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
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 economically 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 situation in Europe
3 main products

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

<table>
<thead>
<tr>
<th>Segment</th>
<th>Commodities</th>
<th>Share of volume</th>
<th>Competitive environment</th>
</tr>
</thead>
</table>
| 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
Rail Cargo Austria AG, Ferdinand Schmidt, Chairman Xrail
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**

<table>
<thead>
<tr>
<th>Own RU</th>
<th>Handover point</th>
<th>Other RU</th>
</tr>
</thead>
<tbody>
<tr>
<td>No feeder</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feeder only in own network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feeder only in other network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feeder on both sides</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Option space for own RU**

- Only for transports that use feeder services on both sides
- For all transports that use feeder services in the other network
- For all transports that use feeder services on at least 1 of the 2 sides

- Included in Xrail
- Excluded

Rail Cargo Austria AG, Ferdinand Schmidt, Chairman Xrail
The Xrail Advantage

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

Xrail Objective
International Wagonload with Xrail

Country A

Rail Cargo Austria AG, Ferdinand Schmidt, Chairman Xrail
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

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

* Not within Xrail scope
XRail transport offers will be provided within 3 days

8 – 12d

3 – 8d ≤ 3d 1 – 2d

Customer estimation Measurement* XRail Competitor truck

Acceleration of the offer process

Xrail improves interfaces and work processes among Xrail members

* Measurement of Xrail partner RUs

Fulfillment of customer expectations – Offer process 2/2

XRail

Rail Cargo Austria AG, Ferdinand Schmidt, Chairman Xrail
7 Xrail-partners pursue „ONE GOAL“

„Creation of a competitive wagonload product“

1. Fulfillment of customer expectations

2. Expansion of the Xrail-network
The geographic coverage and network density of XRail is expected to increase over time.

**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

**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

**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
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

![Partner Logos]

- No determination of market aspects (price) – competition still possible
- Open for new members complying with the product standards
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

7 Xrail-partners pursue „ONE GOAL“ „Creation of a competitive wagonload product“
Xrail Objective
Increasing the market share and productivity

Xrail should effect...

Adhere to status quo would imply...

- A competitive SWL product
- Increase the volume of international SWL
- A competitive SWL / higher market share
- Increase utilization in a system with high fixed costs
- Improve the expense situation compared to road

- 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

Entry criteria

Additional coverage to the Xrail Network (add a new EC)

Agree on collaborative approach to operate and improve the Xrail network (jointly operating long haul train)

Connect ECs with at least 1 long haul train per day and serve customer sidings with 1 service per day

Comply with the Xrail Production Standards (reliability and transport information)
The Alliance has started!