

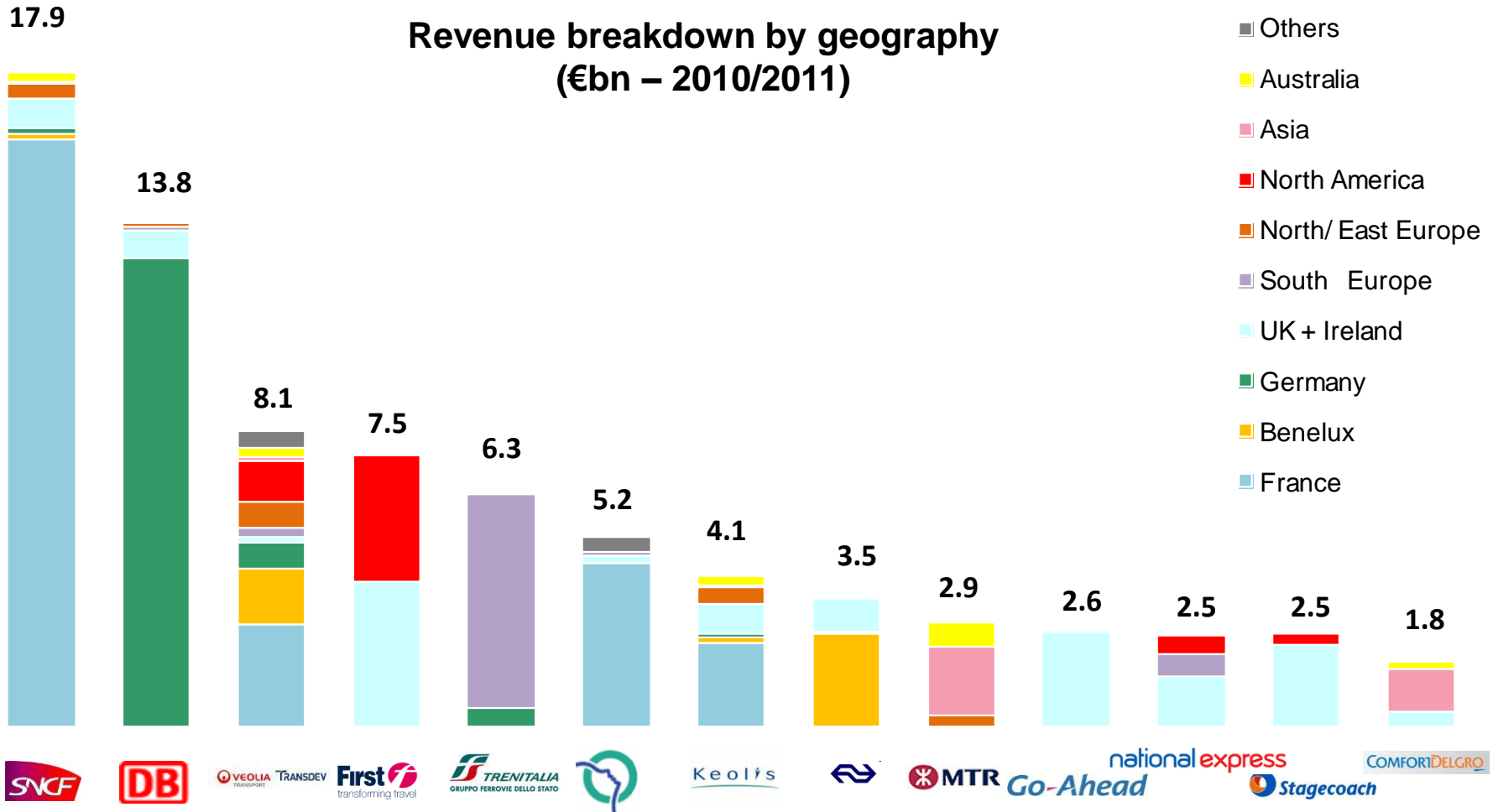
Florence March, 19<sup>th</sup> 2012

# European Regulation Forum: View from Operator

Dr. Axel Sondermann, Veolia Verkehr Regio GmbH / Veolia Transdev Group

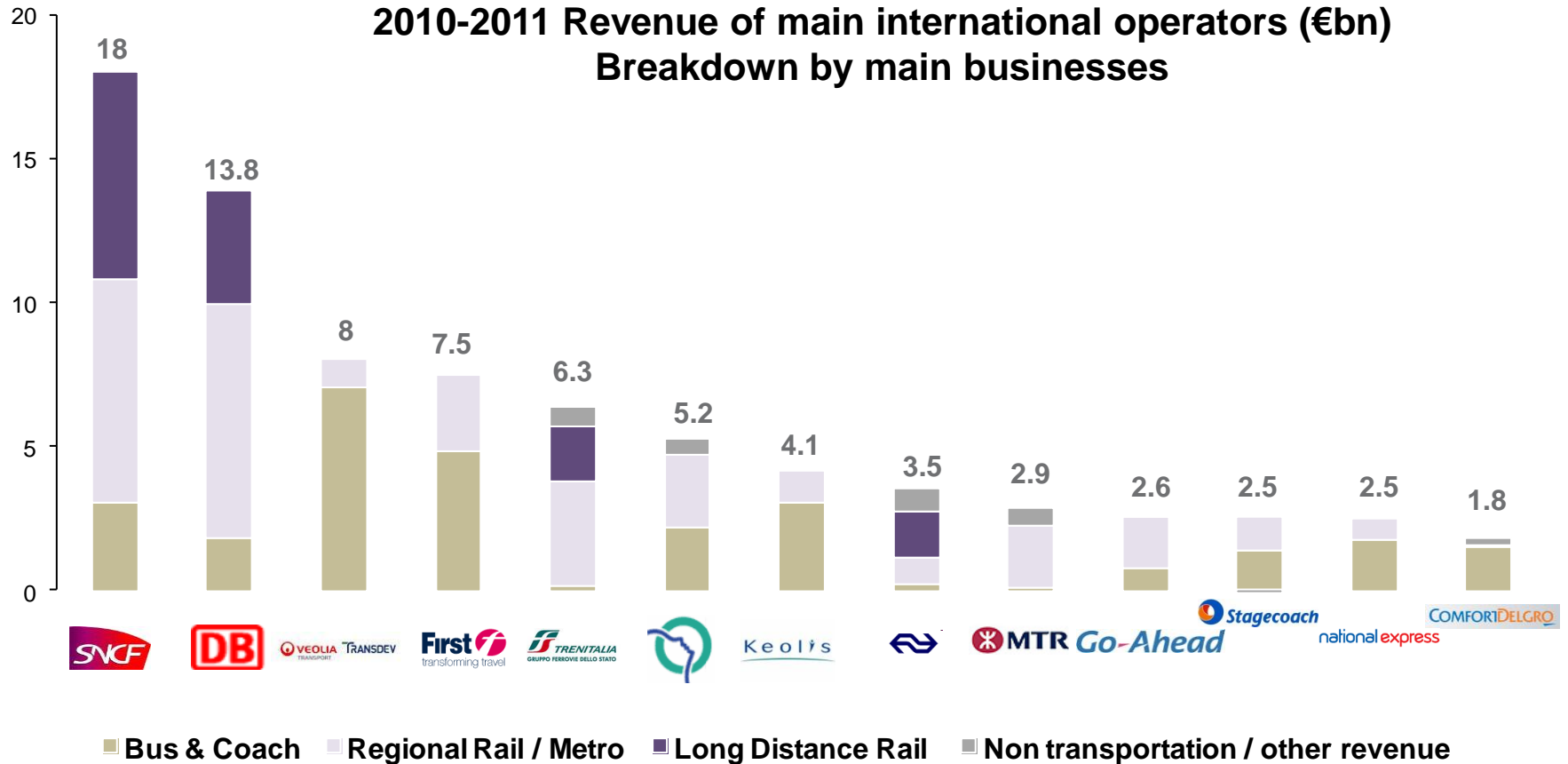


# Veolia Transdev as very international operator



Sources: annual reports

