

Sector Example: North American Railroads

Sector overview

- **US freight rail companies own large irreplaceable transport networks**
- **Freight volumes are underwritten by the movement of bulk commodities with growth only loosely related to economic cycles**
- **Freight charges have risen substantially above inflation due to increasing road freight costs. Cost factors which have not impacted rail**
- **Increasing road-freight costs and on-going rail productivity enhancements are lowering the distances over which rail is cheaper than road**

The competition are under pressure

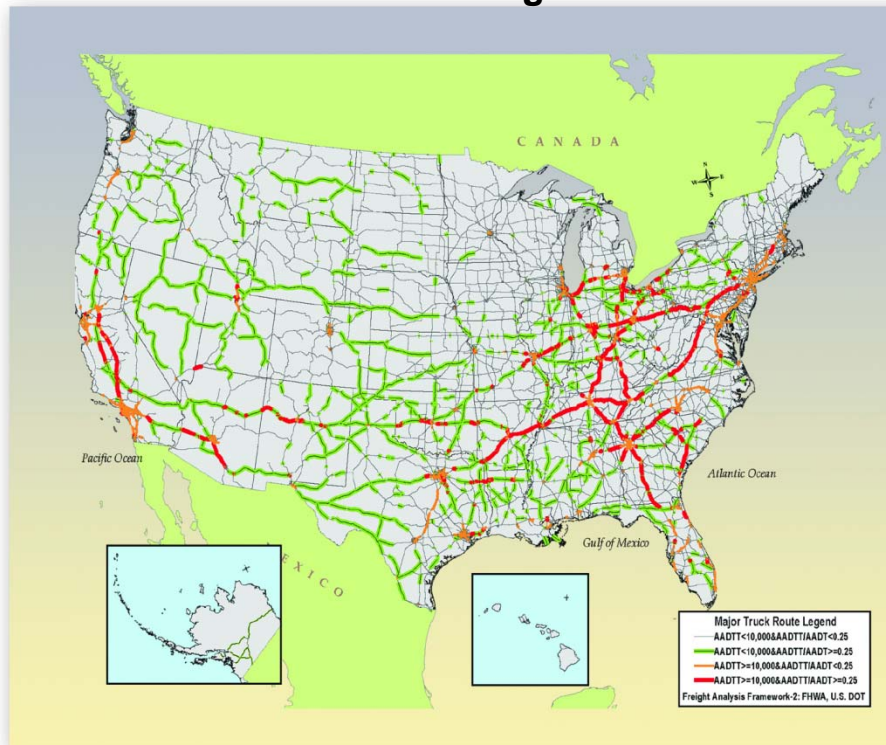
- **Long-term underinvestment in the US highway network has resulted in road congestion in many regions**
- **The competitiveness of trucks has also been impacted by their relatively high labour and fuel costs and an increasing burden of environmental and safety regulations**

Improved rail operations

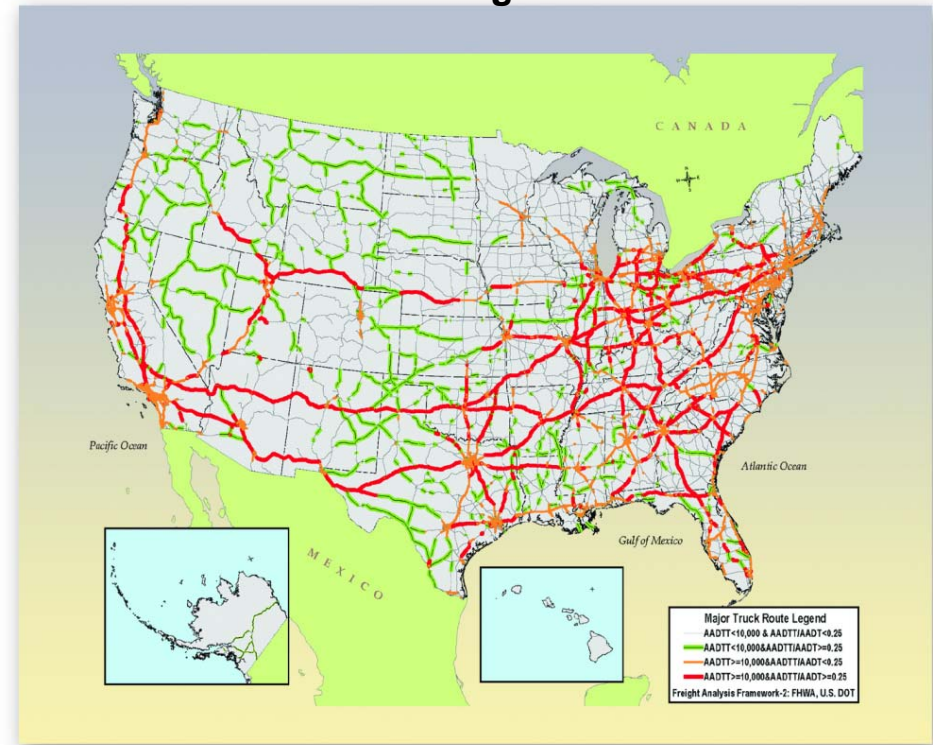
- **Technological and structural improvements to railroad operations is allowing trains to run faster, cleaner and with greater reliability**
- **Better infrastructure allowing increased number of cars per train and carload weight**
- **A long history of improving operating and safety performance**

