Privatization of rail freight operators

International experience and conclusions

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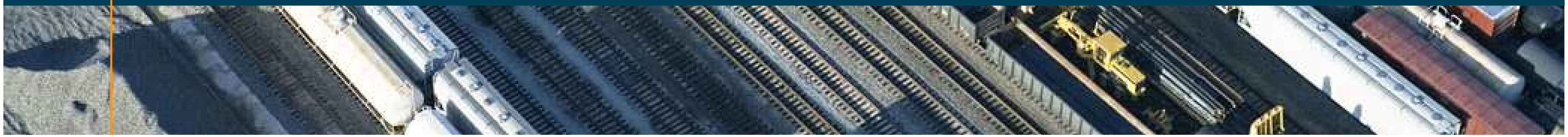

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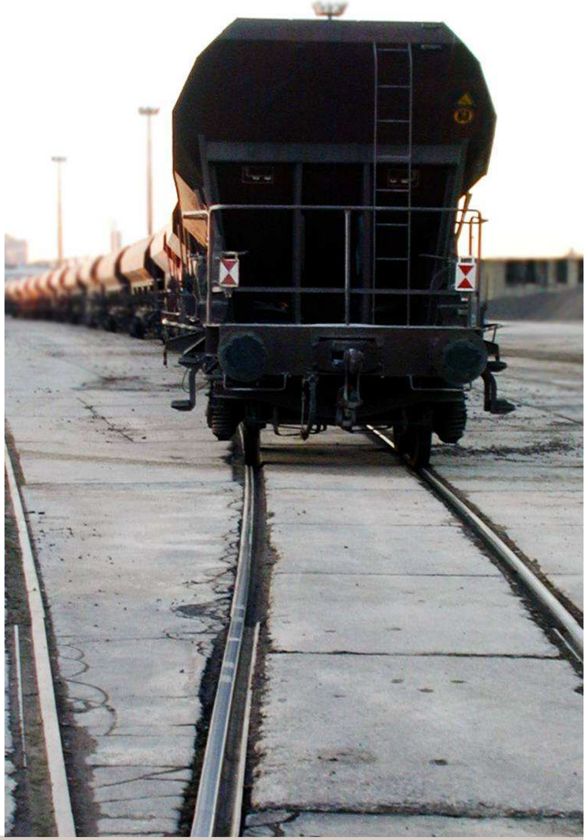
Transformation of national rail freight companies to profitable entities has never happened so far

Lessons learned in Europe and Asia

1. Rail freight needs government support – with or without privatization
2. True privatization is still the exception
3. Transformation of state-owned rail freight operators has so far only worked "en bloc"
4. Foreign ownership is likely consequence – cross-border consolidation is part of the game



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Certain effects of rail transformation can be observed in all countries studied

	JAPAN	UK	NETHER-LANDS	GER-MANY	SWE-DEN	NEW ZEA-LAND
1 Investment require-ments persist	●	◐	●	●	●	●
2 No true privatization	●	◐ 1)	◐ 1)	● 2)	●	●
3 Transformation of rail freight "en bloc"	●	●	●	● 3)	●	● 3)4)
4 Cross-border consolidation	○	●	●	●	○	● 4)

● = fully the case ○ = not at all observed

1) Formerly state-owned freight railway sold to foreign state-owned railway 2) Flotation of minority share indefinitely postponed
3) No split between freight and passenger ops 4) Privatized 1993-2008, now re-nationalized

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Public investment in infrastructure and/or rolling stock is vital to railway success – Ideal solution not yet found

JAPAN (JNR) in the 1980s

> Excessive investment
> Excellent infrastructure and rolling stock
> Debt burden led to financial collapse of JNR

Great Britain (British Rail) in the 1980s

> Insufficient investment
> Dilapidated infrastructure and obsolete rolling stock
> Low level of long-term debts

Germany (today)

> High level of rail investment
> Mediocre quality of infrastructure and rolling stock
> Continued high level of government support

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Transforming a railway to a listed company is a challenge and should follow a systematic process

Stage 1 Reorganization

- Separate entrepreneurial and governmental/ federal tasks
- Transform incumbent into stock corporation
- Divisionalize business areas. Create divisions for
  - Network management,
  - Freight transport
  - Long-distance passenger transport
  - Regional transport
  - Urban transport
  - Other business units
- Spin-off business units where necessary

Stage 2 Restructuring and strategic re-alignment

- Restructure divisional companies and eliminate cross-subsidizing policies
- Reduction of debts and assumption of liabilities by the government
- Derive revenue, profit and ROCE targets based on capital markets expectations
- Define long term business unit strategy and growth path for segments
- Internationalize and/or diversify business by acquisitions and cooperation

Stage 3 Privatization

- IPO and/or
- Selling of parts of the corporation to third parties (strategic or financial investors) and/or
- MBO of business areas/ divisions

- Strive for independence
- Allow better access to capital market
- Profit from investment potential of rising company value

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In total, there are six success factors for privatization

SUCCESS FACTORS IN PRIVATIZATION

1 Attractive performance
- Positive track record
- Positive growth prospects
- "Benchmark" in peer group

2 Value-oriented management
- Setting of value targets
- Planning and steering with top performance ratio
- Use of value driver