# Veolia Transdev as largest non-historical operator



Sources: annual reports

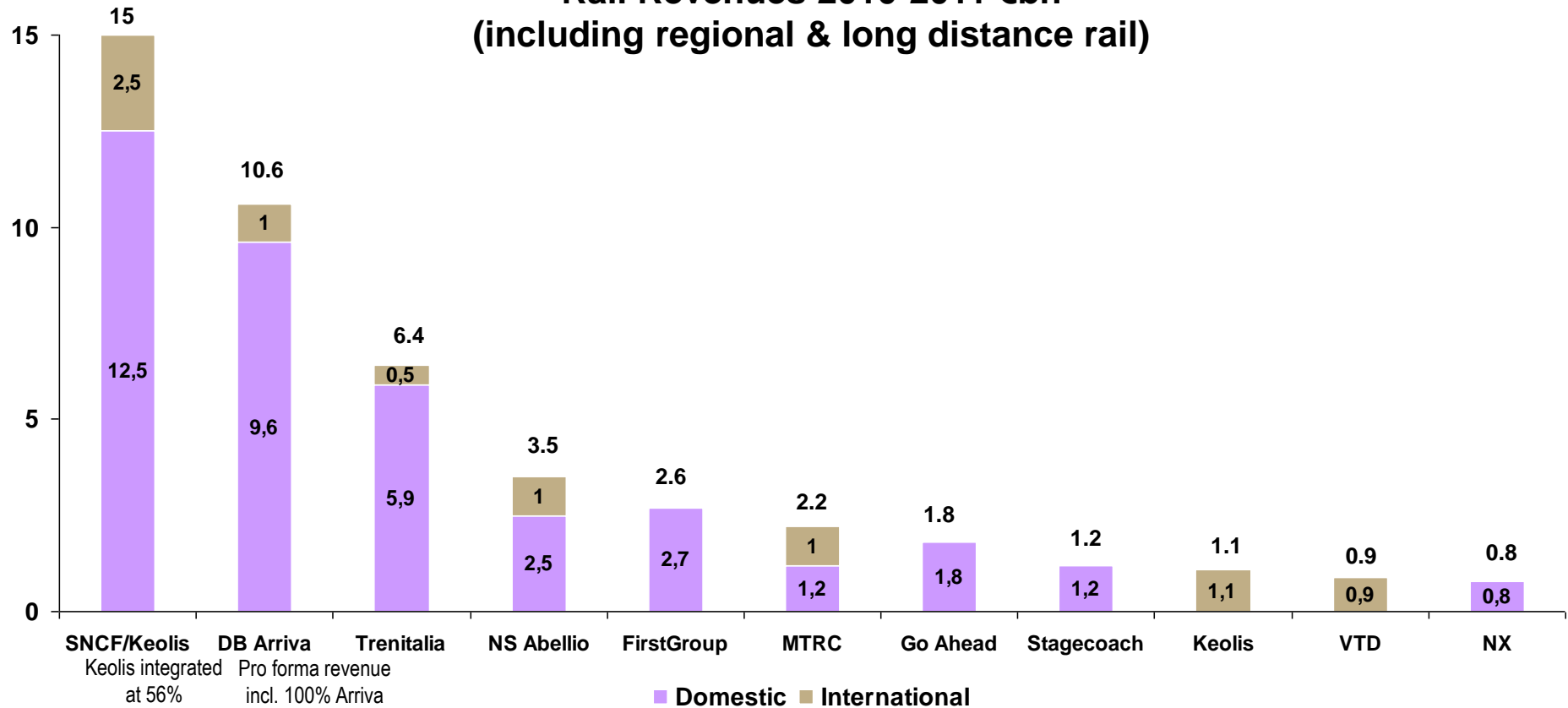
- SNCF: only passenger transportation revenue  
 - DB Arriva: only passenger transportation revenue

-Trenitalia: incl. Arriva Germany revenue  
 -RATP: incl. VTD assets (430m€)