Increasing Road Freight Costs

Current Road Congestion



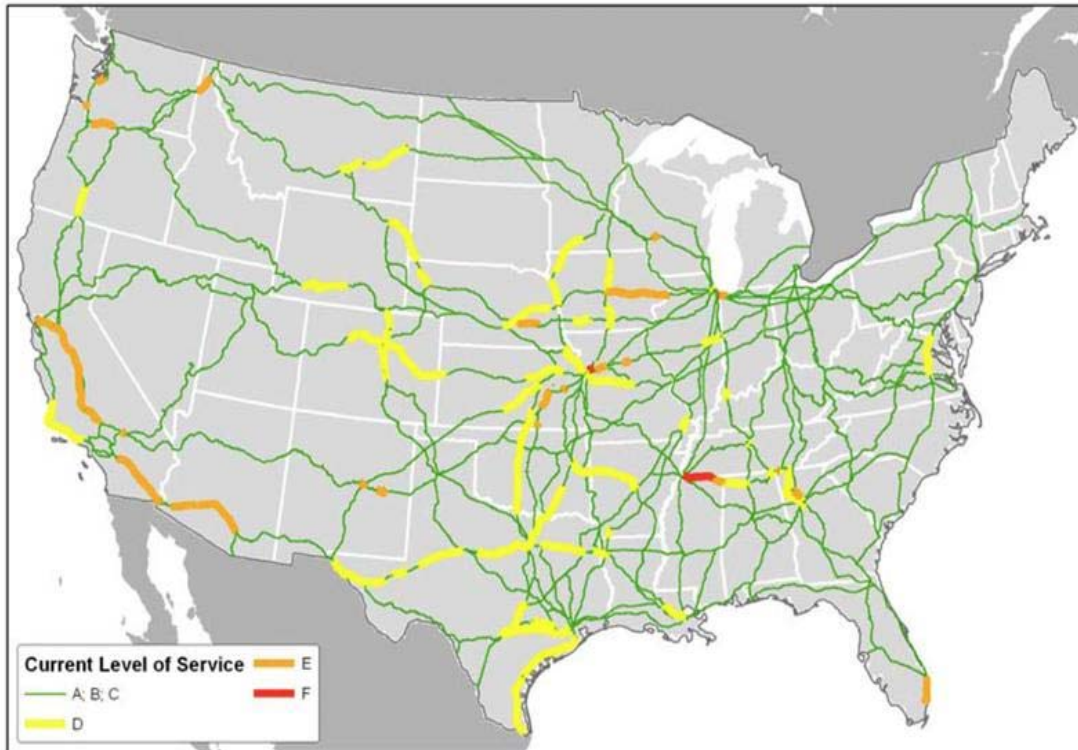
Forecast Congestion 2030



The US Interstate Highway system is becoming chronically congested. It is calculated that US petrol tax will have to rise from 20 cents to 70 cents per gallon to fully fund its upgrade. In the meantime road congestion is increasing the cost of transporting good by road and relatively improving the economics of rail freight

Growth Without Track Expansion

US Rail Network



Capacity Utilisation

Below Capacity

- At less than 70% of capacity
- Ample room for growth. Minor impediment from accidents and maintenance

