

ONLINE



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VTG is investing in the creation of new wagons to help satisfy the demand from construction sector projects over the next 20 years. Online takes a look at the thinking behind this approach.

VTG has signed a deal with GB Railfreight for 24 hopper wagons to help the freight operator cope with the upturn in its aggregates business.

The contract signing followed some entrepreneurial thinking on VTG's part as the 'new' wagons were once coal hoppers, converted by VTG to carry aggregates.

The idea of converting or "repurposing" the coal hoppers came about following the collapse in demand for wagons to move coal to power stations.

A result of the government's decision to double carbon taxes in April 2015, the immediate effect on the UK's rail freight industry was to make redundant large numbers of coal hoppers.

Coal, once King, was royalty no longer.

VTG reacted positively to this dramatic change, however. Having analysed the bulk freight markets, it concluded that the UK construction sector presented business opportunities.

Unlike coal, construction is currently seeing an increase in volumes and much of this is moved by rail in bottom discharge hopper wagons.

In planning the repurposing, VTG took into account Network Rail's 'Freight Market Study' produced in late 2013, which suggests that the construction materials sector, which

includes the sub-sectors of aggregates, cement and spoil (soils from construction excavation), will grow its rail usage by 22% between 2013 and 2033.

Growth was also forecast by the Mineral Products Association. The MPA's economic and market outlook suggests that the UK's total aggregates demand will rise from 218 million tonnes a year in 2014 to 292 million in 2030.

The wagons being considered for repurposing had been built to an existing, proven design, with a volume of approx. 90 m³ and fitted with track friendly bogies.

VTG's proposal was to make the wagons suitable for the efficient transportation of aggregates (a much more dense product requiring lower volume than coal) by removing the central section of the body, including one of the discharge doors, thus shortening them from their original length.

The volume of the 'new' wagon is approximately 63 m³.

The wagon bodies were originally built from rust resistant 3CR12 "semi-stainless" steel in order to meet the arduous demands of carrying coal, and which will ensure they have a long "second life" in aggregates traffic without the corrosion problems that can affect mild steel wagons.

Commercial news Busy times for VTG

"It's been a busy start to the year for VTG and we have a lot of positive business news to report in this summer edition of OnLine.

Inside you will read about the celebration of the delivery of the new Hope Cement wagons.

There's a story about how we have been working with Mendip Rail on their new wagons that are being built in Romania.

On this page, details of how we talk of how we have responded to the changing market with aggregate trials having been completed on our "repurposed" coal hoppers.

Finally, read the latest from VTG Group including news of a new shareholder on page 5.

All this plus other news on VTG's UK activities."

*Ian Shaw, Sales and Marketing Director
VTG Rail UK*

The decision to go ahead with the repurposing work was made on the basis of a thorough, well researched analysis of the various markets and the technical qualities of both the former coal wagons and the new construction hoppers.

It's that highly professional and innovative approach that has placed VTG at the forefront of the UK's rail freight wagon supply.

Lean Learning Academy

VTG's Service Delivery Manager, Maria Connolly, was recently invited to join DB Cargo on a 2-week "lean management" course - "LLA6". With this being such a major time commitment, Maria was determined to maximise the opportunity.

15 individuals went through the programme including two from outside DB's organisation - Maria from VTG and a delegate from Network Rail.

Maria said that although the surroundings of the DB Cargo Lean Learning Academy were a little intimidating at first she was made to feel part of the group and barriers were broken down quickly.



So what is Lean Management?

It's a method of running an organisation that supports the idea of continuous improvement. This is a long-term approach to work that systematically seeks to achieve small, incremental changes in processes in order to improve efficiency and quality.

The aim of the academy is to provide a

learning experience after which committed teams will deliver excellent performance using common operating tools, techniques and behaviours.

The Academy says its programme will change the way that people as leaders act and are perceived. Delegates were told they would learn to shift the focus from fixing problems to coaching their teams to achieve continuous improvement by establishing and sustaining a lean operating environment.

"Although at times the course was quite intense," said Maria, "it soon became clear how I could implement the various tools and techniques within VTG."

"This made me feel that my attendance was worthwhile and meaningful while the mixed skillsets throughout the groups made the experience really interesting and rewarding."

One of the key learning points for Maria was the acronym TIMWOOD (Transport, Inventory, Movement, Waiting, Over production, Over processing, Defects).

"The main areas of interest in this process were the waiting, over production and over processing. There are definitely improvements to be made in this area both within my own department and the wider business."

This was highlighted in my chosen project



Maria - new skills will help me become a more effective manager.

