Rail Cargo Austria
Ein Unternehmen der ÖBB

Xrail Alliance

The European Wagonload Alliance

- Wagonload situation in Europe
- Xrail Objective

Global Rail Freight Conference, St. Petersburg July 7th 2010

Ferdinand Schmidt, Member of the Board of Rail Cargo Austria, Chairman of Xrail

Facts & Figures

~ 11,000 employes

2.3 bn € total yield

1,156 locomotives

23 bn to/km

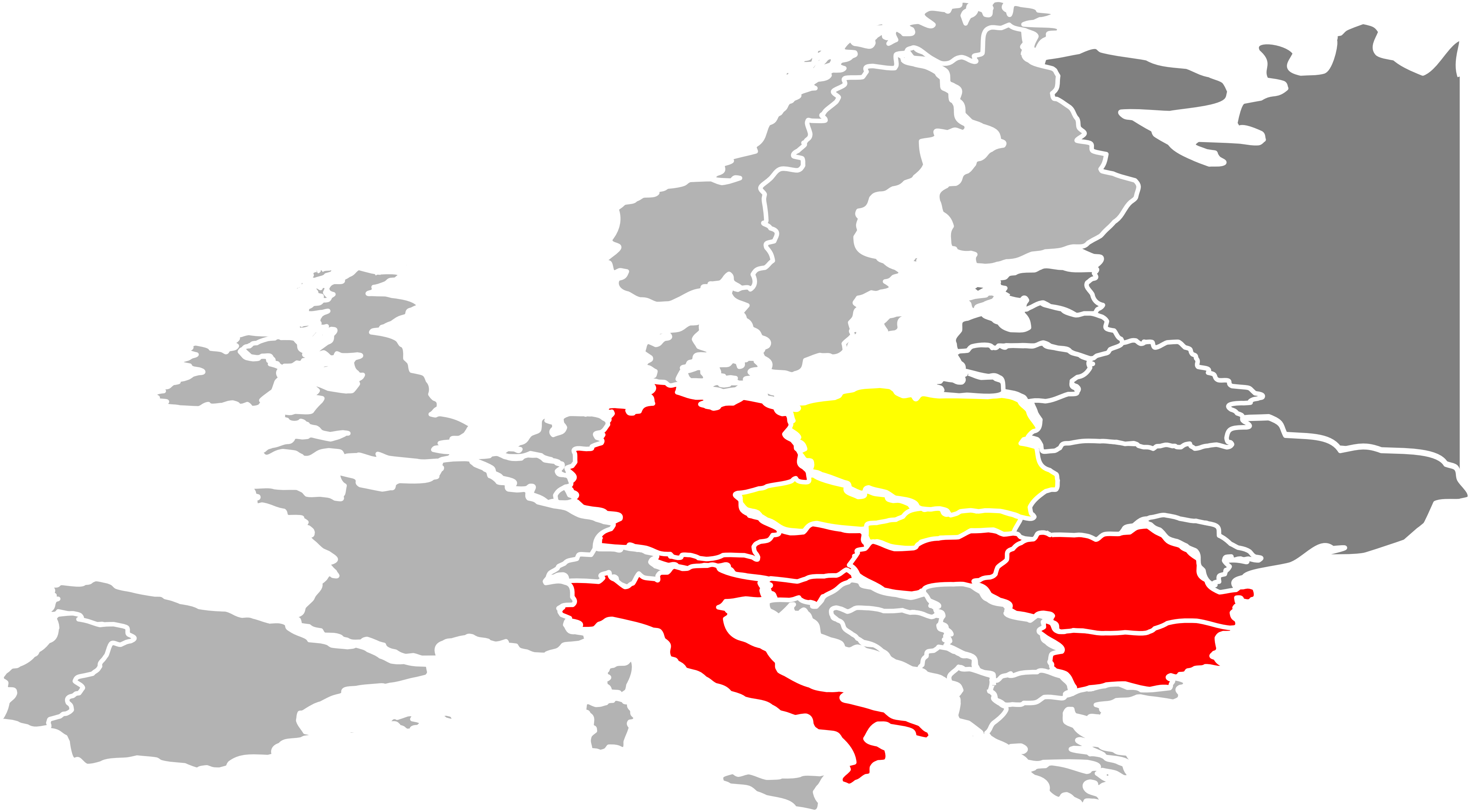
31,500 freight wagons

120.2 Mio tons

> 110 locations in Europe

Xrail

Operational Activities



Agenda

Wagonload situation in Europe

Xrail Objective

Economical Situation

constantly **declining volume**

lack of competitiveness

improvement of profitability & restructuring by FS Trenitalia

Massive reduction of freight stations to 44 only in Italy on the basis of hub and spoke system