# International rail operators

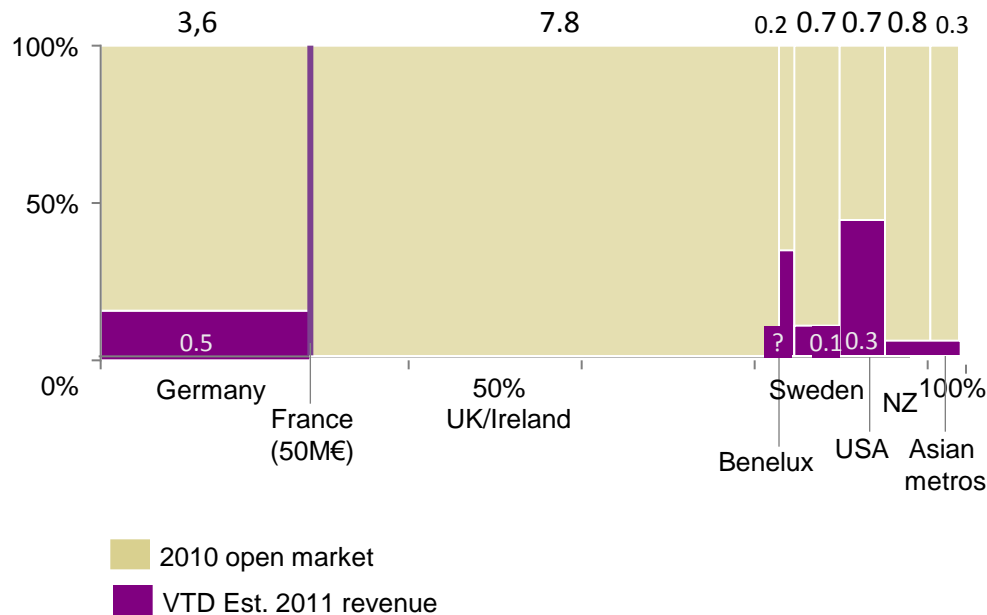


**Rail Revenues 2010-2011 €bn**  
(including regional & long distance rail)



Source : Companies last annual reports

# Our rail market positioning



Source: VTD market review 2011

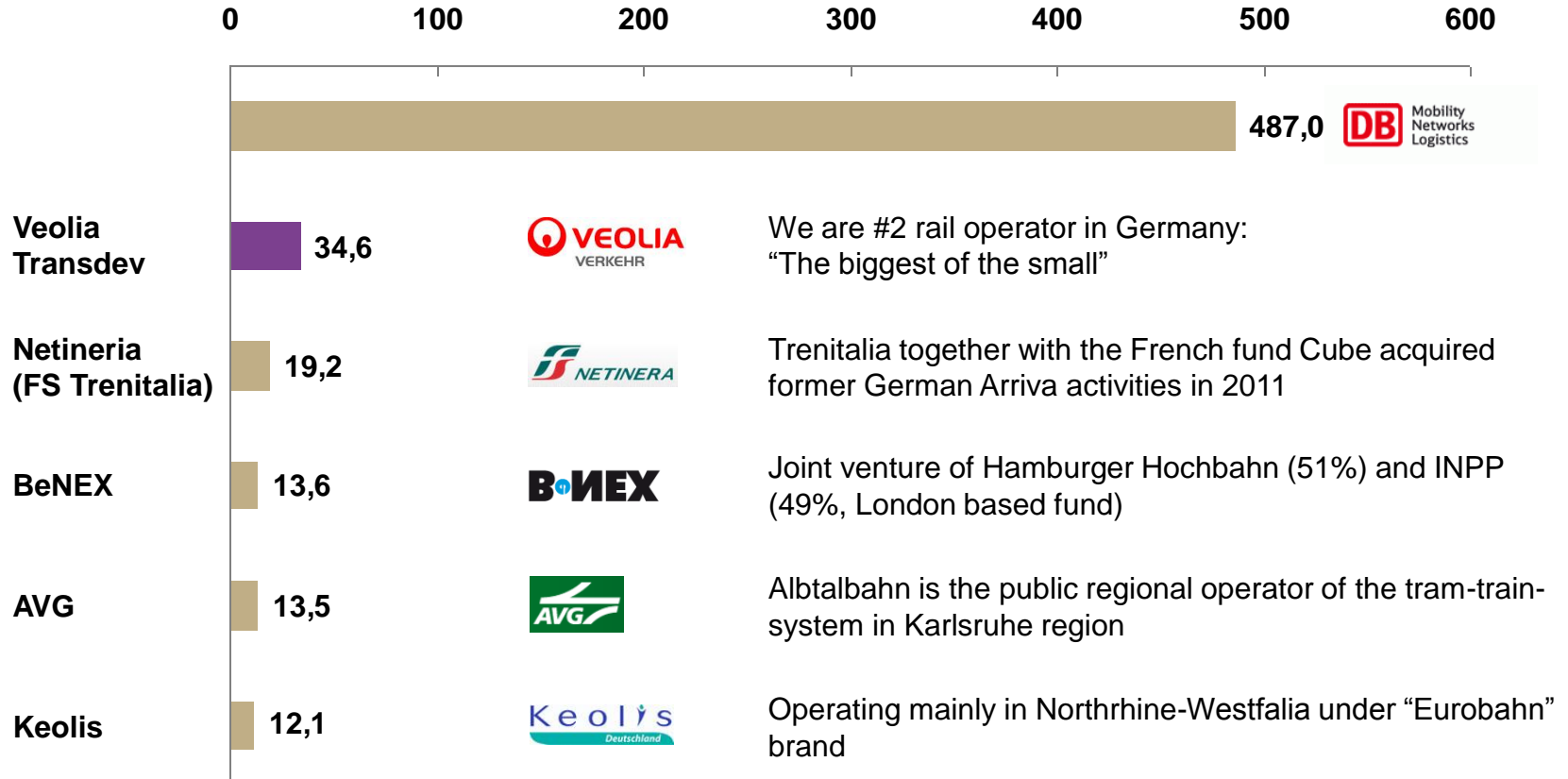
## Market size and growth and VTD positioning

- 2010 open market addressed by VTD = **14 €bn**
- Est. 2011 VTD revenue: **0.9 €bn**

Source: VTD market review 2011

# Regional and suburban rail market players

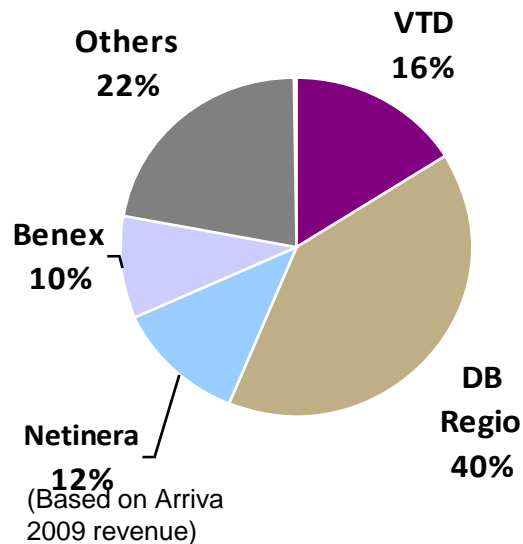
Train kilometres (in million) as of 2011 operated by different groups: Our competitors are regional or international, publicly owned



