

Presentation to ERFA

Rail Liberalisation in the UK: “from early mistakes to recent success?”

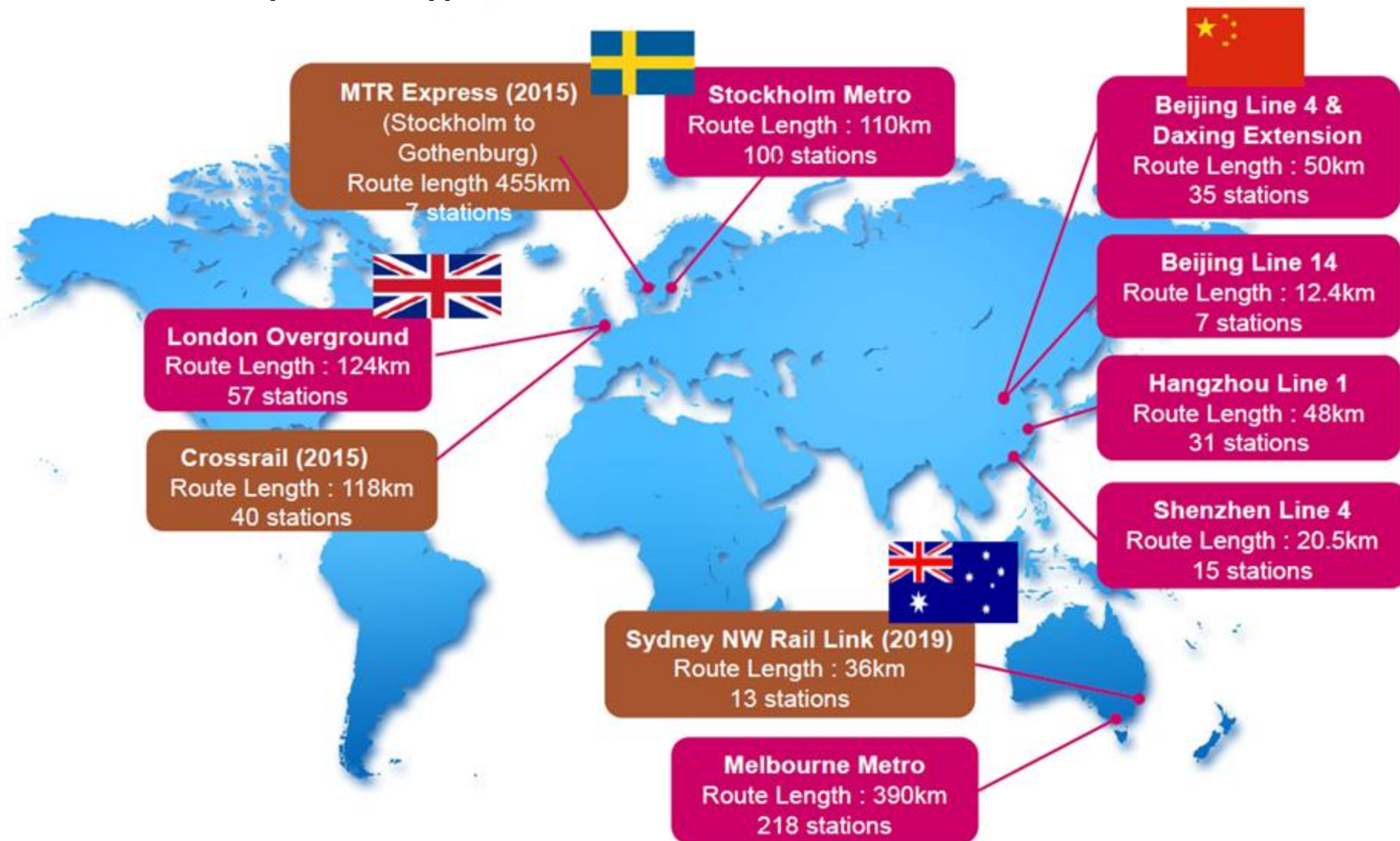
Jeremy Long, CEO - European Business
24 March 2015