Near Capacity

- 70% to 80% of capacity
- Moderate capacity to accommodate accidents and maintenance

At Capacity

- 80% to 100% of capacity
- Little room to accommodate growth. Disruption from accidents and maintenance

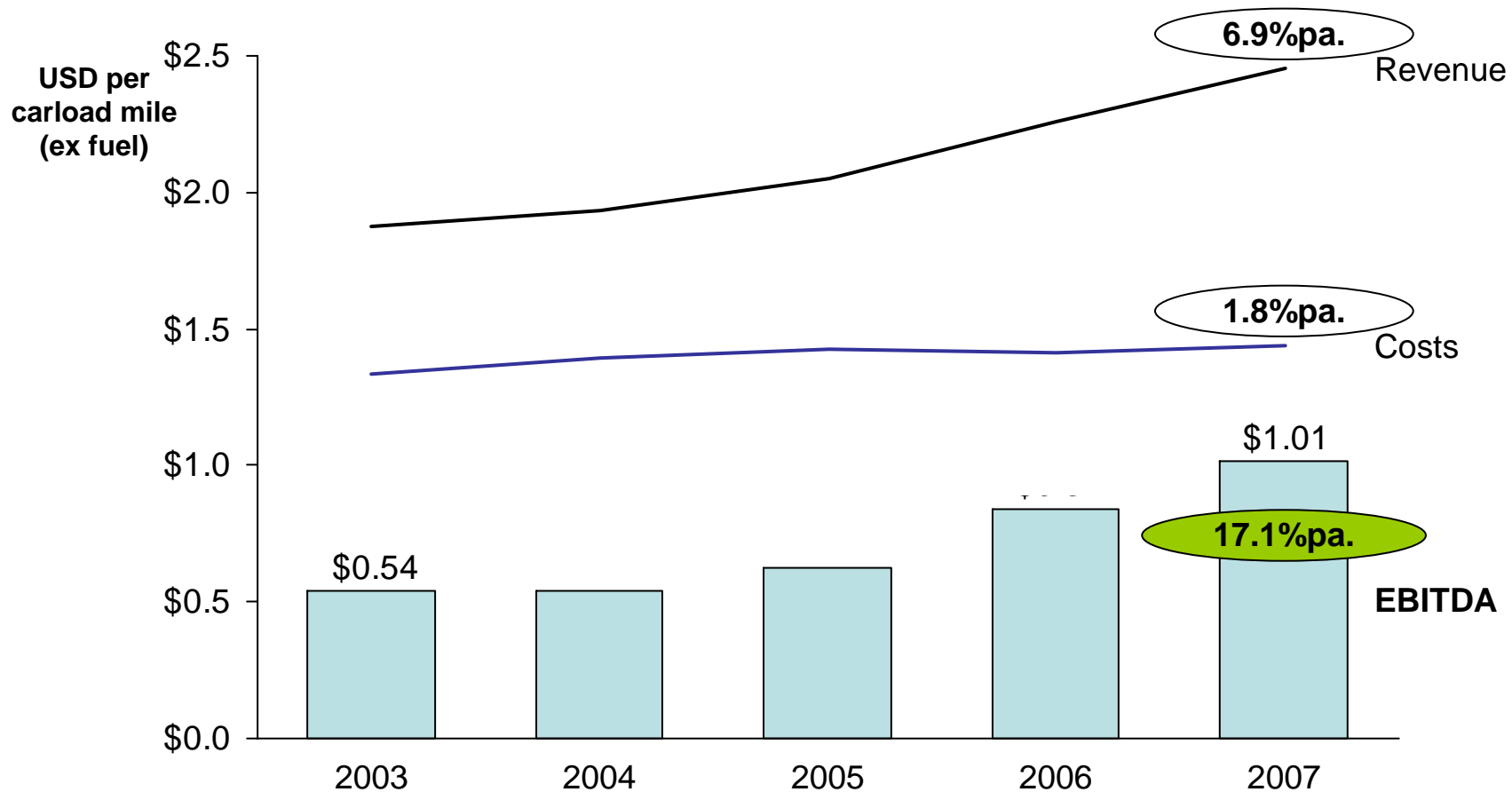
Over Capacity

- Over 100% of capacity
- Reliability impinged

Over the medium term railroads do not face the same capacity constraints as trucking and over the long-term expansion of railway capacity is often more efficient than increasing the capacity of congested roads. Forecast road congestion is at its worst in the east where rail has the greatest capacity to grow without needing costly capital investment.