# Business line: Regional rail Germany



## Operators 2010 market share on open market – in % of revenue



- Acceleration of tendering process: 5.6 bn€ to be tendered on the 2011-2017 period
- Mix (50/50) of net and gross contracts
- VTD leadership position with 16% market share (1st private operator)
- Rolling stock of competitors has been mainly financed through operating leases so far
- Appearing trend of collectivities supporting the fleet investment by transferring public creditworthiness (issue: vehicles increase debt level of operators and of PTAs)

Source: VTD market review 2011

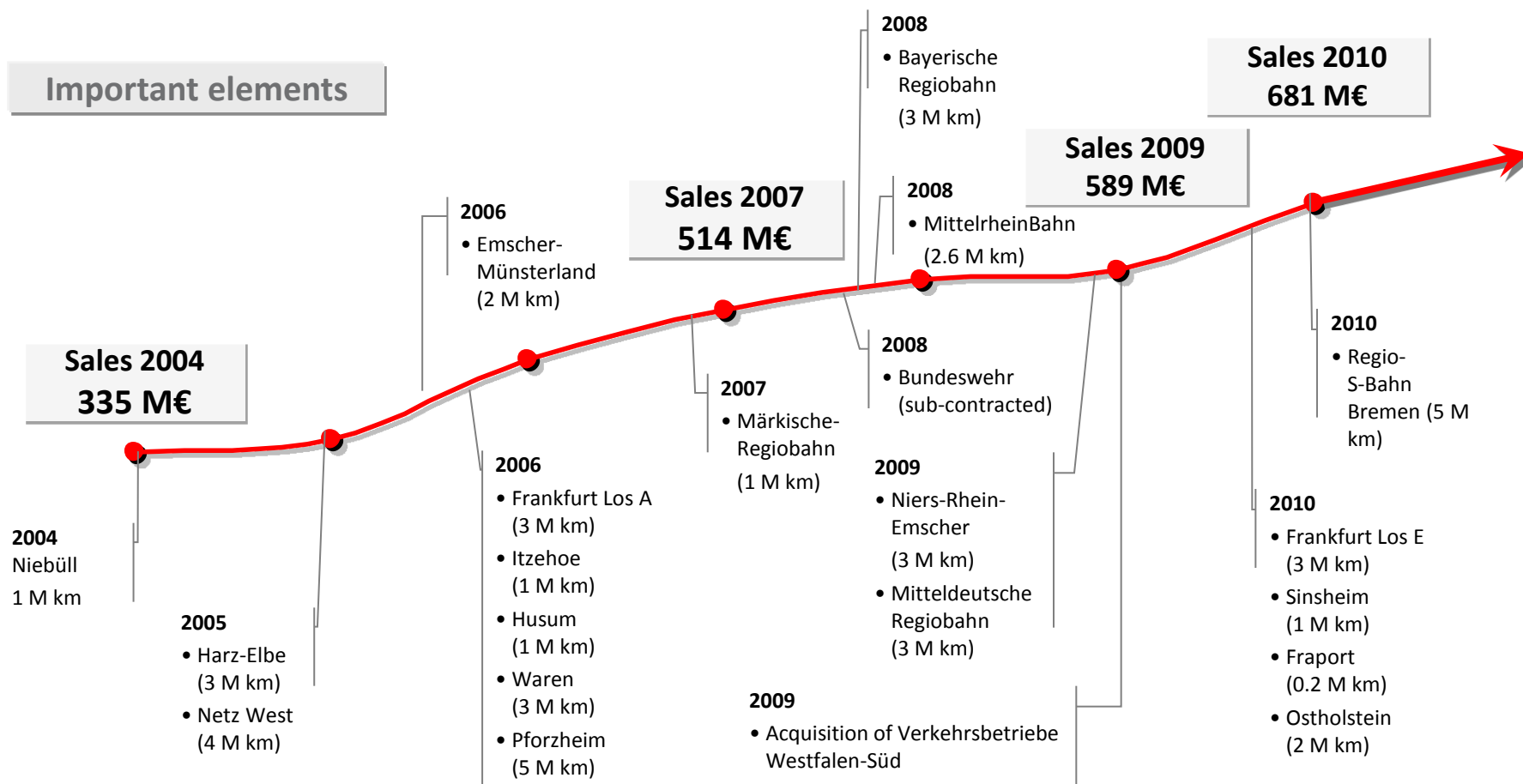
# A strong growth development in Germany – so far

2004

2007

2010

## Important elements





# An important fleet



- **Vehicles**

- 288 railcars (electric and diesel)
- 24 train sets (with electric and diesel locomotives)
- 1,500 buses
- 19 trams



- **Railway network**

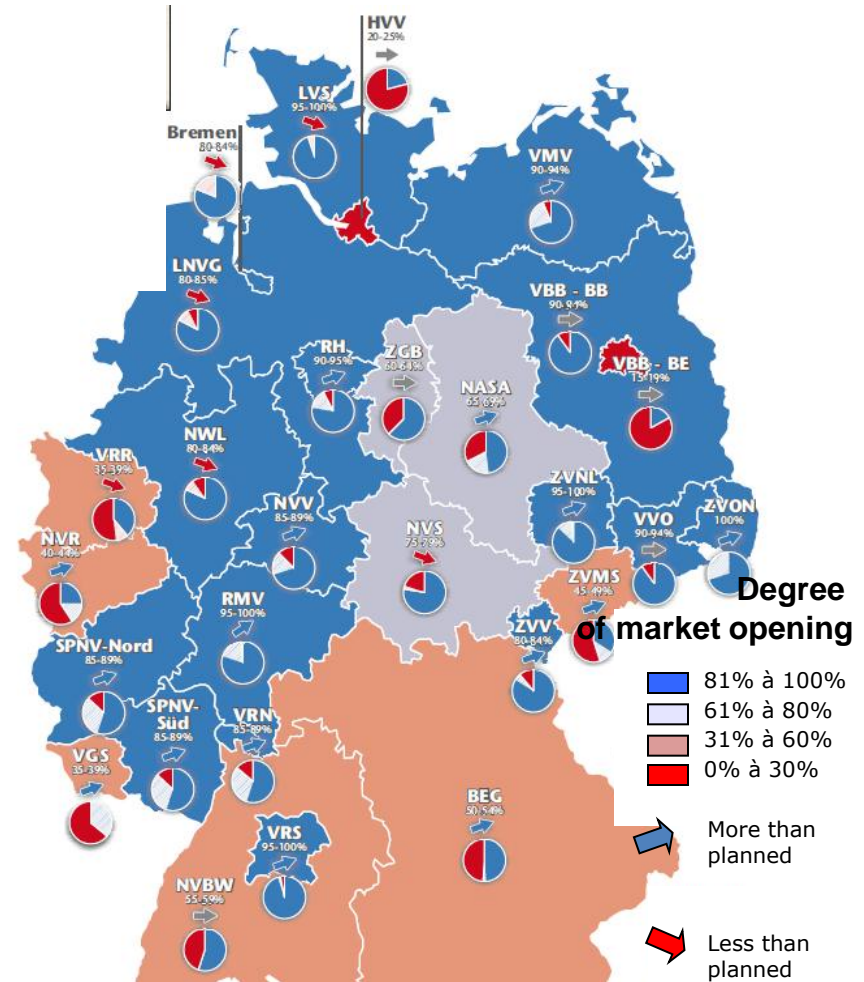
- 2,820 km operated lines
- 34.6 million train-km