- Additional Work and Damage Work Process. The project team were very supportive and their help and input was much appreciated. We established that information flow, timescales and duplication of workload were key issues, and that streamlining these processes would be beneficial as well as cost effective.

Maria added: "VTG has already introduced Visual Management into the business, it has proved a useful tool. Taking part in this programme has given me the confidence, skills and the tools to evolve our processes and implement continuous improvement."

"On a personal level the skills and tools I have gained will help me to become a more effective manager, enabling me to support and encourage my team for the greater good of the business."

Back to school

One year ago VTG introduced the educational logistics business game, Business on the Move, to pupils at the Hillcrest School, Bartley Green in the West Midlands as part of the company's continuing corporate social responsibility programme of encouraging the development of young talent.

12 months later and Sales and Marketing Administrator, Caitlin Lippitt, went "back to school" to see how things had progressed and to answer questions about how VTG communicates with its various external audiences.

Caitlin explains that she met with a group of five Hillcrest pupils who asked her questions on VTG's face-to-face, electronic and print communication, how it worked and with whom VTG was communicating.

Caitlin explained that a lot of VTG's "policy related" communication was done directly and face to face with opinion formers and customers, for example using the opportunities offered by membership of various industry bodies such as the



Caitlin: 'impressed with pupils' progress'.

Chartered Institute of Logistics and Transport, the Rail Freight Group and the Freight Transport Association.

Caitlin added that printed or written communications methods were used for sensitive business and customer facing issues. Letters, emails and of course *OnLine*

are used regularly to communicate directly to customers and other stakeholders.

Overall Caitlin was impressed with the interest shown by the schoolchildren and how much their attitude and knowledge had developed since her last visit.

Visit to Romania finds wagons in good shape



Romanian wagons 'looking good'.

"All parties are delighted at the quality of the product ARI will be delivering to the UK."

That was the conclusion of the VTG delegation from the UK and Germany who visited the Romanian rolling stock

manufacturing plants owned by Astra Rail Industries (ARI).

The small party including Rob Brook, Nigel Day, Adrian Freely from the UK organisation plus colleagues from VTG's Hamburg head office went to Arad to check on the progress of the hopper build and to Severin to inspect the box wagons. They were accompanied by

Andrew Coomber, Rail Operations Manager from VTG's customer, Mendip Rail Ltd, keen to get a first-hand look at the new wagons that will be delivered into MRL's service this summer.

Approximately 130 wagons, a mixture of both types of wagon will be delivered throughout this summer to commence operations from "super-quarries" in Somerset to a range of destinations, mainly in London and the South East.

ARI representatives welcomed the VTG party after landing at Timisoara airport, Romania. There followed a busy two and a half days of presentations, inspections of the "first off" vehicles and facilities tours.

The facilities and resources at both manufacturing facilities were very impressive and clearly demonstrated the level of investment that has been made allowing ARI to produce high volumes of rail wagons. Product quality and finish, which was viewed during the visit to both plants was of an excellent standard.

"We all agreed the visit was well worthwhile," said Fleet Engineer Adrian Freely. "Whilst well known in the wider VTG fleet on the European mainland, it's the first time that these facilities have been used to produce wagons for VTG UK, and overall the visit was a great success allowing everyone to sign off on the final design."

Boxing clever

VTG works hard to stay ahead of the game

Current levels of growth in the UK construction sector, plus predicted future demand, has led VTG, Britain's leading independent rail wagon leasing company, to invest in an additional build of 125 new box wagons.

According to VTG's Sales and Marketing Director Ian Shaw the current level of enquiries represent many new business opportunities – but that's not all that drives this decision.

"Construction sector growth is predicted by High Speed 2 (HS2), the rail freight operating companies and other bodies such as Network Rail and the Mineral Products Association," he said.

"The HS2 project is gathering pace. It's a

£55bn, 15 year construction project, which is estimated to require around 400 box wagons to remove excavated tunnelling spoil and to supply construction materials into work sites."

Ian added that currently there is no spare wagon capacity to meet such a demand, hence the preparative purchase of new box wagons.

"As the UK's rail freight wagon supply leader, VTG needs to keep the mix of wagon types in its portfolio appropriate for the prevailing market. Hence this build of new box wagons and other projects such as our innovative coal to aggregates hopper "re-purposing".



Box wagons the 'mainstay'.

"Although the mainstay of the construction market, regularly carrying aggregates and spoil," said Ian, "box wagons can also carry other products including coal, gypsum, waste and scrap metal.

