENT IN 2020 [AVERAGE RANK]¹⁾



1) Low number ≠ high importance

DIFFERENCE TO TODAY'S BUSINESS [SELECTED ANSWERS]

Regulation and framework

- > Unbundling of infrastructure and train operations
- > No more monopolies as well as technological and administrative barriers
- > Public authorities lack finance
- > Clear differentiation between public service contracts (non-market-driven) and market sector (mainly high speed and freight) with need to establish corresponding political and regulatory framework

Structure of players

- > Broad evolution of incumbents to adapt to current cost level
- > More genuine competition on European level with sufficient number of players of equal strength
- > A few large international groups dominating the market (some incumbents, some diversified groups)
- > Incumbents are getting a second wind
- > Newcomers, e.g. from other mobility sectors (like airlines), are operating some profitable routes or exploiting other parts of the value chain
- > Many niche providers

VISION 2020: FURTHER LIBERALIZATION AND CONSOLIDATION ANTICIPATED – EXPECTED DIFFERENCES COMPARED TO TODAY (2/2)

DIFFERENCE TO TODAY'S BUSINESS [SELECTED ANSWERS]

Industry in general

- > Business is changing to fairly "normal" business as in other industries. Cost reduction, permanent improvement, delivery and customer relationship will become basic elements of the industry
- > More flexible, efficient and customer-oriented, higher service standards, better offerings for customers
- > Increased flexibility, modularity, LCC issue, new technologies gaining priority
- > Growing uncertainty, volatility and complexity
- > Rise of environmental issues & sustainability
- > A struggle for capacity will emerge between all RU's
- > Higher modal split for rail

Passenger

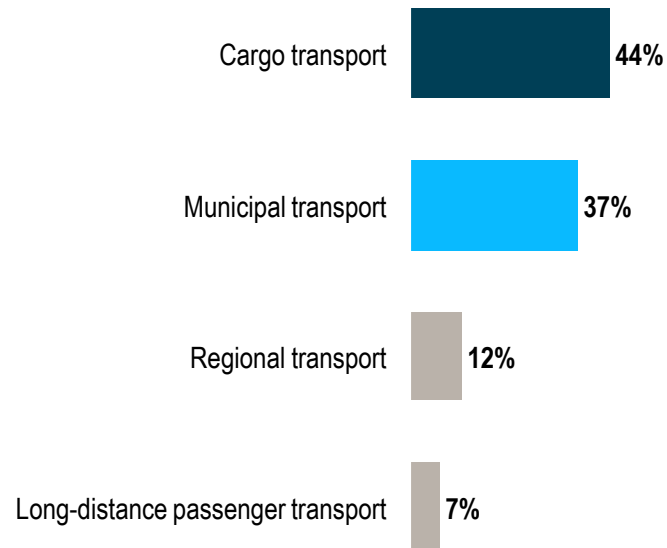
- > More customer orientation in passenger transportation: convenience, e-ticketing
- > In long-distance traffic, liberalization combined with restrictions in public budgets will lead to a reduction in offerings, at least in geographical terms
- > Strong drive towards competition and even privatization. On the other hand, the global offering (i.e. intermodality) is increasingly in focus. This is why it will be difficult to distinguish between bus, tram, metro (operator and infrastructure), esp. as far as traveler information and exception management is concerned. Therefore, an independent authority has to fulfill this role
- > Systematic use of tenders
- > Local and regional services will evolve somewhat towards competition, with many local in-house operators still operating

Freight

- > Cargo market development will be even more volatile. This will be the main challenge for asset-heavy industries such as railway undertakings

RAIL CARGO AND MUNICIPAL TRANSPORT ARE EXPECTED TO SEE INTENSIVE M&A ACTIVITIES IN THE NEAR FUTURE

RAIL MARKETS WITH THE GREATEST INCREASE IN M&A ACTIVITIES [% RANKED NO. 1]



RATIONALE AND INDUSTRY TREND

Cargo transport prone to M&A

- > This market segment has been the frontrunner of liberalization
- > Many small to medium-sized companies; consolidation barely started
- > Quick entry into new market through M&A compared to organic growth
- > Economies of scale to be reaped

Municipal transport prone to M&A

- > Municipal transport relatively advanced in liberalization in selected countries
- > Many different operating companies in Europe
- > Some large groups willing to grow
- > As public transport market only expands marginally, M&A is the only option for operators to grow significantly