3 hubs: Milano, Cervignano, Bologna

6 logistic centres: Bologna Interporto, Pescara, Bari, Marcianise, Cosenza, Catania

29 stations served by dedicated feeder lines

6 (+ 2 also served by integrative network) stations served by **direct trains**

Dangerous goods are transported only in **block-trains**!

Economical Situation

single wagon load **not econonmically sustainable**

high fixed cost & **territorial imbalance** of economy in France

liberalization of rail freight services **and economical decline**

„Multi-load multi-costumer offer“

new sales model => differentiated pricing, reciprocal commitments SNCF ⇔ costumers

new form of steering => higher quality, better utilization ratio of lines

design of the transport plan => delivery time & prices if volumes & revenues match

life-size testing => starting from July 2010

controlled implementation => finished during 2011

eventually return into Xrail Alliance

Wagonload transports – a crucial supply chain element for Europe's geographically dispersed industry

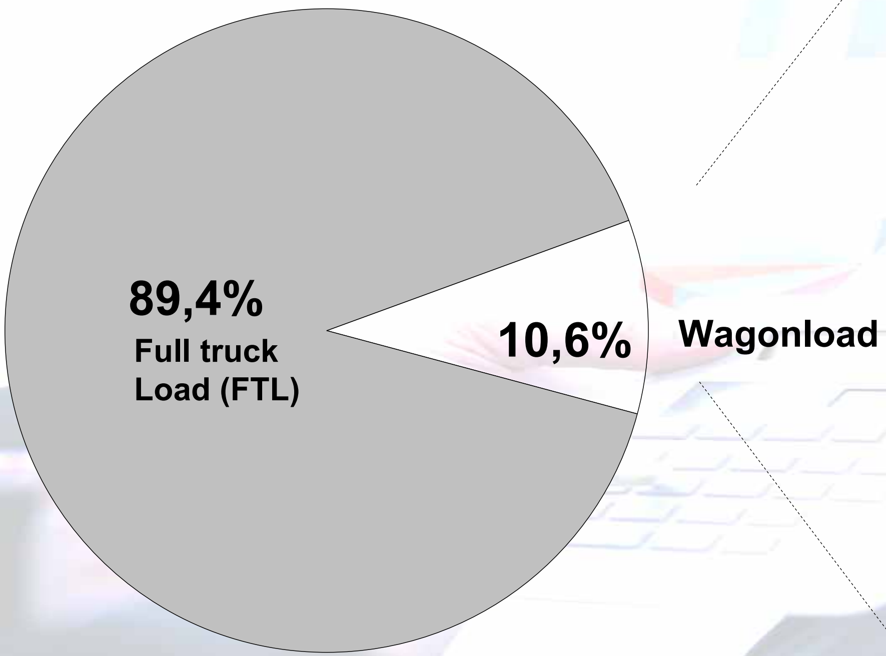
Segment	Commodities	Share of volume	Competitive environment
Block train 	Coal, Steel, Construction materials	~ 35%	• Intra modal competition • Price decline • Harshly competitive
Wagonload 	Chemicals Paper and pulp Automotive	~ 50%	• Competitor truck • Complex system • High fixed costs • High entry barriers
Combined traffic 	Finished goods Containerized goods	~ 15%	• Strong road competition • Subsidized in several countries

Source: Mc Kinsey

Wagonload situation in Europe
Wagonload affine transport market

Wagonload transport accounts for around 10.6 % of the market and has significant growth potential if competitiveness can be enhanced

European transport market for full truck-load shipments compared to wagonload transports



- Wagonload has only a **small market share** due to intense competition mainly from road transport
- Wagonload has **certain strengths**** but is **not always competitive** in some key aspects of the service such as transport reliability, transport information etc.
- In many countries wagonload is **not economically sustainable** today (up to **90% fixed costs**)
- Wagonload **network coverage** is therefore **declining** in many markets (Italy, France, Spain, etc.)

