

ONLINE

Award winning VTG ends year on a high



Lee Griffiths (left) NNR Glogal Logistics and Milton Jones present the Environment Award to VTG's Rob Brook, at the Global Freight Awards.

VTG Rail UK enjoyed an award winning end to 2016.

The UK's leading rail freight wagon leasing company won the Environment category at

November's Global Freight Awards jointly with Hope Cement for the introduction of a fleet of new, aluminium cement wagons.

The success at the Global Freight Awards

followed a win at October's Rail Freight Group (RFG) Annual Awards, where the Birmingham-based company was named Support Service Provider of the Year.

This was for the co-location of VTG personnel in key customers' premises to improve service and performance levels by collaborative working.

Fleet controller Martyn Catlin is with GB Railfreight in Peterborough while Kevin York is co-located with Mendip Rail in Merehead, Somerset.

The VTG/Hope wagon project was awarded the runner up trophy by the RFG in its Environmental Innovation category.

The introduction of the innovative cement wagons by VTG and Hope was also highly commended in the Freight and Logistics Achievement of the year category at the National Rail Awards in September. The judges said the project supported "The lifeblood of UK construction and the key to economic development".

Comedian and Global Freight Awards MC Milton Jones presented the Environment category trophy to VTG UK Rail MD Rob Brook.

The challenges of railfreight

"Managing a business through the economic and political uncertainty the country has been experiencing over the past 6-10 months is a real challenge.

Talk of recession and even the collapse of the EU itself followed immediately after the result of the UK's referendum in the summer and although talk of this nature has died down (as I write) still the full impact of the country's withdrawal from the European Union remains to be seen.

However, the challenges we face are mitigated by working alongside our customers to develop and provide innovative new solutions and efficient wagons and services.

In this latest edition of Online you'll read about some of the innovative things we've been up to in the second half of the year and some of the things to come in 2017.

We look at the impact of Brexit on business confidence, plus the successful on time delivery of new hoppers and boxes to Mendip Rail and Ecofrets to GB Railfreight.

We also take a look at how VTG UK's sales and marketing team works.

Finally, as another year end approaches I wish you all a very happy Christmas and a prosperous New Year."

*Rob Brook
MD VTG Rail UK*

News from the Group



Dr. Heiko Fischer

Net profit increases

VTG increased its profitability in the first half of 2016, although revenue was slightly below the previous year.

Group revenue of EUR 493.3 million (first half of 2015: EUR 512.3 million) and EBITDA of EUR 165.8 million (first half of 2015: EUR 168 million) were both down by a small amount year on year.

The Group's net profit improved sharply, increasing by around 50 percent to EUR 26.7 million (first half of 2015: EUR 18.1 million). Earnings per share (EPS) climbed even more steeply from EUR 0.42 in the first half of

2015 to EUR 0.71 in this period. Successful refinancing in 2015 and the realization of synergies following the acquisition of AAE are two of several reasons for this positive development.

"The results for the first half of this year show that we are well on the way to further increasing our profitability. We can be pleased with an above-average increase in Group net profit and EPS in the first half-year," says Dr. Heiko Fischer, CEO of VTG Aktiengesellschaft.

He added "The results confirm that we are pursuing the right strategy, even though more positive developments in revenue and EBITDA were hampered by external factors such as the low price of oil and the reduction in truck tolls in Germany. We thus had to slightly reduce our expectations regarding the revenue trend in 2016."

In the financial year 2015, VTG generated revenue of EUR 1,027.5 million and an operating profit (EBITDA) of EUR 336.5 million. Via its subsidiaries and affiliates the company, which has its head office in

Hamburg, is mainly present in Europe, North America, Russia and Asia.

New major shareholder in VTG

VTG Aktiengesellschaft has gained a new major shareholder. Morgan Stanley Infrastructure has said that it will hold 29 percent of the company's share capital and will therefore become the company's largest shareholder. Andreas Goer, founder of AAE (Ahaus-Alstätter Eisenbahn) which was acquired by VTG AG in 2015, sold all of his shares at a price of 29 Euro per share.

DB Cargo and VTG win research project

DB Cargo and VTG have won a contract put out to tender by the German Federal Ministry of Transport and Digital Infrastructure (BMVI) for the "Innovative Freight Cars" research project. The project has a budget of around EUR 17 million and will run until the end of 2018. Its aim is to develop quiet, energy-efficient freight cars with lower operating costs.