# Veolia Transdev in Germany developing with market opening of regional rail

## Veolia Transdev Operations

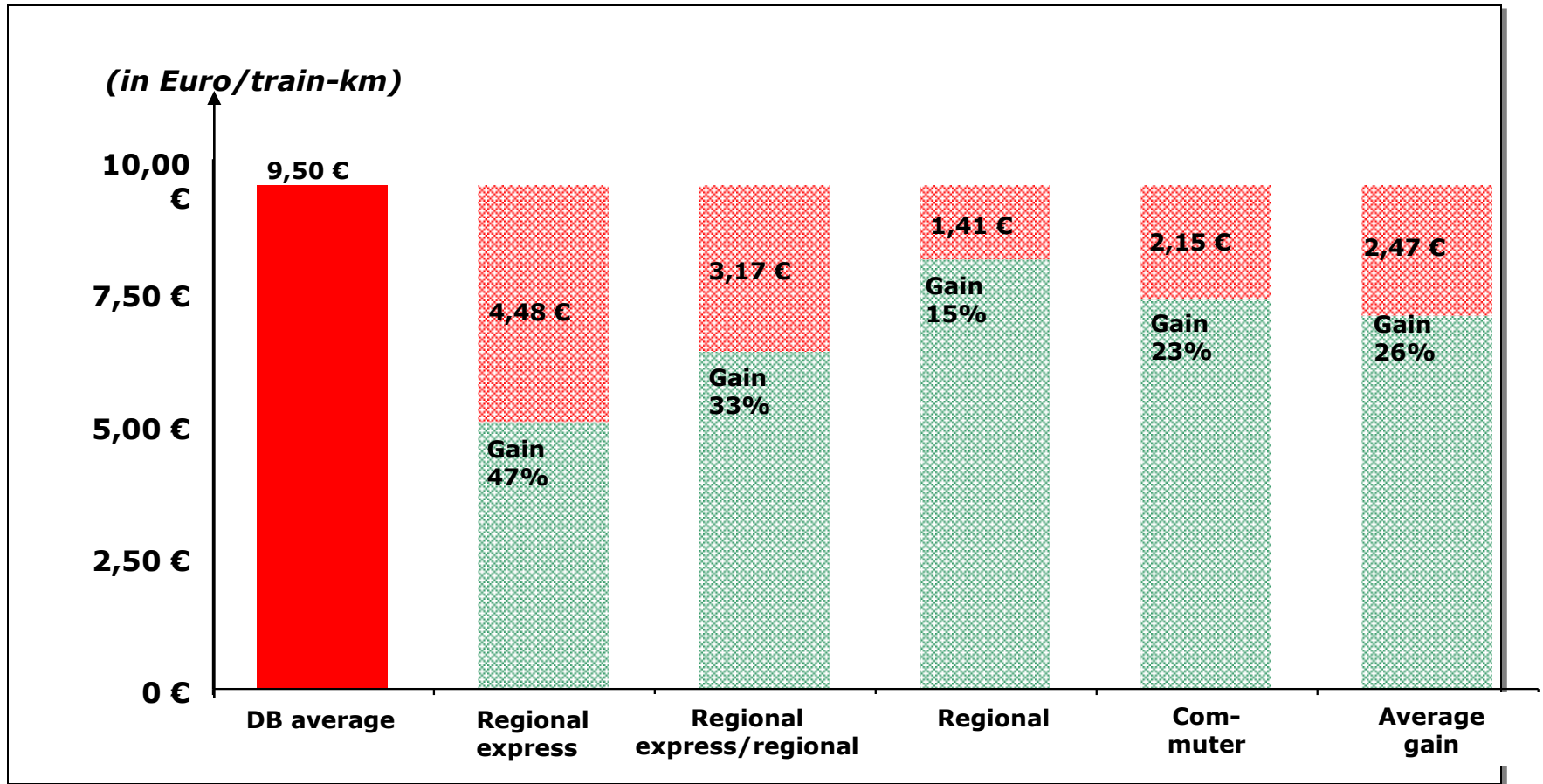


## Degree of market opening per PTA



Source : Wettbewerber Report Eisenbahn 2010/2011

# Efficiency increase after market opening

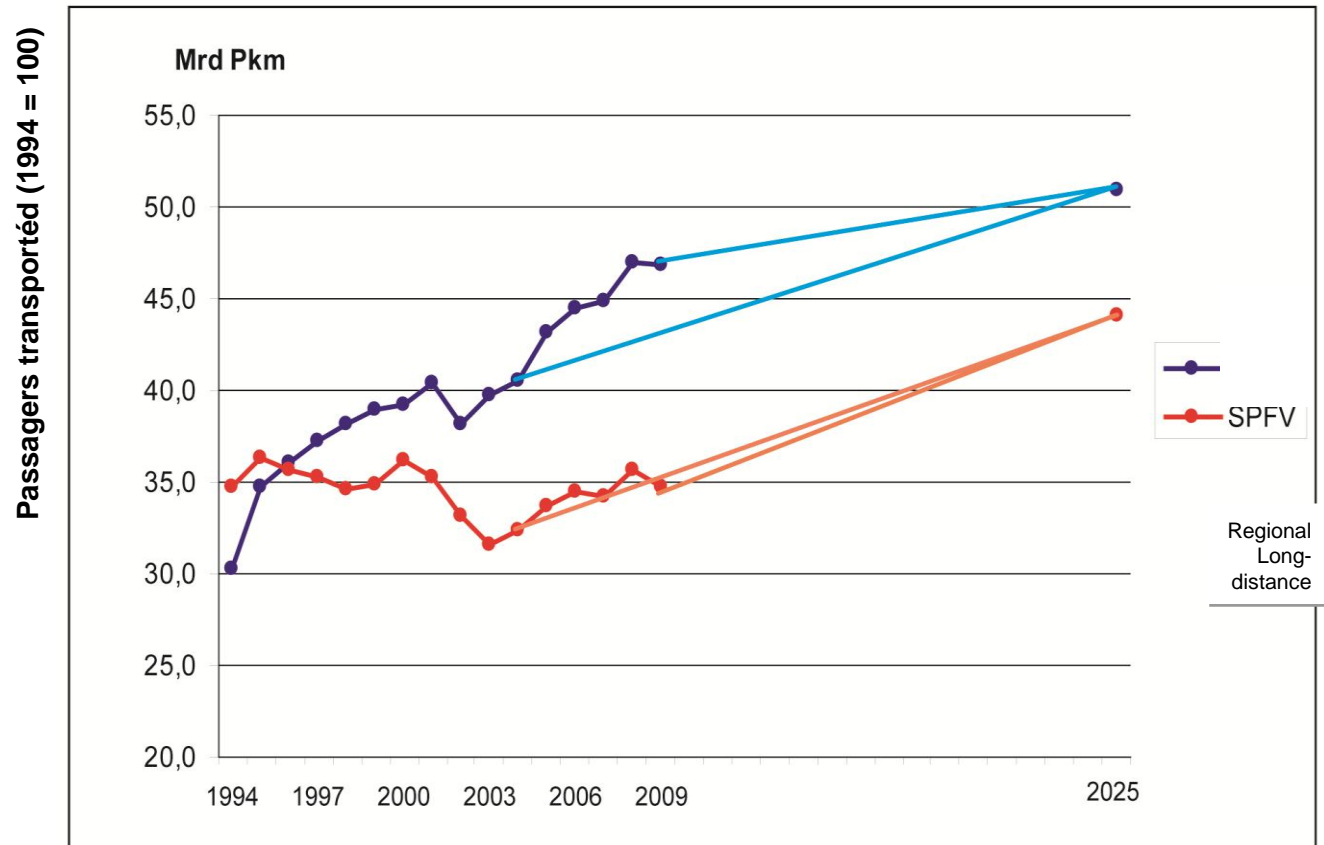


Source : Wettbewerber Report Eisenbahn 2009/2010

# Passenger increase after market opening

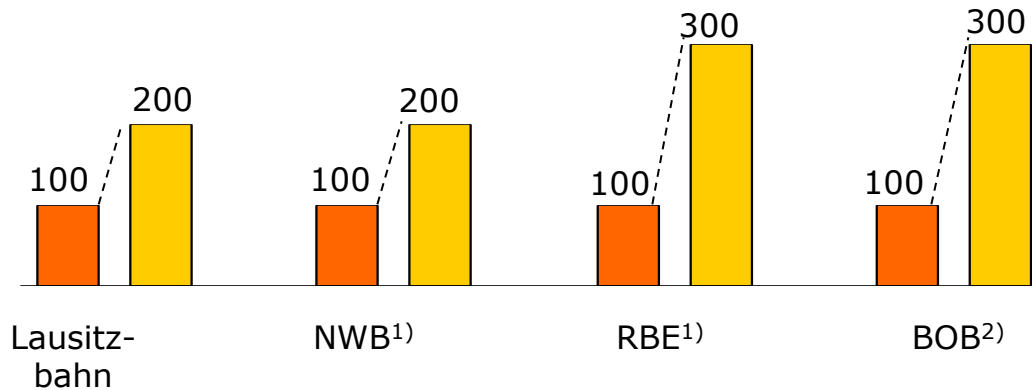
- Extension of global market – further growth expected although population is decreasing
- Regional rail is booming
- Stagnation of long distance (apart from change of services into regional rail services)

Development of passengers since market opening



# Ridership increase after competition or re-launch

Nbr of passengers (Index = 100)



- Local marketing
- Own distribution channels
- New services
- Intermodal hubs
- New vehicles