Figures: McKinsey research based on statistics EU27+ Switzerland, 2006*

* estimated percentage of rail and road transport, no official figures available for wagonload on a European level
** E.g. pricing for long distances, flexibility of capacity

Agenda

Wagonload situation in Europe

Xrail Objective

Definition of Xrail SWL production cooperation

Transport configuration (Own RU – Handover point – Other RU)	Only for trans ports that use feeder services on both sides	**For all transports that use feeder services in the other network**	For all trans ports that use feeder services on at least 1 of the 2 sides
No feeder (A)	✗	✗	✗
Feeder only in <u>own</u> network (B)	✗	✗	✗
Feeder only in <u>other</u> network (C)	✗	✓	✓
Feeder on both sides (D)	✓	✓	✓

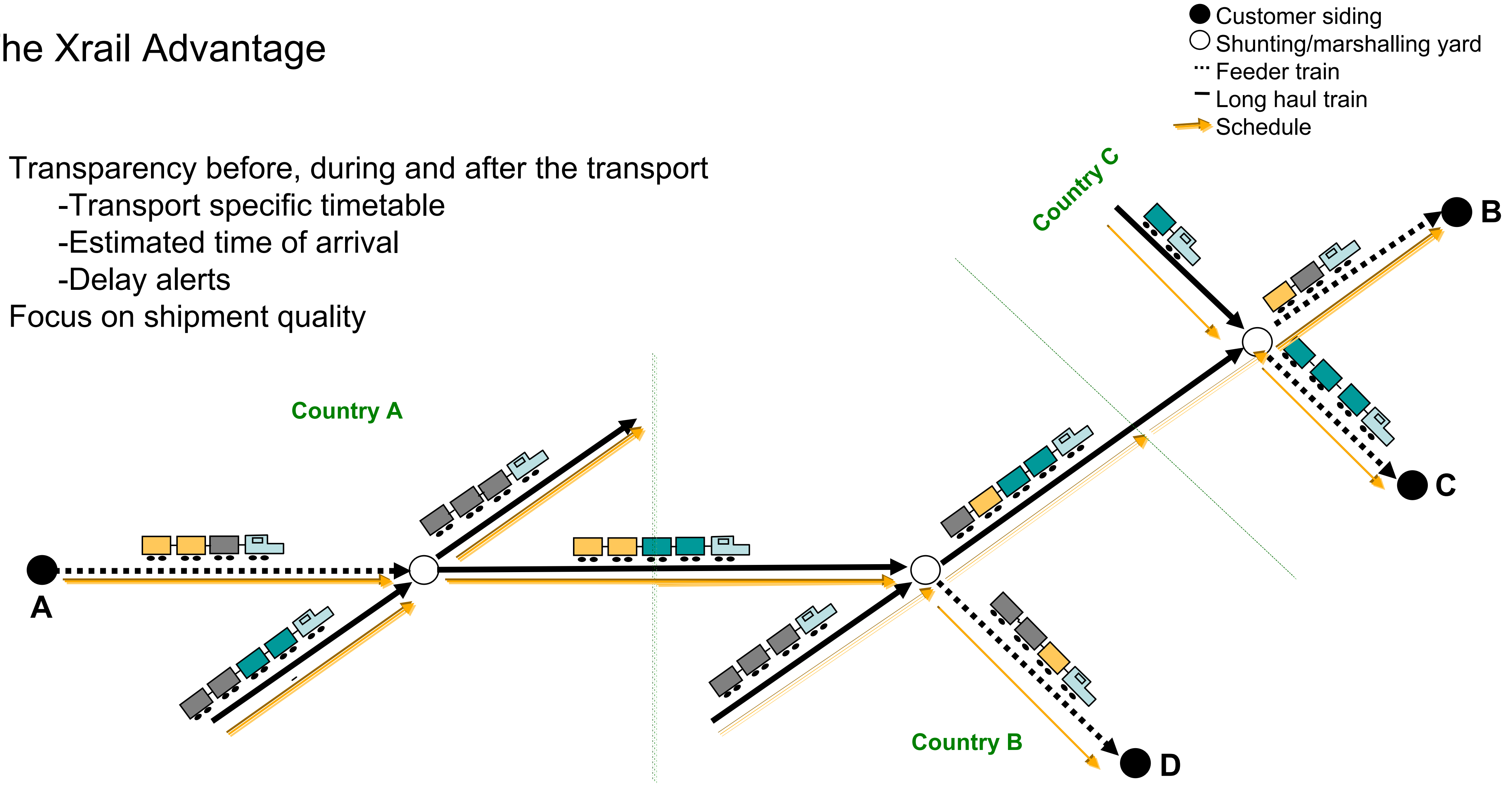
Option space for own RU

✓ Included in Xrail
✗ Excluded

Xrail Objective
International Wagonload with Xrail

The Xrail Advantage

- Transparency before, during and after the transport
  - -Transport specific timetable
  - -Estimated time of arrival
  - -Delay alerts
- Focus on shipment quality