Few M&A expected in regional transport

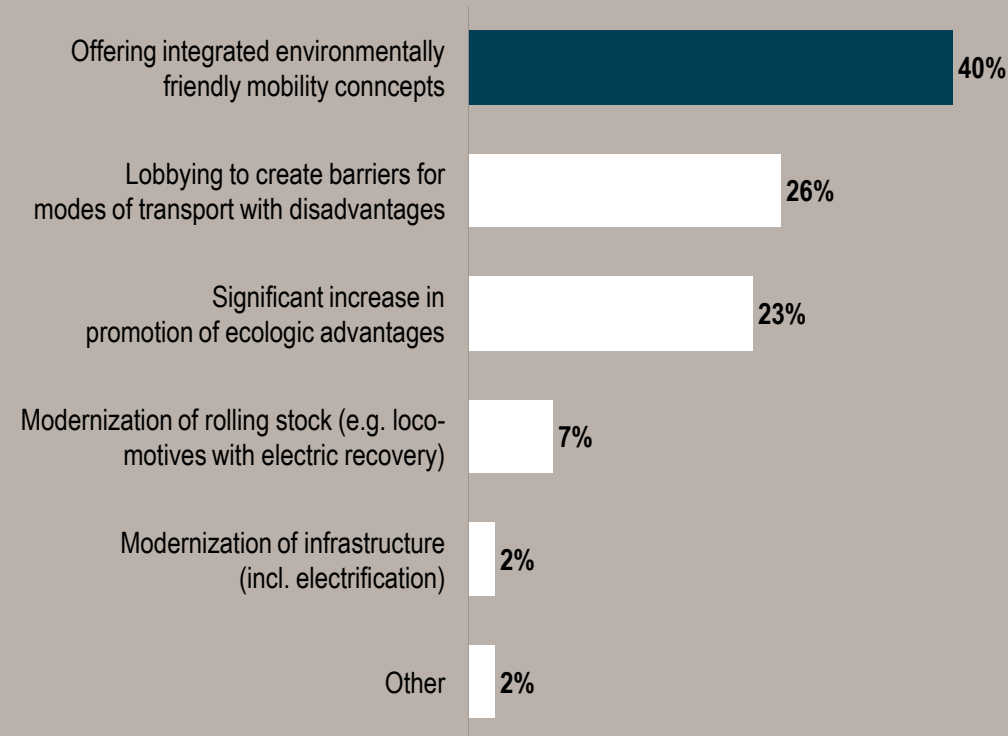
- > Consolidation in liberalized markets already progressed
- > Other markets not open yet

Few M&A activities expected in long-distance passenger transport

- > Very few operating companies, most of them incumbents
- > Takeover of an incumbent is rarely on the agenda

RAILWAY EXECUTIVES EXPECT TO BENEFIT FROM THE GREEN TREND VIA NEW MOBILITY CONCEPTS AND LOBBYING

HOW CAN RAILWAYS BENEFIT FROM THE TREND TOWARDS A SUSTAINABLE GREEN ECONOMY? [% ANSWERING "YES"]



RATIONALE AND INDUSTRY TRENDS

- > **Integrated environmentally friendly mobility concepts**
 - Park&Ride
 - Car sharing solutions (e-mobility car concept)

- > **Lobbying for barriers for modes of transport with disadvantages**
 - Especially for cargo transport (e.g. Switzerland)
 - CO₂ emissions barriers will put airlines and inner city car traffic under pressure

- > **Increase in promotion of ecological advantages**
 - Railway has a "green" image in Western Europe
 - Aspects such as hybrid traction or braking energy recovery could be emphasized

- > **Other ways to benefit from green trend according to the executives**
 - Railway undertakings becoming more competitive
 - Communication of the real costs of traffic modes
 - Build partnerships beyond railway sector
 - Develop new global transport solutions

EUROPEAN CONTACTS



Stéphane Albernhe
Managing Partner – Paris
+ 34 91 5903-141
stephane_albernhe@fr.rolandberger.com



Xavier Aymonod
Senior Project Manager – Paris
+33 (1) 70 39 4-138
xavier_aymonod@fr.rolandberger.com



Alain d'Oultremont
Principal – Brussels
+32 2 6610330
alain_doultremont@be.rolandberger.com



Andreas Schwilling
Partner – Munich
+49 89 9230-8364
andreas_schwilling@de.rolandberger.com



Didier Bréchemier
Partner – Paris
+ 33 1 53670-926
didier_brechemier@fr.rolandberger.com



Ali Rekik
Principal – Paris
+33 (1) 536 70-944
ali_rekik@fr.rolandberger.com



Roland Falb
Partner – Vienna
+43 1 536 02-200
roland_falb@at.rolandberger.com



René Seyger
Partner – Amsterdam
+31 20 7960-620
rene_seyger@nl.rolandberger.com



François Guénard
Principal – Paris
+33 (1) 70394-118
francois_guenard@fr.rolandberger.com



Christoph Beseler
Partner – Madrid
+ 34 91 5903-141
christoph_beseler@es.rolandberger.com



Boris Firsov
Partner – Moscow
+7 495 287 92 46
boris_firsov@ru.rolandberger.com



Martin Streichfuss
Partner – Düsseldorf
+49 211 4389-2193
martin_streichfuss@de.rolandberger.com



Bertrand Mouly-Aigrot
Principal – Paris
+33 (1) 53670-987
bertrand_mouly-aigrot@fr.rolandberger.com



Francesco Calvi Parisetti
Principal – Milan
+39 02 295 01-247
francesco_calviparisetti@it.rolandberger.com



Pedro Galhardas
Partner – Lisbon
+351 213 567 600
pedro.galhardas@rolandberger.com



Roland Zsilinszky
Principal - Prague
+43 1 536 02-200
roland_zsilinszky@cz.rolandberger.com

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