1) Development 2 years after traffic start

2) 1996-2005

# Regional and suburban rail not really tendered yet

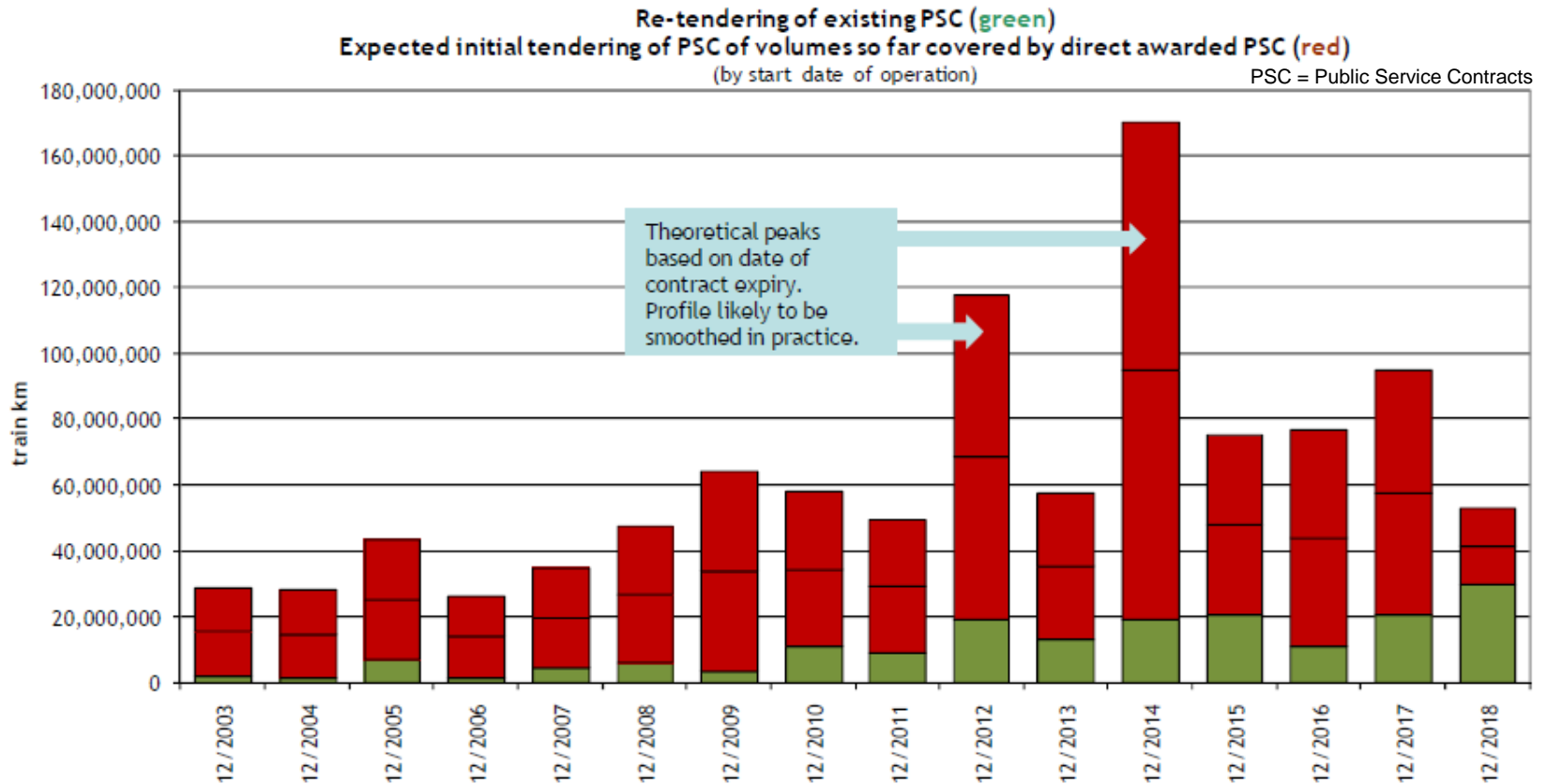
- DB still has long-lasting (~10-15 year) contracts, expiring until 2020. However, many already expire until 2015
- Typical operations in the still closed market segment:
  - Suburban RER-style systems in Berlin, Hamburg, Munich
  - Regional express services with 10-20 year-old double-deck coaches
  - Regional express services with 10-20 year-old tilting trains (high-end DMU)
  - Line services with other ~10-year-old single deck EMU or DMU
- Characteristics of old closed-market contracts of DB
  - Offensive negotiation position for DB, PTA in defensive position
  - High subsidy level, very high margins (operational profit > 500 M€ p.a., margin >10%)
  - Until year 2000, many PTA also have funded rolling stock investments (with 50%-75%)
  - Net contracts, commercial risk is borne by DB
  - Limited fleet specification, high flexibility to move around trains within DB fleet
  - Few other contractual obligations (penalty schemes etc.)



- **Only ~55% of market has been opened so far, ~45% are still closed**
- **Closed market operated by DB: revenue still ~4.0 BN€**

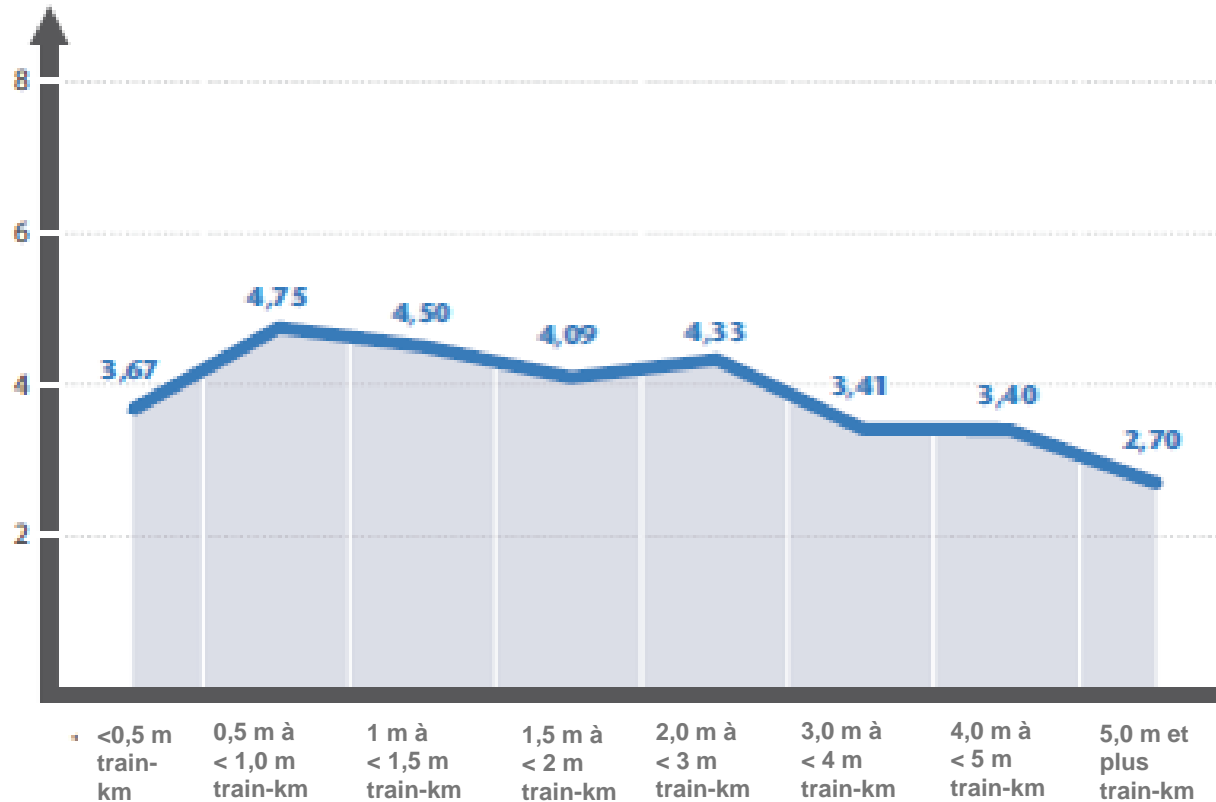
# Regional and suburban rail market opening

Tender volume 2003-2018 (past, recent and expected volume in train km)