7 Xrail-partners pursue „ONE GOAL“

„Creation of a competitive wagonload product“

1. **Fulfillment of customer expectations**

Targets of the Xrail Alliance

Single Wagon Load (SWL) …

- …is **attractive** because…
  - …of cost-competitiveness on long (international) transport distances
  - …it has a significant international growth potential
  - …it shows limited intramodal competition due to high entry barriers
- …but also **challenging** regarding…
  - …profitability and ROIC
  - …tight integration with full train business
  - …competitiveness vs. trucking with respect to transport information, reliability, and RFP-responsiveness

Int. cooperation required to realize full potential

Objective of Xrail is to create a **compelling European SWL product** with a clear value proposition based on improvement of current production systems:

- Substantially **improved** international **transport reliability**
- **Transport information** provided to the customer
- Ability to make competitive **international offers in short reaction time**

Xrail Objective

1) Fulfillment of customer expectations 1/2

Xrail will create significant customer benefits and increase international SWL competitiveness in relation to full truck load

XRail Fokus

Weighting of customer expectations

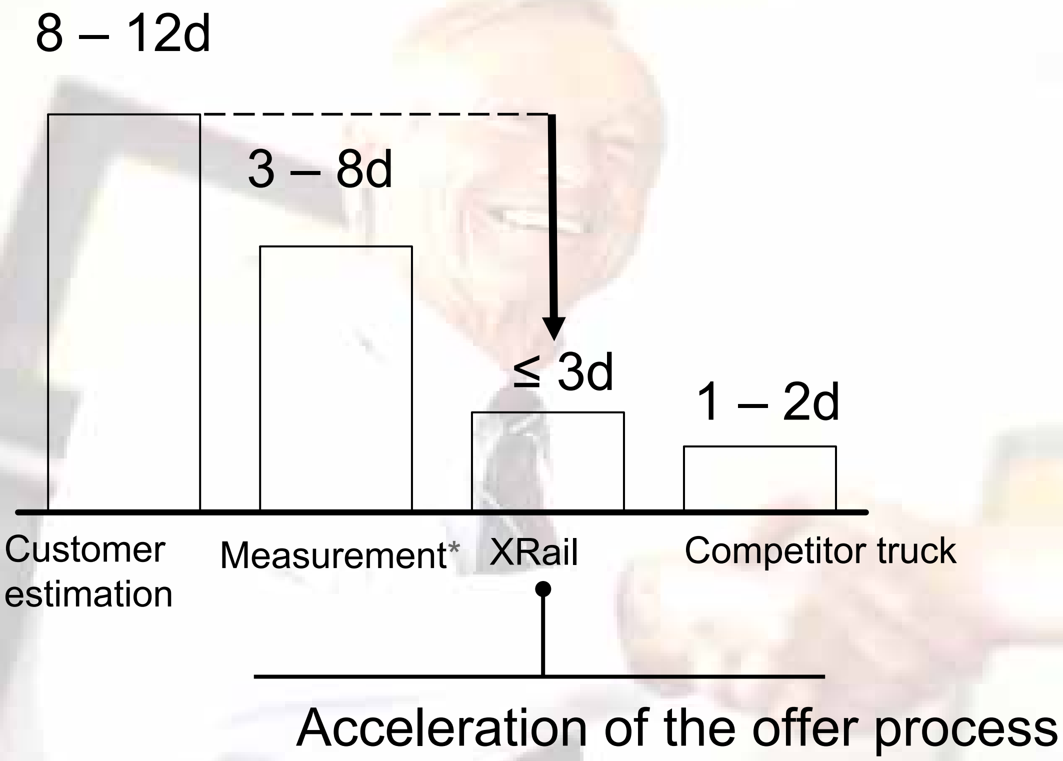
Price*	• Low price for a defined quality
Transport reliability	• Xrail has a 90% minimum reliability rate for the given estimated time of arrival (ETA)
Transport information	• Xrail customers are provided with - International transport schedules - Delay alerts
Offer time	• Xrail transport quotes will be provided within a maximum of 3 working days
Environment	• Rail transport is leading in environmental performance