"This overall increase in construction rail traffic, and the 'multi-user' capability of box wagons, should ensure a high utilisation rate for the new wagons in the medium to long term."

Under Secretary of State for Transport unveils Hope's new rail wagons

In February Hope Construction Materials, the UK's leading independent supplier of construction materials, unveiled its 48 new state-of-the-art rail wagons, which were developed for them by VTG Rail UK.

The vehicles were officially launched at an event at the "Hope Works" cement plant in Hope Valley, Derbyshire, where the ribbon was cut by Under Secretary of State for Transport Andrew Jones MP, alongside local MP Andrew Bingham and Ashley Bryan, Industrial Director at Hope Construction Materials.

The tailor-made wagons represent a major investment by HCM and have been developed with an enhanced carrying capacity in excess of 80 tonnes – more than twice the "standard" payload of the old "PCA" wagons they will displace.

This will increase the capacity of each train to 1,850 tonnes of cement with the lightweight wagons having the potential to remove some 33,000 lorries from local roads over the course of each year.

Thanks to this increased efficiency, HCM also expects a reduction of some 20 percent in trains deployed, falling from 768 in 2015 to 627 in 2016, in line with its commitment to sustainability and reduced carbon emissions.

The Minister said: "It is a pleasure to officially unveil these new rail wagons. I am pleased to see the industry making great steps towards improving the environmental impact of their freight traffic, with more



Transport Minister Andrew Jones, local MP Andrew Bingham and Ashley Bryan, Industrial Director at Hope Construction Materials unveil the new wagons.

efficient, cleaner and quieter wagons, and I wish them every success in their future operations."

With fewer rail wagons transporting increased cargo, HCM will be able to reduce the number of trains deployed whilst still ensuring that the two thirds of the total annual production of cement – one million tonnes – is delivered throughout the UK using the rail network.

Using the enhanced fleet, Hope will continue to transport high quality cement to construction projects around the UK, using the major depots at Theale, Walsall and Dewsbury. Trains will also ship to Hope's Dagenham plant which opened in June 2016, to then be bagged using new state-of-the-art packing facilities, which will allow the firm to put cement in their own bags

for the first time, and sent on to customers throughout Britain.

Ashley Bryan, Industrial Director at Hope Construction Materials, said: "Cement is the lifeblood of UK construction and key to economic development.

"This new deal will see Hope able to transport bigger payloads in fewer journeys, benefitting not only our customers throughout Britain, but also the environment. We look forward to realising the benefits of these state of the art wagons.

Ian Shaw, Sales and Marketing Director from VTG Rail UK, said: "I am delighted that Hope Construction Materials has chosen VTG Rail UK as its supplier of new rail wagons. Both companies share similar cultures where emphasis is placed on safety, quality and reliability whilst promoting entrepreneurial behaviours."

VTG presents railfreight excellence trophy to Colas Rail



Rob (right) and MC Nick Hewer (left) present the trophy to Colas.

VTG Managing Director Rob Brook presented the trophy for Railfreight Excellence to Colas Rail at the 18th annual Rail Business Awards ceremony held at the London Hilton in February.

Colas's win was for its programme of

investment and consequent business growth during 2015.

The judges said the company had over the year invested in rolling stock, won new contracts and created jobs to become Scotland's number one freight supplier, adding that Colas demonstrated flexibility at times of network disruption to maintain customer services.

Rob Brook said: "The Colas win is a clear indication of the strength in depth of the UK's railfreight sector. Colas is a new name at the Rail Business Awards even though the company has been around for a number of years quietly winning contracts and creating a successful business.

"This is another example of how the UK rail freight sector has developed successfully over the past 15-20 years or so. It has, by

and large, been a story of business growth, continued investment and ultimately the creation of jobs.

"The railfreight sector does not receive subsidies or grants; rather it stands or falls on the quality of its services. To continue this successful track record it's essential that organisations in our sector look ahead, analyse trends and invest strategically – giving their customers what they need to boost their businesses.

"I congratulate Colas for its determination to succeed. It is a worthy winner of this prestigious award."

Previous recipients of the VTG sponsored Railfreight Excellence category include DB Schenker, Freightliner, Lafarge, the Malcolm Group and GB Railfreight.