**We expect open market to raise from ~55% to 100% until 2020.**

# Decreasing number of participants in tenders related to size of tenders



Source : Wettbewerber Report Eisenbahn 2009/2010



# Competition level recently on decline

## SPNV in Deutschland | Beteiligung am Wettbewerb

### 1 | Netz Nord

5,5 – 6,6 Mio. Zug-km (Lose: 3)  
öffentliche Ausschreibung  
→ **5 Bieter** | Jan. 2009 – Sept. 2009

### 18 | Hansernetz

5,2 Mio. Zug-km  
öffentliche Ausschreibung  
→ **2 Bieter** | Sept. 2009 – März 2010

### 17 | Heidekreuz

2,6 Mio. Zug-km  
öffentliche Ausschreibung  
→ **6 Bieter** | Aug. 2010 – Feb. 2011

### 16 | Weser-/Lammetalbahn

1,4 Mio. Zug-km  
öffentliche Ausschreibung  
→ **3 Bieter** | Aug. 2010 – Feb. 2011

### 15 | Westliches Münsterland

3 Mio. Zug-km  
öffentliche Ausschreibung  
→ **aufgehoben** | Verhandlungsverfahren  
Dez. 2008 – April 2010

### 14 | Dieselnetz Köln

7,2 Mio. Zug-km  
öffentliche Ausschreibung  
→ **aufgehoben** | Verhandlungsverfahren  
Nov. 2009 – März 2011

### 13 | Mittelrheinbahn

2,9 Mio. Zug-km (Lose: 2)  
öffentliche Ausschreibung  
→ **4 Bieter** | Aug. 2005 – Okt. 2006

### 2 | Warnow-Netz

1,4 – 4 Mio. Zug-km  
öffentliche Ausschreibung  
→ **2 Bieter** | Okt. 2009 – Juli 2010

### 3 | Netz Stadtbahn

22 Mio. Zug-km (Lose: 4)  
öffentliche Ausschreibung  
→ **2 Bieter\*** | Nov. 2009 – Juli 2010

### 4 | Mitteldutsche S-Bahn

8,5 – 9 Mio. Zug-km (Lose: 2)  
öffentliche Ausschreibung  
→ **3 Bieter** | Aug. 2008 – Sept. 2009

### 5 | Saxonia-Linie

1,5 Mio. Zug-km  
öffentliche Ausschreibung  
→ **4 Bieter** | Juni 2008 – Juni 2009

### 6 | D-Netz Ost-Thüringen

4,6 Mio. Zug-km  
öffentliche Ausschreibung  
→ **2 Bieter** | Nov. 2009 – Aug. 2010

### 7 | Regensburg & Donautal

5 – 5,5 Mio. Zug-km  
öffentliche Ausschreibung  
→ **4 Bieter** | Apr. 2007 – Mai 2008

### 8 | E-Netz Rosenheim

4,8 – 5,8 Mio. Zug-km  
öffentliche Ausschreibung  
→ **2 Bieter** | Apr. 2010 – Dez. 2010

### 9 | Werdenfelsnetz

2,9 – 4,1 Mio. Zug-km  
öffentliche Ausschreibung  
→ **4 Bieter** | Sept. 2009 – Juli 2010

### 10 | Dieselnetze Südwest

12 Mio. Zug-km (Lose: 3)  
öffentliche Ausschreibung  
→ **aufgehoben** | Verhandlungsverfahren  
Nov. 2010 – (offen)

- ≥ 5 Bieter = gut
- 3 bis 4 Bieter = akzeptabel
- 1 bis 2 Bieter = unbefriedigend
- aufgehoben



### 12 | RE-Netz Südwest (E-Tr.)

5,8 Mio. Zug-km (Lose: 2)  
öffentliche Ausschreibung  
→ **1 Bieter** | Nov. 2010 – Mai 2011

### 11 | Niddertalbahn

0,7 Mio. Zug-km  
öffentliche Ausschreibung  
→ **aufgehoben** | Verhandlungsverfahren  
Dez. 2009 – Feb. 2011

# Why are there only a very few private operators left? –

## What can be done to facilitate their activities?

- High capital intensity
- Incongruency between service contract and life time of rail fleet (residual values)
- Increasingly operational risks (e.g. delayed certification of new vehicles, insufficient grip on revenues, ...)
- Non-balanced contracts (e.g. warranties for non-caused damages)
- Access issues in specific areas in which historic operator defends competitive advantages (energy, sales, used vehicles)
- Better financing models so that not all vehicles have to be put in the operator's balance sheet
- Balanced contract chances and risks
- Better revenues sharing and – especially – clearing systems to ensure liquidity
- No penalisation for infrastructure-related issues

# Are public investments, particularly in infrastructure at risk? – What can be done to ensure financing?

- Infrastructure costs increase steadily (CAGR: 2% p.a.) while financing is at risk
  - Expected review of funds to be used for ordering regional train services (2014)
  - limited length of financing contract for infrastructure maintenance („LuFV“)
- Mid-/long-term financing contracts for infrastructure with effective quality monitoring
- Assymmetric infrastructure regulation (exemption of infrastructure „outside competition“)
- Price cap-regulation to increase efficiency of dominant state-owned infrastructure operator
- Ideally ownership unbundling of operations and infrastructure of dominant railway undertakings – at least organisational and financial unbundling together with effective regulation
- Demand-oriented prioritisation of infrastructure projects
- Tendering of infrastructure management – not only maintenance but also operations

# What can be done in terms of vehicle financing solutions to promote competition again?

- Privately-run companies have – compared to state-owned railways – a less competitive position in terms of debt and financing costs
- So far, competitors financed train fleet to largest extent by operating lease
- Limited numbers of lessors/arrangers but more banks are interested to take part as lenders
- It becomes more difficult to conclude operation leases which are IFRS compliant since the banks are not willing to take risks and the auditors are more reluctant in accepting operating leases
- The IFRS rules are under revision. The application date and the precise scope not yet finally decided
- The EU should still have an interest in all member states that railway competition is also attractive for private players
- Private capital needs to be attracted in this capital intensive business as public funds are running shorter
- Balance-sheet financing can be only accepted to a limited extent
- Therefore, new financing schemes have to be developed rapidly (facilitation by EU authorities) – more focus on this issue than on access and organisational regulation! (an own railway package?)
- Good schemes transfer public credit rating also to private operators (e.g. by financing guarantees) – thus the competitive position against state-owned railways is improved

# Thank you for your attention !