VTG delivers the goods

New wagons for Mendip Rail, GBRf and DB Cargo arrive in UK.



VTG has delivered to Mendip Rail Limited the 130 aggregate wagons ordered by the company in 2015, and to GBRf new fleets of Ecofret container flats and box wagons.

The Mendip wagon fleet, a mixture of hoppers and boxes, were built by Astra Rail Industries in Romania. They came across Europe and into the UK through the Channel Tunnel in late summer 2016 and went into traffic straight away. The wagons will be used primarily to move stone from the Aggregate Industries and Hanson "super-quarries" in Somerset to a range of destinations, many in London and the South East.

We placed an order for another 125 state of the art box wagons during the year, the first 40 of which were delivered to GBRf in Autumn 2016 to boost its capability in the

construction sector. At the time of going to press, the first batch of a new fleet of 85 box wagons were being delivered to DB Cargo in order to bolster its wagon fleet resources.

With their improved speed of operation, track friendly bogies and high payload capability the new wagons would be an efficient addition to any construction fleet. However, VTG's experience and expertise in the freight wagon field means that its new wagons are built to a unique enhanced specification featuring high strength side walls, floors and cant rails meaning they will be more resilient to damage than its competitor's offerings. According to Ian Shaw, VTG's Sales & Marketing Director, "it's details like this that mean we can offer our customers market leading levels of availability and reliability, not just in the

short term, but for the life of the wagons".

The order and arrival of these wagons reflects the optimism still running through the rail construction sector.

Billions of pounds worth of infrastructure projects have been given the green light in recent years and there are many others in the pipeline. Schemes such as Crossrail 1 and 2, HS2, Hinkley power station, the Cross Country and GWR upgrades all need rail wagons to bring equipment and materials in and out of sites.

GBRf also took delivery of its 15 triple Ecofret wagons to help it to cope with the demand for its intermodal services – services that were boosted by the award to the freight operator of its eighth rail path out of the Port of Felixstowe.

It's been a tough period since the EU Referendum with political uncertainty affecting all of the freight markets.

However, even though there was a downturn the latest indicators suggest the economy is once again picking up momentum and the message that rail freight is versatile and efficient is being drummed home.

The advantages rail brings in terms of both economics and the environment are huge.

Bulk train loads of freight contribute enormously to rail's environmental benefits. They can convey between 1,000 and 4,000 tonnes of material, with each train removing up to 75 HGVs off our crowded roads.

WASP – taking the sting out of wagon shortfall



Thanks to our close relationship with GBRf, which includes having one of our fleet controllers co-located in their Peterborough office, trainloads of Ecofrets are taken care of by VTG's WASP team.

"We have definitely seen an improvement in average wagon availability levels taking us from 93.9% in 2014 to 96.9% now."

Maria Connolly, Service Delivery Manager, VTG Rail UK

VTG's customers have very similar and understandably demanding expectations.

They are similar in that they all expect to have available as a matter of course the wagons they ask for in order to keep their customers happy.

If they are contracted to run a set of 20 wagons, they expect 20 wagons to be supplied in time and in good order. If a train runs short, the impact on their business can be costly in monetary and reputational terms.

So, they want a supplier they can trust and who is flexible enough to fit in with their often changing business requirements.

VTG has been at the forefront of service advancement and innovation for years and prides itself that it is constantly looking to boost performance to enhance availability.

As part of this continuous improvement strategy a new performance management process has been injected in to its service offer while a set of new company values has been adopted.

Wagon Availability and Service Performance (WASP) has been part of the process that delivers wagons to our customers at increasingly improving levels of availability

and reliability, while the VTG Group values of agility, customer orientation, appreciation and entrepreneurial mind-set are the foundations on which the company is built.

In charge of WASP activity is Maria Connolly VTG's Service Delivery Manager. Maria's role is relatively new and was created to bring focus to meeting the operational needs of VTG's customers.

"There have been many changes over the years, but the most significant one to date is the ever increasing focus on wagon availability," she said. "Thankfully sustainable performance improvement has long been part of our culture."

WASP seeks to improve customer service by identifying and targeting specific issues which are causing problems. It uses a "visual management" technique, employing the principles of continuous improvement and lean manufacturing as developed in the motor industry.

"We have a daily meeting starting at 09:10 in the "WASP Room" that lasts for 20 minutes," explains Maria.