3 Effective Organization
- Fit of organization to strategy
- Transparency
- Efficiency
- Suitability for growth and integration

4 Convincing equity story
- Concise statements on key areas
- Growth
- USP

5 Professional investor relations
- Clear messages
- Open communication tailored on target groups
- Intelligent mix of instruments

6 Fulfillment of technical aspects
- International accounting standards
- Legal requirements
- Stock market specific requirements

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Selling of own company requires a good Equity Story

ELEMENTS OF AN EQUITY STORY

- Formulation of target top messages for the capital market
- Alignment of vision and strategy of the company
- Challenging of headquarters value added
- Alignment of management strategies
- Validation of key assumptions for business planning
- Validation of structural key data
- Elaboration of target structure for the equity story with key messages for each division

TOP MESSAGES

- Good restructuring story
- Potential for further growth
- Strong business portfolio and positive prospects per unit
- Stable dividend flow
  - "Fixed income" product
  - Additional "Equity-Kick"

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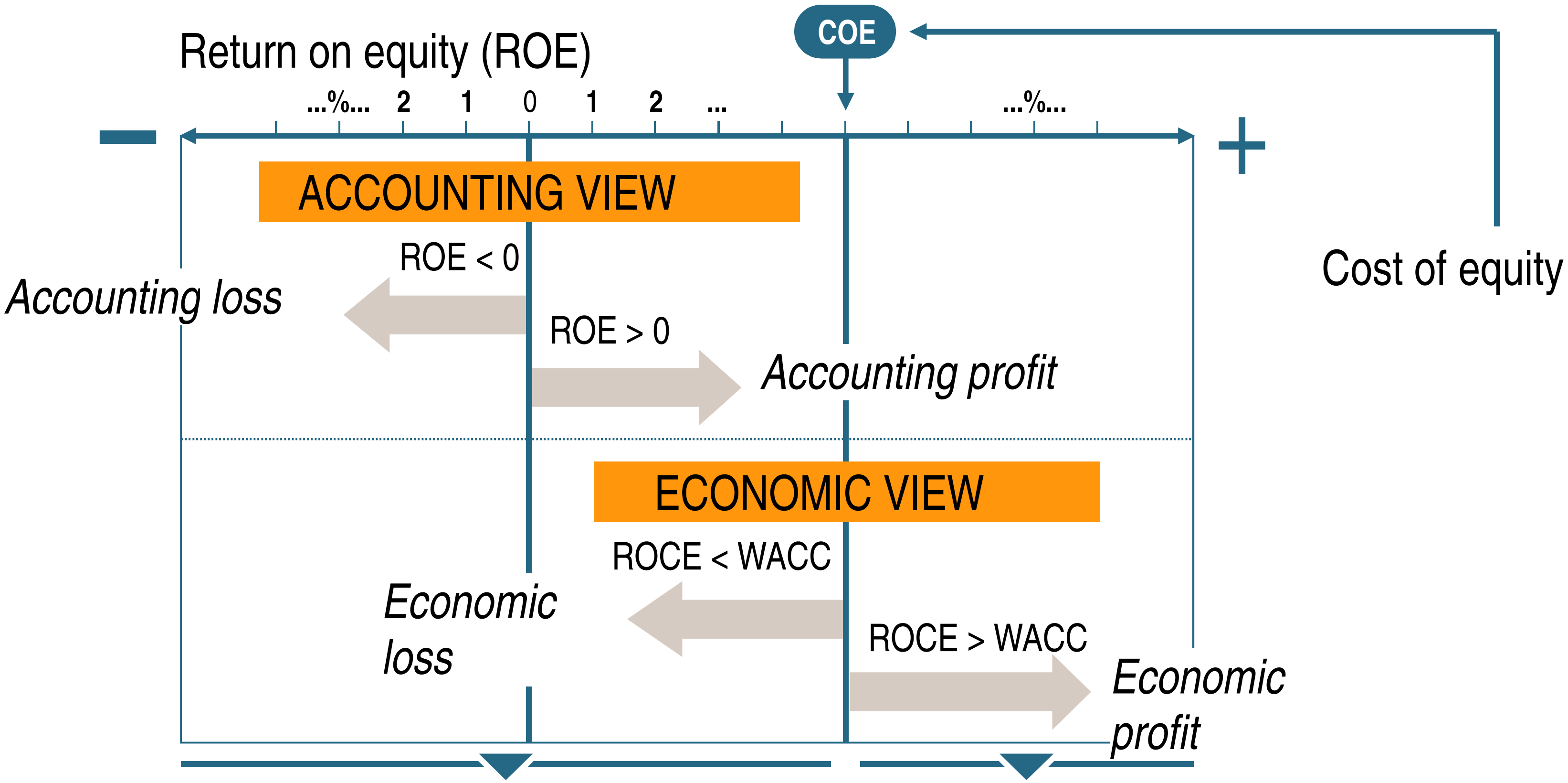
At the end of the day the key question needs to be answered whether the company can generate value



Value destruction (equity can be invested better in alternatives)

Value creation