Pricing Power + Stable Costs = Earnings Growth

**American Class 1 Railroad Per Carload Mile
Revenue, Costs & Profitability (ex Fuel)**



The ability to raise prices has meant that over the last five years the US Class 1 Railroads have increased revenue per carload/mile from US\$1.88 to US\$2.45 while costs have only risen from US\$1.34 to US\$1.44. Resulting in net income rising from US\$0.54 to US\$1.01 per carload/mile

Sector Example: European Airports

Sector Overview

- **Within Europe more people are travelling more often**
- **Airport congestion requires capital investment which in turn requires a sympathetic regulatory environment**
- **New builds are difficult and costly providing a favourable environment for incumbent airports**

Lower fares & more services

- **The long term trend is for declining air fares, encouraging more passengers to travel to more destinations**
- **Low Cost Carriers (eg. Ryanair and easyJet) have stimulated strong demand even in mature markets**

European Union expansion

- **Strong growth between existing EU states and those gaining EU membership**

Wealth and demographics

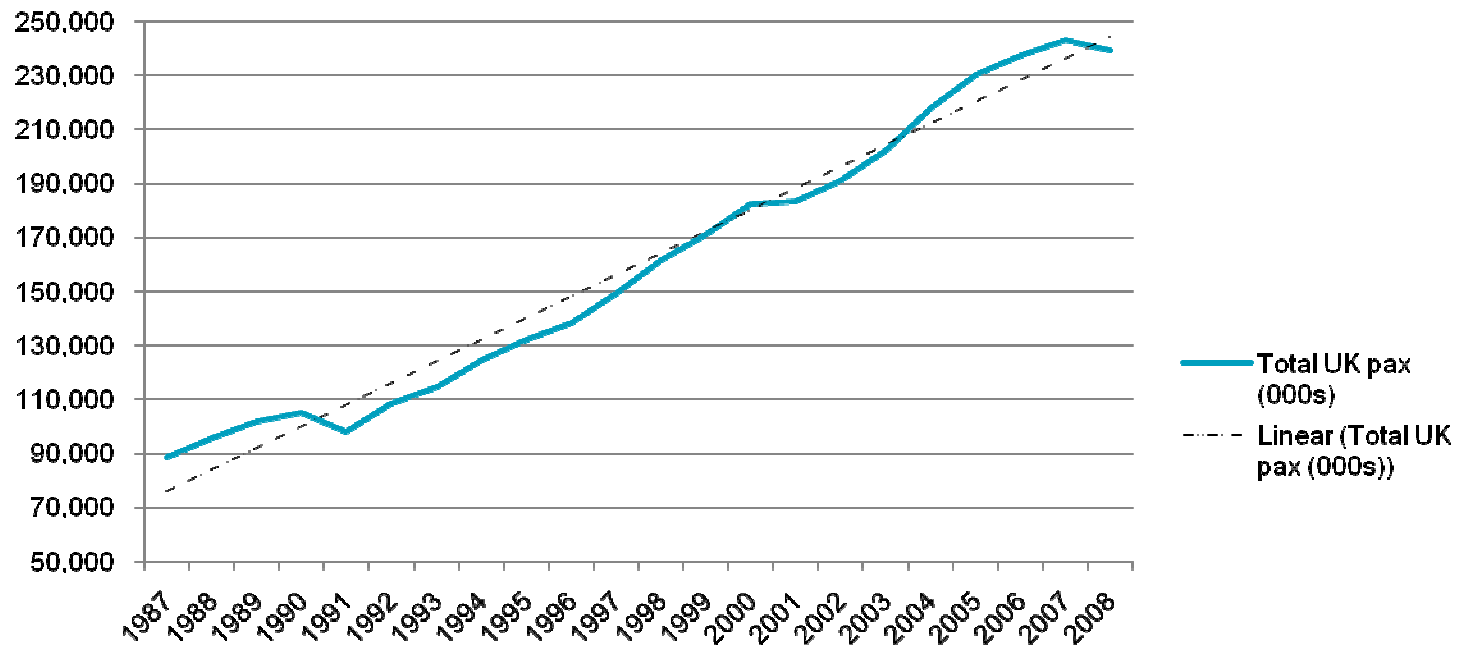
- **Strong positive relationship between GDP per capita and the propensity to travel**
- **Strong positive relationship between developing population demographics and the propensity to take air trips (couples without children, wealthy long-lived retirees, etc)**