Dr. Heiko Fischer

VTG gets off to a solid start in 2016

- Slight decrease in revenue and EBITDA
- Group net profit more than doubles
- Earnings per share triple
- Corporate strategy 4.0 showing positive effects
- Fleet expansion to more than 82,000 wagons

VTG demonstrated sound business development in the first quarter of 2016. With Group revenue at EUR 243.8 million (previous year: EUR 251.7 million), and EBITDA at EUR 81.6 million (previous year: EUR 83.6 million), figures fell just short of the previous year. The Group net profit more than doubled and reached EUR 11.8 million (previous year: EUR 5.3 million). Earnings per share (EPS) even tripled and rose from EUR 0.10 in the first quarter of 2015 to EUR 0.30. Both of these figures reflect the positive impact of VTG's Strategy 4.0, which, inter alia, strives for EPS of EUR 2.50 by 2018.

"We are satisfied with the first quarter results. The remarkable increase in the Group net profit and EPS confirms that our 4.0 Strategy is leading us along the right path", explained Dr. Heiko Fischer, CEO of VTG Aktiengesellschaft, and added: "Our wagon fleet has also expanded even further. We are therefore continuing to pursue our altogether positive business development. A more positive trend in relation to revenue and EBITDA was, however, somewhat curbed over the last months due to the low diesel price, the truck toll reduction in Germany and slightly weaker world trade volumes."

New major shareholder in VTG

VTG has a new major shareholder. Kühne Holding AG reports that a little more than 20 percent of VTG AG's share capital will in future make it the company's second-largest shareholder.

The funds managed by Wilbur Ross are the selling shareholders. After more than ten years, Wilbur Ross has thus sold all components of his shareholdings.

"I am very pleased that we have gained a strong, experienced investor in the shape of Kühne Holding AG, whose long-term investment horizon matches our business model very well," notes Dr. Heiko Fischer, Chairman of the Executive Board of VTG Aktiengesellschaft, commenting on this development. "At the same time, I would like to thank Wilbur Ross for his trust, collaboration and support for our development over the past ten years."

Ross acquired the company from TUI AG in 2005 and listed it on the stock market in 2007.

Karl Gernandt, Executive Chairman of Kühne Holding AG, explains: "We strongly believe in the sustainable and quality-based performance of the VTG business and are

convinced that this substantial investment fits perfectly in the strategic frame of our portfolio."

Headquartered in Switzerland, Kühne Holding AG is owned by Klaus-Michael Kühne and holds various interests in international logistics and shipping companies. Kühne Holding AG also owns real estate in Australia, Canada, Germany and Switzerland and is engaged in luxury hotel projects.

VTG's new shareholder structure

Kühne Holding AG's share purchase makes it VTG's second-largest shareholder, after Andreas Goer, who owns 29 percent of the company's shares. A further ten percent are held by the Hamburg-based Joachim Herz Stiftung.

Slight decline in Railcar revenue due to one-time effects – EBITDA margin increases

The Railcar Division attained revenue of EUR 129.0 million (previous year: EUR 132.5 million) in the first three months of 2016.

This corresponds to a slight decline of 2.7 percent which is essentially attributable to the sale of a wagon fleet at the end of the first quarter of 2015 and a change in investor pool accounting which did not affect operating results. In addition, the low diesel price led to a shift to road transportation and, consequently, to a slight decrease in the intermodal wagon utilization rate. The utilization of the entire fleet decreased to 90.6 percent (previous year: 90.9 percent). Due to these aspects, EBITDA fell by 1.0 percent to EUR 82.0 million in comparison to the EUR 82.8 million achieved in the same period of the previous year. Nevertheless, at the same time, the EBITDA margin related to revenue increased by 1.1 percentage points to 63.6 percent compared to the previous year (62.5 percent).

At EUR 51.6 million, investments in the first quarter of 2016 were virtually on a par with the previous year's level of EUR 50.5 million. In relation to newbuilds, investments were exclusively made in Europe, where around 400 wagons were added in the first quarter.

SWIFT boost to planning maintenance

VTG's supplier web-interface system SWIFT is helping improve the management of wagon maintenance and parts supply activities through the development of improved data processing.

SWIFT enables engineers – and field based maintenance contractors – to order parts such as wheelsets, airbrake components, tank components and bogie parts directly from VTG's approved parts suppliers and then track their order status.

In turn VTG's suppliers are able to process the parts requests and manage the parts inventory and stock.

The system also gives wagon maintainers the ability to request authority for repairs or other work that is outside the VTG maintenance scope.

The system enables sub-contractors to enter maintenance information directly into VTG's Fleet Operations Database ACMS and allows VTG's Fleet Controllers to monitor the

progress of repairs and track progress of all parts requests in real-time.

Raj Sharma, VTG's Conformance Engineer said: "SWIFT is the ideal tool to improve the cycle of planning maintenance activities.