* Not within Xrail scope

Xrail Objective

Fulfillment of customer expectations – Offer process 2/2

XRail transport offers will be provided within 3 days



Xrail improves interfaces and work processes among Xrail members

* Measurement of Xrail partner RUs

7 Xrail-partners pursue „ONE GOAL"

„Creation of a competitive wagonload product"

1. **Fulfillment of customer expectations**

2. **Expansion of the Xrail-network**

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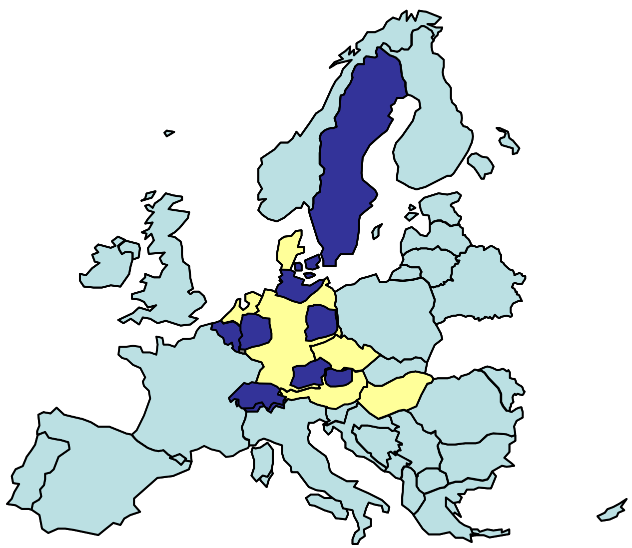
Xrail Objective
Expansion of the Xrail network

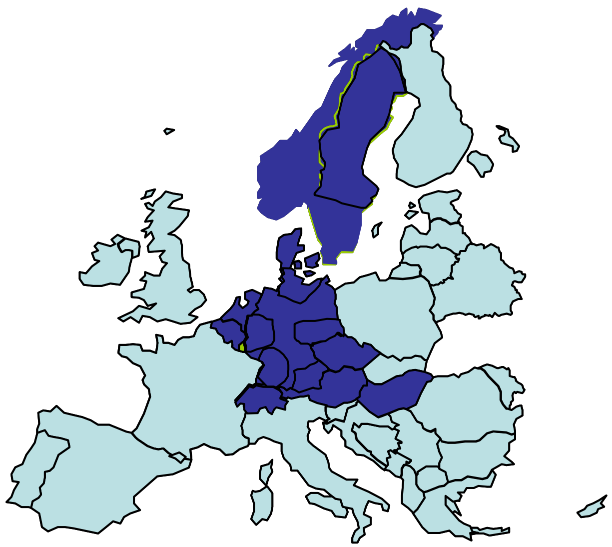
The geographic coverage and network density of XRail is expected to increase over time

Xrail First release, 2010



– 1st release of XRail on selected high volume connections between major economic centers
– Participation of 7 RUs
– Coverage of ~15 % SWL volume between Xrail Partners

Xrail Roll-out



- Connection of all economic centers of participating RUs with strong increase in number of relations

– Successive coverage of the whole volume between Xrail Partners

Xrail Long-term vision

- Additional RUs to join XRail, complying with common product standards

– Next development step: Capacity booking system

*O/D's Origin and Destination

7 Xrail-partners pursue „ONE GOAL“

„Creation of a competitive wagonload product“

1. **Fulfillment of customer expectations**

2. **Expansion of the Xrail-network**

   thereby

3. **Coordinated approach in a stable alliance required**

Xrail Objective

Coordinated approach in a stable alliance

Need for a production alliance ...