"All departments including Service Delivery, Engineering, Asset Management, Sales and Finance are involved and have an input at some level. Cross departmental communication is key and the WASP room gives us the ability to ensure that everyone is aware of the issues and involved in the solutions.

"We focus on any fleet whose availability level has dropped below what is required,

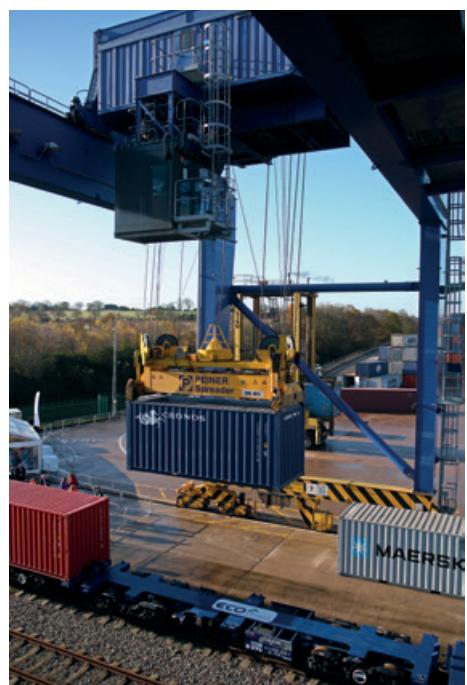
look at the reasons why, agree what action is required and who is responsible so that ownership is taken. We look at issues that impact on availability such as material procurement and maintenance contractor performance. We also look at trends to assist with proactive forward planning."

Maria's Service Delivery team plays an integral part in the process. It includes four fleet controllers, two of which are based in Birmingham and two "co-located" within the offices of VTG's two biggest customers. One with GB Railfreight in Peterborough and the other with Mendip Rail in Merehead, Somerset. This relationship enables us to have a closer working relationship with the customer and improve our level of service delivery.

Maria says reaction to VTG's approach has been very positive. "Our customers are pleased that we are responding to their needs in such a proactive way. Our suppliers too are recognising the focus being brought to their performance and are "stepping up to the mark" to meet our requirements.

"We all have the same goal and this shows our customers the commitment VTG has to providing the quality of service they require.

Maria concludes: "One thing I have learnt about WASP is that it needs to evolve, so I am always looking to gain, rather than sustain, momentum by motivating the team, seeking the positives in difficult situations and showing appreciation for the effort everyone puts in to making WASP a success."





It is absolutely clear that no-one can be entirely sure what the UK's departure from the European Union will mean for any organisation, business sector or individual.

In order to withdraw from the EU, the UK will need to invoke Article 50 of the Treaty on European Union, pass legislation to repeal the European Communities Act 1972 and put in place transitional arrangements, making clear which EU standards and regulations will continue to apply. This will be neither easy nor quick, given the intricacies of the legal process.

Opinions as to how this might work abound but even as we write, in early December, not even the prime minister knows yet how, when or by whom the Article 50 leaving process will start. That's in the hands of the Supreme Court.

So right now everything is speculation, speculation fed by the roller coaster that is the UK's economy along with distractions such as the government's announcement of a rail structure shake-up.

From reporter to exporter everyone has a view but what's the view on how it might affect rail freight?

Groupe Eurotunnel Chairman and CEO Jacques Gounon, until very recently the owner of GB Railfreight, said that the vote in favour of leaving the European Union 'will not affect the activity of the Channel Tunnel concession'.

The Channel Tunnel operates under the

terms of the 1986 Treaty of Canterbury between the British and French governments and the UK is not part of the Schengen area so border controls are in place.

M Gounon added: "The Channel Tunnel fixed link was established with an international treaty between two sovereign states. Our Anglo-French vocation is to offer our customers a constantly improving and more competitive transport service. I am confident that we will achieve our goals."

The rail freight optimists look to construction for business growth and at the moment there is great potential.

Construction in 2015-16 accounted for 22.4% of rail freight volumes and that is expected to grow.

Potentially, it's big business. High Speed 2, for example, has some 16 million tonnes of earth to move out as well as all the materials going in.

Hardly surprising then that the rail freight sector is calling on the government to continue to invest in infrastructure.