"Ordering the parts, monitoring their supply and understanding what exactly is involved is optimised with simple-to-use monitoring features which ultimately allows us to minimise the length of time vehicles are out of service.

Good cause golf



Ian's trio.

Although the weather since April this year has been more autumn than summer it hasn't stopped VTG's golfers raising funds for two good causes and hosting the annual VTG golf day for customers.

Held in June, the first good cause was one of the rail industry's top charity events, the annual Railway Benefit Fund Golf Day. It attracted over 20 teams from all over the industry while the second was a national children's charity celebrating a significant anniversary.

The VTG team for the RBF event, usually a quartet, was reduced to a trio by a last minute withdrawal.

Undaunted VTG's Ian Shaw, Sam Hunt and Kevin York, our co-locator with Mendip Rail, played on to help raise £10,000 for the RBF.

The eventual winner of the RBF's event was Virgin West Coast.

Later in June was the 7th annual Ian Poulter Golf Day for Dreamflight, a charity celebrating its 30th anniversary and one that gives children with a serious illness or disability a holiday of a lifetime in Orlando, Florida.

Once a year 192 deserving children from all over the UK, accompanied by a team of



Four for Dreamflight.

medical carers, board a chartered Boeing 747 and head to Orlando for 10 days of fun and excitement.

Many children could not make such a trip without the support of the army of doctors, nurses, physiotherapists and non-medical volunteers who care for the children 24 hours a day.

VTG's team played its part in helping to raise thousands of pounds all of which go towards paying for the trip.

The third event was VTG's own Golf Day for customers, held in July at the Abbey Park Hotel in Redditch, Worcestershire.

A good turnout was rewarded with dry-weather after a damp start.

VTG's Sales and Marketing Administrator Caitlin Lippitt said: "It was a great day. Six teams took part; we had some great company and it was nice to see some new faces at the event."

"The winner of the VTG 2016 Golf Day was John Dean, of GB Railfreight, who retained the title he won in 2015. Our congratulations to John and a big thank you to everyone involved."



Welcome Sam – now it's time for the real thing!

Sam Hunt (left), VTG's former Year in Industry student, has joined VTG as a full time

Project Engineer having graduated from the University of Leicester with a first class honours degree in Mechanical Engineering.

A delighted Sam (re)joined the company on 8 July 2016 and is now getting used to life as a full time employee rather than as a university student.

One of the highlights of Sam's "year in industry" with VTG was during a 10 week project to make engineering accessible to schoolchildren of all abilities.

Starting from a base where pupils thought of engineers as little more than dirty handed car mechanics, Sam raised the profile of the profession to 'intelligent', 'well organised' and Sam's favourite response: 'cool'.

Sam said at the time that the last response was important as initially, not one child thought engineering was cool, yet after the project some formerly sceptical schoolkids had changed their minds.

Managing Director, Rob Brook said: "We welcome Sam's return as a fully-fledged member of the VTG family and look forward to seeing him develop and take his opportunities within our global organisation."

Marie-Louise: One for the future



VTG gave a warm West Midlands welcome to Marie-Louise Straub, an apprentice from VTG Group, Hamburg who arrived in the UK in early May.

Marie-Louise, who celebrated her 22nd birthday during her time in the Midlands, began her "industrial clerk" apprenticeship in Hamburg in August 2014 and her two month placement within the UK business formed part of this.

Marie-Louise is a member of VTG Group's youth and trainee representative body, which helps with the development of the training scheme. As Stefanie Stindl from VTG's Human Resources Development department explains: "For a company such as VTG, the junior staff from within its own ranks are particularly valuable. The apprentices work in numerous departments throughout their apprenticeship and therefore get to know about the entire company and the internal work processes, while making contacts with colleagues in the different departments along the way. This permits the establishment of a wide network of contacts, which is useful in itself and naturally of great advantage to VTG at the same time."

Once her apprenticeship is complete Marie-Louise will join the VTG sales team in Hamburg. She has been helping the UK Sales Department with various projects and has also been out of the office viewing wagons and customer sites to get a more general overview of VTG UK's day to day business.

In her increasingly crowded schedule, ambitious Marie-Louise plans to take a three year course in business management, a course that she will be pursuing while working full time in Hamburg. In her equally busy life away from work she also makes time for going out with friends and going to the gym and to concerts.

Marie-Louise is the latest in a line of apprentices and trainees from across the VTG Group to have spent time working with the UK team and we look forward to welcoming more in years to come.