- The **network and feeder service** is the tool towards competitor RUs who are only able to run block trains (USP)
- **Efficient producing** of Europe-wide SWL transports only within an alliance possible (no parallel feeder and network structure)
- Defined **quality standards to be observed by all** involved partners
- **RU Investment** to improve the SWL system only in coordination with Partner RUs reasonable

The Xrail production alliance

- 7 Partner RUs on the basis of the current SWL Network
- No determination of market aspects (price) – competition still possible
- Open for new members complying with the product standards

7 Xrail-partners pursue „ONE GOAL“

„Creation of a competitive wagonload product“

1. **Fulfillment of customer expectations**

2. **Expansion of the Xrail-network**

thereby

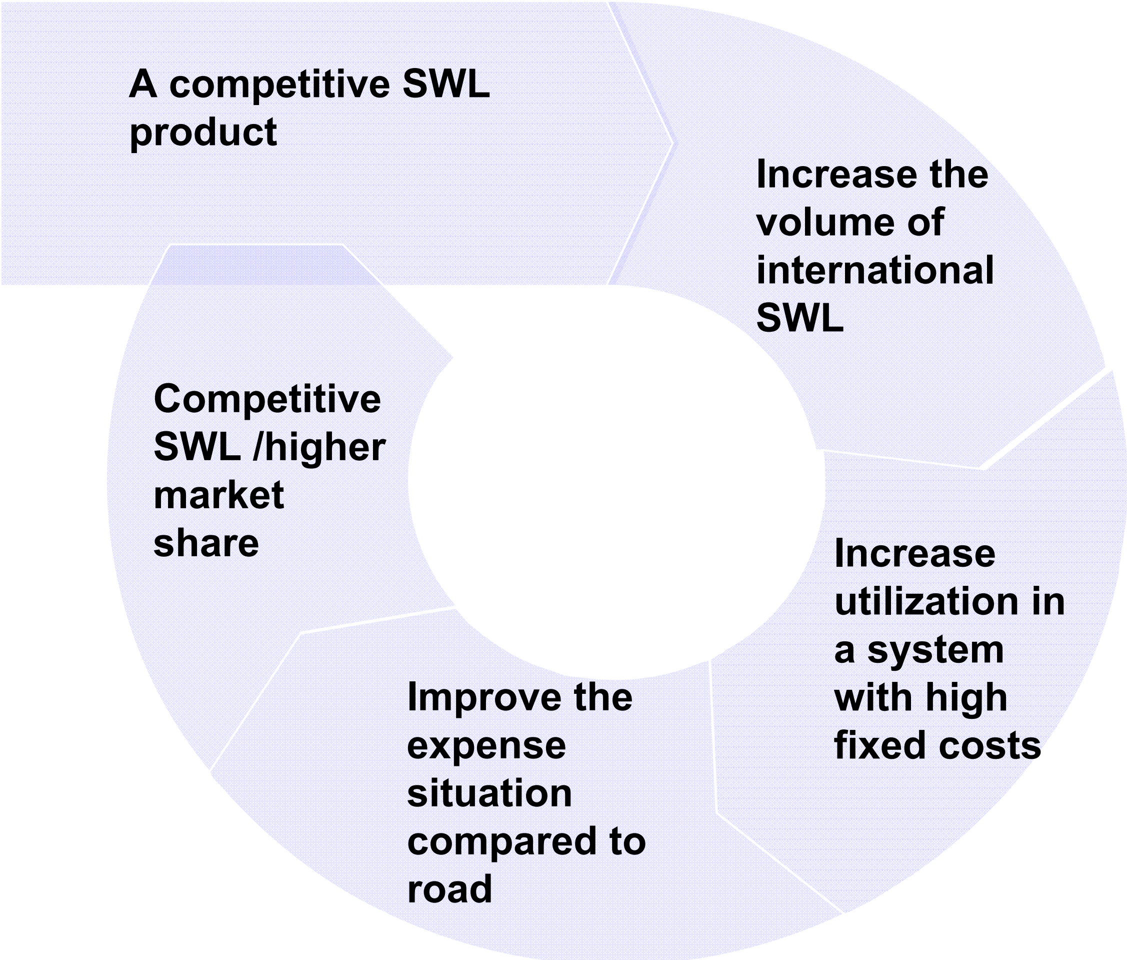
3. **Coordinated approach in a stable alliance required**

4. **Increasing market share and productivity**

Xrail Objective

Increasing the market share and productivity

Xrail should effect...



Adhere to status quo would imply...

SWL highly endangered as for lots of RUs not profitable

Some have already left the market, e.g. Norway

Others have radically reduced their service, e.g. France, Italy

Retraction of the SWL causes lower contribution margins due to cost hysteresis

Optimization strategy without involvement of the partner causes a negative spiral effect

Xrail Alliance
four basic entry criteria

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The Alliance has started!