Path to success – rail freight carrier vs. integrated rail solution provider

Global Rail Freight Conference
1. „No future as a carrier in Europe“
2. Rail Cargo Austria AG focuses on rail freight logistics – 5 complementary businesses
3. Economic success confirms strategy
4. Perspective on rail freight industry 2020
Example Air Cargo Carrier – economically not attractive

**EBIT Marge Lufthansa Cargo**

<table>
<thead>
<tr>
<th>Percentage (%)</th>
<th>2006</th>
<th>07</th>
<th>08</th>
<th>09</th>
<th>10</th>
<th>11</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.9</td>
<td>5.0</td>
<td>5.6</td>
<td>11.1</td>
<td>8.5</td>
<td>3.9</td>
<td>Ø 4.0</td>
</tr>
<tr>
<td></td>
<td>-8.8</td>
<td></td>
<td></td>
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</tbody>
</table>

**EBIT Marge Cargolux**

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<th>2006</th>
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<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.3</td>
<td>0.7</td>
<td>6.4</td>
<td>0.8</td>
<td>0.5</td>
<td>Ø 1.3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-2.0</td>
<td>-4.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Annual Reports, Flightglobal, McKinsey

Example Air Cargo Carrier

- Dependency on external forwarders, hardly any end customer
- Few competitors
- Insufficient marge for reinvestment profitability (value destruction)
North American carriers operate under very different conditions – economically very successful

**EBIT-Marge und ROIC**

In Percent

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT-Marge</th>
<th>ROIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>29</td>
<td>9</td>
</tr>
<tr>
<td>2009</td>
<td>24</td>
<td>6</td>
</tr>
<tr>
<td>2010</td>
<td>28</td>
<td>8</td>
</tr>
<tr>
<td>2011</td>
<td>29</td>
<td>9</td>
</tr>
<tr>
<td>2012</td>
<td>28</td>
<td>8</td>
</tr>
</tbody>
</table>

**Not comparable basic conditions:**

1. Geographic monopoly
2. x 3 in transport distance
3. x 7 in train length
4. x 7 in train weight
5. Up to x 14 containers per train („Double stack“)
6. No passenger traffic
7. Terminable employees
Agenda

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Rail Cargo Austria AG and its affiliates

- **16 countries** between the North Sea, Mediterranean Sea and Black Sea
- **+ 3 countries (BENELUX)** increased development of sales activities / own forwarding companies
- **5 businesses** (rail freight forwarding, operator, carrier, wagon rental, and maintenance of rolling stock)

*Last update: 10.03.2013*
Rail Cargo Group: 5 complementary rail freight businesses

- **Focus on core competence rail logistics**
- **5 businesses, with their own business models and (internal, external) markets**
- **Bundled competencies, resources, and responsibilities**
- **Consistent brand architecture**

<table>
<thead>
<tr>
<th>Number</th>
<th>Service Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rail forwarding with industry expertise</td>
</tr>
<tr>
<td>2</td>
<td>Operator of high-frequency long-haul shuttles (Intermodal, conventional, mix) between economic centers</td>
</tr>
<tr>
<td>3</td>
<td>Carrier when economically advantageous (e.g. base load, single wagon load)</td>
</tr>
<tr>
<td>4</td>
<td>Wagon rental when economically advantageous (e.g. base load)</td>
</tr>
<tr>
<td>5</td>
<td>Maintenance of rolling stock when economically advantageous (e.g. light maintenance in Eastern Europe)</td>
</tr>
</tbody>
</table>
The Joint Venture between BALO and Rail Cargo Group will link Northern & Middle Europe with Turkey

**Business description**
- Operator as business model
- Leading shuttle connection Benelux – Germany – Austria – Hungary – Turkey
- Connecting point for NE customers to Turkey (further network extension)

*Focus on the “backbone” product Duisburg – Tekirdag via Romania (prio 1)*
*Other “spikes” to be developed later (prio 2)*

* Replaced through hub-terminal Vienna-Inzersdorf from 2016
The plan: a strategically re-build network across Central Europe, connecting strategic terminals in 4 corridors

Influencing factors

- Competitor positioning
- Access to and flexibility of core terminals
- Focus on core products in 4 corridors
- Leverage “triangles”
- General market trend (GDP growth, trade flow, trade integration)

RCO Network in 2016 – 4 corridors

- Core products
- Other products
- Central hub terminal
- Hub terminal
- Other terminals
Better results from coordinated internal collaboration

- Rail Forwarding
- Rail Cargo Logistics
- Carriers
- Insourcing traction, especially abroad
- Wagon rental
- Insourcing
- Nearshoring Eastern Europe
- Cross-selling
- Insourcing
- Nearshoring Eastern Europe
- Intermodal shuttles
- Insourcing traction, especially abroad
- Cross-selling
- Maintenance
- OBB Technical services
- OBB Production
- Rail Cargo Austria AG
1. „No future as a carrier in Europe“

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Insufficient EBIT, also in the „good old times“

EBIT, in Mio. €

-279

Extraordinary write offs

RCG is most profitable major rail cargo player in Europe in 2013 (according to our benchmark)

Status 27.03.2014

<table>
<thead>
<tr>
<th>Revenue (in Mio. €)</th>
<th>EBIT (in Mio. €)</th>
<th>EBIT Marge (in %)</th>
<th>EBT (in Mio. €)</th>
<th>EBT Marge (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCG</td>
<td>2.404,0</td>
<td>76,0</td>
<td>3,2</td>
<td>58,0</td>
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<tr>
<td>SBB CFF FFS Cargo</td>
<td>772,0</td>
<td>19,0</td>
<td>2,5</td>
<td>12,0</td>
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<tr>
<td>PKP Cargo</td>
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<td>26,0</td>
<td>2,3</td>
<td>21,0</td>
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<tr>
<td>SNCF</td>
<td>1.950,0</td>
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<td>-5,1</td>
<td>-33,5</td>
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<td>DB Schenker</td>
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<td>57,0</td>
<td>1,2</td>
<td>-32,0</td>
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<tr>
<td>SNCF</td>
<td>526,0</td>
<td>-24,0</td>
<td>-5,0</td>
<td>-33,5</td>
</tr>
</tbody>
</table>

* Estimate

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4. **Perspective on rail freight industry 2020**
**Rail Freight 2014: Regions of production RCG, DBSR and PKP Cargo**

- RCG own traction
- DBSR own traction (100%)
- DBSR own traction (affiliate)
- RCG and DBSR own traction (100%)
- PKP and DBSR own traction (100%)
- RCG (100%) and DBSR own traction (affiliate)

**Rail Freight Traffic 2014**

- 3 large players (DB, RCA, PKP)
  - Profitability not sufficient for (re-)investment
  - Different strategies
- Decreasing number or „real“ private railways
**Scenario 2020**: 3 market leaders in 3 regions, all present with own traction

- **Market leader RCG**
- **Market leader PKP**
- **Market leader DBSR**
- **RCG/PKP**
- **RCG/DBSR**

### Scenario 2020

- **3 large railways** in CEE/SEE (DB, RCA, PKP)
  - Profitability partly sufficient for reinvestments
  - „Integrated cargo-solutions“ via affiliated freight forwarders
- **Significant reduction of other carrier**
- **Recent contra-example: Grampet** (Private carrier consolidating public railways in SEE)