Increasing commercialisation of airports and enhancement of airport services

- **Increasing sophistication of the airport services offered to capture the traveler dollar**

European Air Travel Growth

UK Airport Passenger Volumes: 1987-2008E (000s)

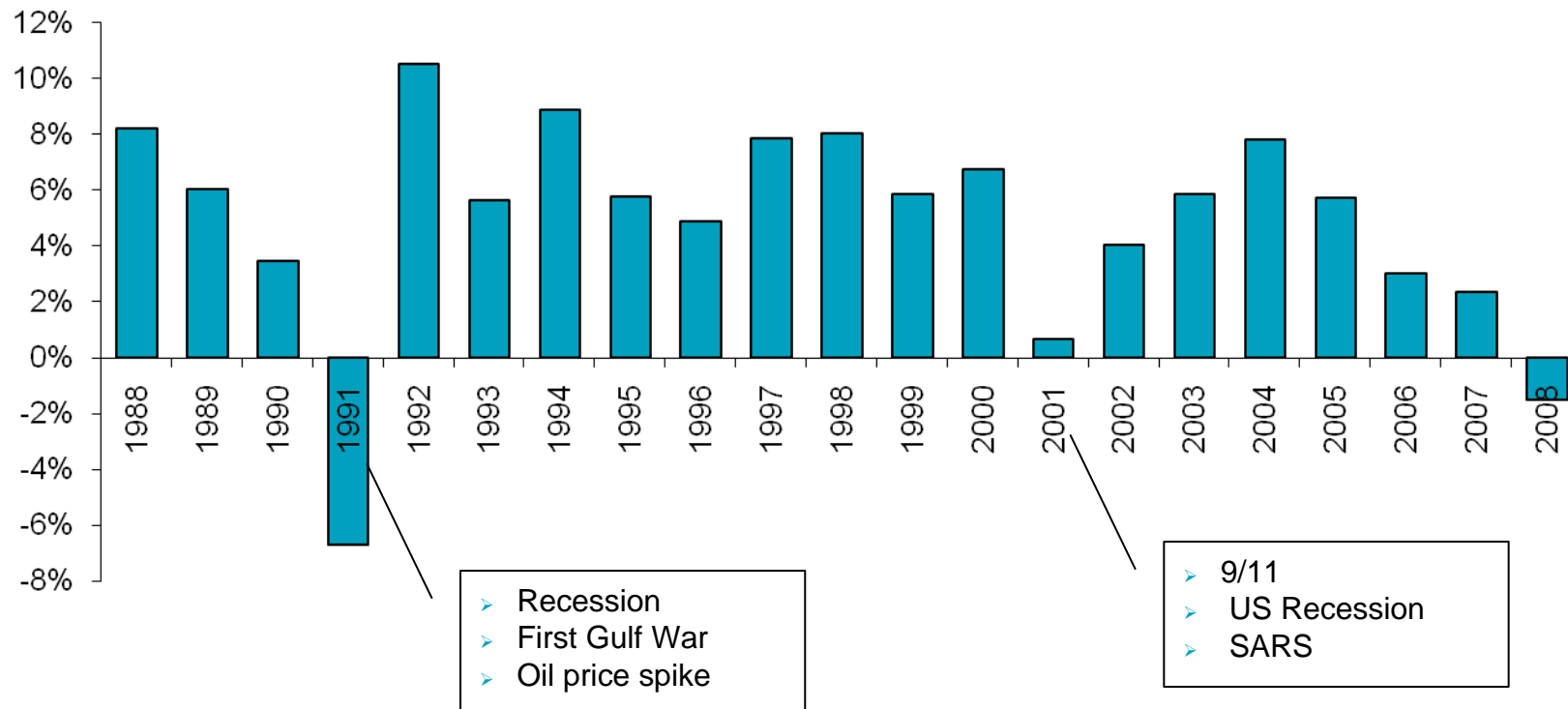


European air travel growth is a robust trend based on increasing airline competition (lower fares, more services), increasing wealth, increasing propensity to travel, and expansion of the European Union. Recent economic developments are reducing European air travel, but are unlikely to impact trend growth