With the vast majority of new UK freight rolling stock currently being built overseas, the recent reduction in the value of the Pound plus the continuing fluctuation in exchange rates, which seems to accompany every new government announcement, bring additional challenges to companies seeking to invest in wagons and locomotives. However, these same factors may bring about new opportunities for British companies looking to manufacture or refurbish rail vehicles domestically. As always, the market will adapt.

While the UK's departure may allow government to relax some existing laws, it will need to implement new legislation, so it is likely that many of the major standards would continue to apply, possibly forming the basis of UK legislation. The detail of this change however, will be of interest to those companies who have had to implement European rolling stock legislation aimed at "interoperability" for example, knowing full well that the freight vehicle it was being applied to would never set foot (or wheel!) outside of our shores.

Until there is clarity on the terms of the UK's exit from the EU, the UK legal and regulatory framework remains the same so it seems unlikely that, for the time being at least, there will be significant changes in the railway sector and this should provide some reassurance for the wider rail community.

But how future rail policy might be applied in Britain depends largely on the UK's future status in Europe. From the day of withdrawal, EU requirements in relation to access to railway facilities, safety, licensing, ECM and TSIs are unlikely to change.

Over time, however, the two policy systems are likely to gradually to move apart as the UK begins to take a potentially increasingly different direction to the EU and pursue its own objectives.

Will it be an amicable divorce?

Noises from European leaders suggest no-one is going to make our life easy outside the EU and that's especially true for a highly competitive market like rail freight.

Watch this space!

Spotlight on: Ian Shaw, Sales and Marketing Director



Ian was appointed to the position of Director Sales and Marketing in 2011 having worked in the rolling stock leasing sector since 2001.

Who else is in your sales and marketing team?

Paul Lugg (Sales Manager) and Caitlin Lippitt (Sales & Marketing Administrator). We all work together as you would expect in a small team. Paul tends to manage our Tank and Intermodal customers but inevitably there is a significant overlap.

What three words best describe your team?

Proactive, industrious, creative.

What is the most challenging aspect of the job?

Accurately predicting the long term picture and investing in the right areas for the market that will exist in 10, 20 or 30 years' time.

There can only be a small number of potential business opportunities and your wagons last for years. How do you market a 'product' that lasts for decades to such a small target audience?

Careful market research, collaboration with strategic industry partners and an innovative approach to "repurposing" of wagons and recycling of key components. We don't have a crystal ball but we do our best and our

efforts so far have been rewarded by the faith shown in us by our parent company and the investment this has enabled.

How is your plan drawn up and who does it?
It's a team approach involving the department plus the MD along with additional resource from areas such as Engineering and Finance. We hold regular Sales Strategy meetings where we review market trends, update previous predictions and agree the most appropriate future direction for the business.

How do you identify the way forward and what methods do you use to attract interest in new business?

We have targets in the form of budgets and forecasts which we need to adhere to as meeting these is the way we can show the parent company that their faith in us is justified. New business is attracted in a variety of ways including advertising, publicity, etc but the sector is compact and we tend to know and be known by the vast majority of key players. The essential thing is to recognise developing trends and position yourself to be able to meet market needs when required. This is exactly what we did with the development of Ecofret®.

What influence, especially the advantages, does Hamburg/VTG Group bring?

We are fortunate to be part of a substantial organisation with all of the investment potential and support that that brings with it. There are many advantages including being able to learn from colleagues operating in other rail freight markets throughout Europe and worldwide. As a major purchaser of new freight rolling stock we it also means we have a much stronger negotiating position with wagon manufacturers and a project management/engineering presence in all of the main workshops.

Which department within VTG is your team closest to?

As VTG Rail UK is a relatively small team of 18 people, we work closely with all other departments including Engineering, Asset Management, Finance and Service Delivery. Each area needs to understand the commitments we have made to our customers in order to allow them to fulfil their role in the organisation.

Who else influences your activity?

We are involved and work closely with many organisations within the wider business environment. This includes industry bodies

such as the Railfreight Group, the Freight Transport Association and the Chartered Institute of Logistics and Transport. Some of the VTG team are active committee or council members of these organisations. This close relationship means that, as well as supporting the wider industry, we stay close to latest developments.

Competitors – anything to say about them?

We prefer to deal with our customers' requirements and adding maximum value to their businesses. As Jeff Bezos, the founder of Amazon said, "If we can keep our competitors focused on us while we stay focused on the customer, ultimately we'll turn out alright".