Note: 2008 estimate assumes that December 2008 continues the trend of the 12 months to November 2008 (i.e. -1.5% YOY decline)

European Air Travel Growth

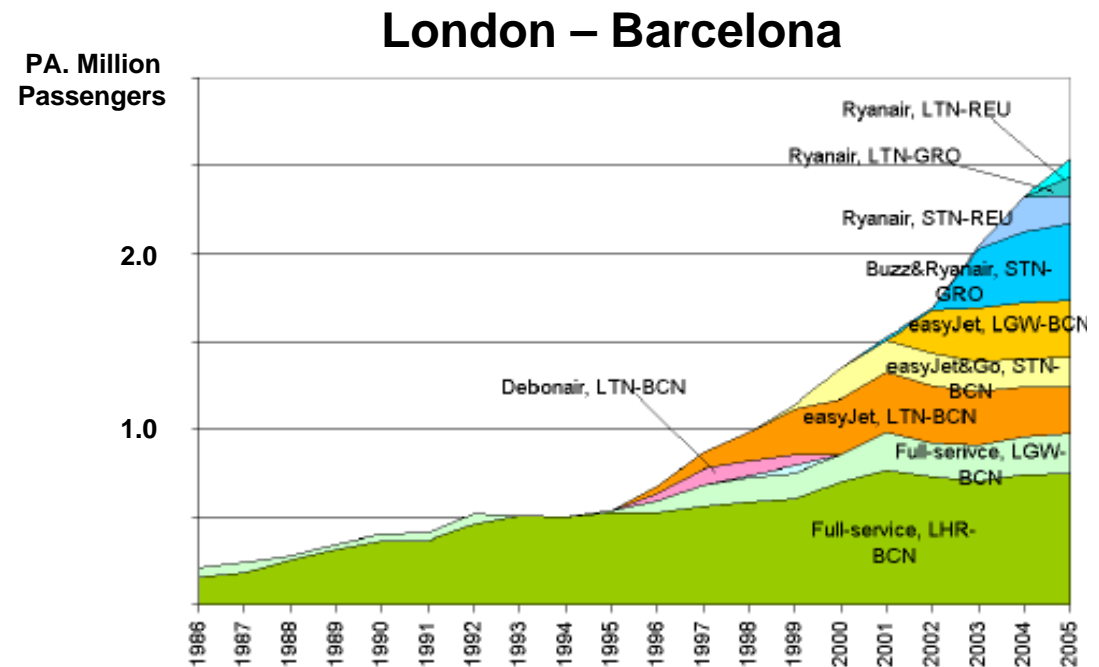
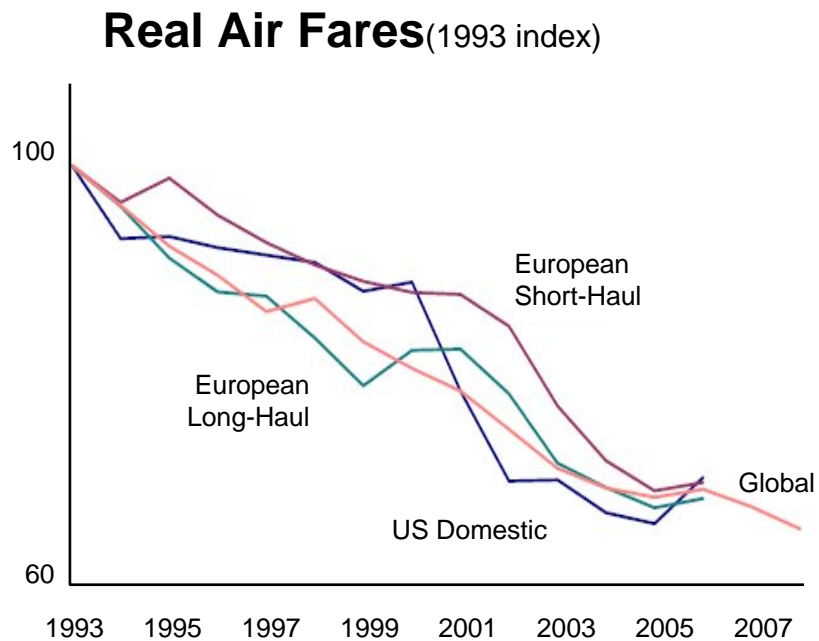
YOY Change in Passenger Volumes at UK Airports: 1988-2008⁽¹⁾