In general terms competition is a good thing as it leads us to innovate and encourages us to make the changes that distinguish VTG as the market leader it is.

What are your/your team's greatest successes?

We've had a lot of successes over the years. In this industry however, relationships are all important and many projects are "slow burners" due to their complexity and the amount of investment involved. The level of business we've been able to build up with customers like GB Railfreight and Mendip Rail, both of whom now have VTG Fleet Controllers "co-located" in their offices, is very satisfying as it demonstrates the faith such major organisations place in VTG as a key business partner.

Any tough lessons?

We've learnt that nothing is forever and a change of customer group strategy, sometimes taken in a different country to where the team you did the original deal with is based, can have far reaching repercussions. The key is to "future proof" things as far as possible and have contingency plans in place wherever you can.

And finally?

Our business is ultimately not about owning, leasing or maintaining wagons for their own sake. It's about providing our customers with the means to move their product from A to B as safely, reliably and cost effectively as possible while providing all of the other benefits that Railfreight can offer compared to other modes of transport. It's actually a key part of the VTG Group Mission Statement: *"Together, we connect worlds with mobile infrastructure"*.

A great day for Nigel

VTG's annual family day out had a competitive edge this year, as we went Go-Karting. Held at Ace Karting, Walsall, in mid-September the competitors battled their way through many heats to qualify for the quarter finals. Quarters were followed by semis, then of course the final.

The VTG family karting competition was won by our Head of Engineering, Nigel Day, VTG's very own Lewis Hamilton, who was followed closely by second placed Kevin York and David Lippitt in third.

According to Caitlin Lippitt, (wife of bronze medallist David), it was a fabulous day. She said: "There were lots of bruises and sore limbs the following day, but it was good fun." The children particularly enjoyed it, with their fearless approach to driving coming into play.

And it wasn't just the winner who felt a Hamilton moment. All the men appeared to turn into Lewis for the adrenaline pumping day.



No champagne? Winners and runners up at the chequered flag.

Caitlin said: "They all had to overcome the urge to drive their cars home in Karting mode and to overtake everything in front of them on the motorway!"

News in brief

Another path out of Felixstowe

The 33rd daily rail freight service was introduced at the Port of Felixstowe in the summer. It came just seven weeks after the introduction of the 32nd path. The new service is operated by GB Railfreight using VTG Ecofrets and Megafrets and runs between the Port of Felixstowe and Rotherham.

Intermodal record

According to ORR figures domestic intermodal accounted for the largest proportion of freight moved during 2015-16 (36.2%) – this was the first year since 2010-11 that this commodity recorded the biggest share.

Construction growth

The Construction Product Association's latest 'State of Trade' survey reports continued growth in sales of construction products in the second quarter of 2016, the thirteenth

consecutive quarter of growth. The sector was given a further boost at a Parliamentary reception on 23 November hosted by Martin Vickers MP, Chair of the All Party Parliamentary Rail Group. Paul Maynard, the Rail Minister, told attendees that the Autumn Statement had highlighted the need to build houses and infrastructure and that rail freight is vital to deliver the construction materials needed for these projects, and added "The best way to bring them to sites, we believe, is by rail."

RFG welcomes DfT's rail freight strategy

The Department for Transport (DfT) published its rail freight strategy in September saying that private rail freight operators had transformed the sector, doubling its share of freight movements in 20 years through a spirit of commercial enterprise, customer focus and innovation.

Rail Minister Paul Maynard said: "The rail freight industry has faced a number of uncertainties over recent months. I hope that this strategy will enable the industry to look forward with confidence and ensure that rail freight continues to play a central role in our future vision for the railway." Maggie Simpson, RFG Executive Director, said: "The rail freight sector is changing and working hard to deliver growth in new and existing markets and to be fit for the future. This strategy will help to provide the stable and supportive environment they need to do so. We welcome its publication."

GBRf sale

GB Railfreight is now officially part of the Hector Rail Group having been sold by Eurotunnel. Hector Rail is a Swedish-based independent train haulage provider operating in the European rail transport market.

VTG Rail UK wishes all of its Online readers a very happy Christmas and a prosperous and healthy 2017.

Once again we will be giving to charity the money saved by having an e-card. This year we are supporting:

- The British Heart Foundation
- Cancer Research
- Macmillan Nursing
- Birmingham Dog's Home



Christmas Greetings from VTG Rail UK