Passenger growth tends to be 1.5x to 2x GDP and air freight growth about 2.5x GDP. Passenger numbers quickly recover from periods of economic stress. During down periods airlines enhance their services and offer to customers which results in passenger growth once economic/income circumstances recover

(1) 2008 figures are rolling 12 months to end of November 2008 vs PCP

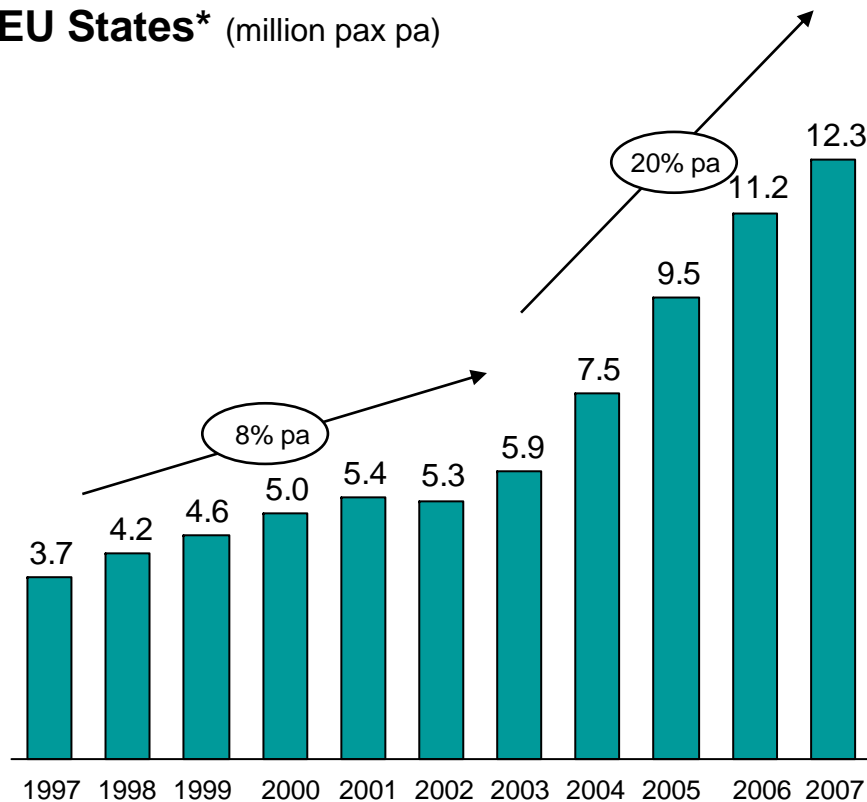
Air Travel: Lower Cost / Faster Growth



Over the last 15 years, real European airfares have fallen 35%. Not coincidentally, over the same period European air travel has grown markedly. The London-Barcelona route illustrates the impact of the entry of low cost airlines. Better services and lower fares have resulted in a four-fold increase in passengers on a previously mature route

EU Expansion / Air Travel Growth

Passenger Traffic Between UK and New EU States* (million pax pa)



* New EU States = 2004 accession countries (Poland, Czech Republic, Slovak Republic, Cyprus, Latvia, Estonia, Lithuania, Malta, Slovenia)

2004 EU expansion has triggered rapid growth in air travel between new and existing EU states

Also, as income levels of east European countries rise those populations will travel more

The full impact of the trend is yet to play out

- France and German are still lifting restrictions on 2004 accession countries
- Further growth in EU planned (Croatia and Turkey)

More than 3 air trips per capita per annum

- Denmark, UK, Ireland, Sweden, Netherlands, Switzerland

About 2 air trips per capita per annum

- France, Germany, Austria, Belgium, Italy

About 1 air trip per capita per annum

- Russia, Latvia, Poland, Bulgaria, Hungary, Estonia, Czech Republic, Yugoslavia, Ukraine, Belarus, Romania, Croatia, Turkey