About MTR

MTR's International Railway Operations

3.3 billion passengers carried in 2014



MTR – world-leading performance

- Performance: 99.9% punctuality in Hong Kong
- Over 50 Awards won in 2014 for quality, service, sustainability
- Benchmarked as one of the most cost-effective railways worldwide

MTR – Financial Strength – December 2014

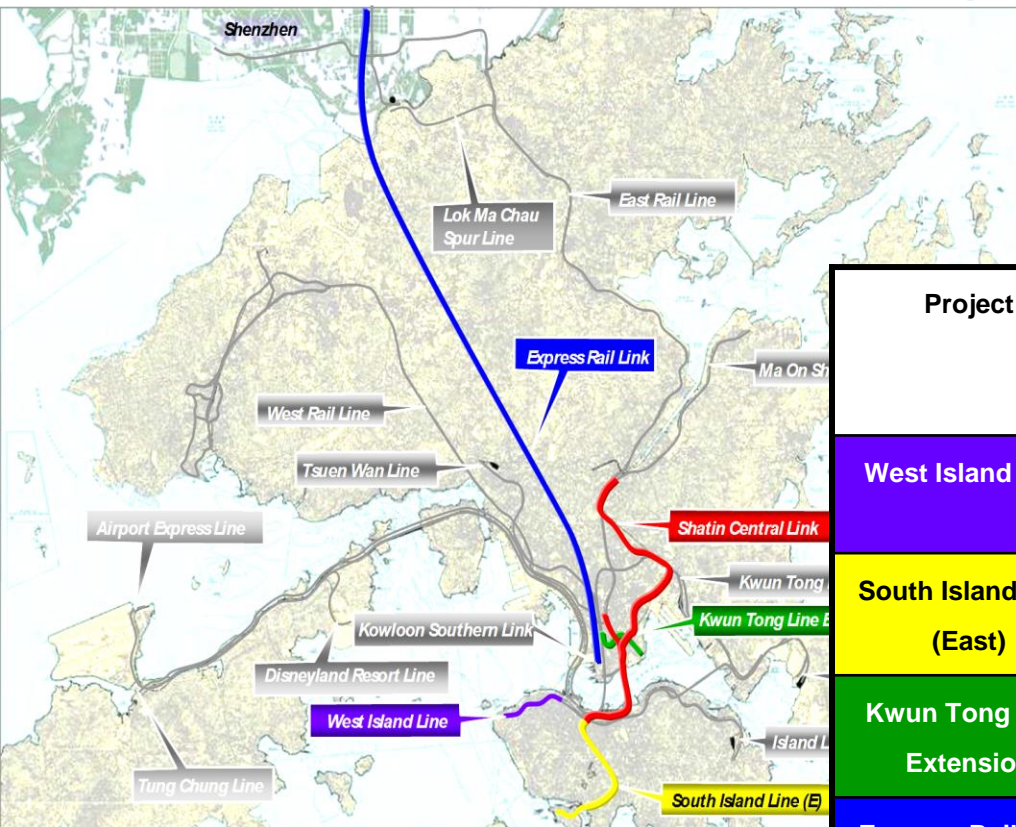
Profit after tax	£1.3 bn
Asset value	£14 bn
Financial Gearing	7%
Market Capitalisation	£17 bn

Quoted on HK Stock Exchange plus member of
FTSE4Good Sustainability Index



Railway Expansion in Hong Kong:

Five major projects in progress led by MTR



Project	Route Length km	No. of Stations	Target Completion	Cost	
West Island Line	3	3	2014	£1.4bn	Capital grant
South Island Line (East)	7	5	2015	£1.2bn	R+P
Kwun Tong Line Extension	3	2	2015	£0.5bn	R+P
Express Rail Link High speed rail	26	1	2015	£5.0bn	B&T O&M
Shatin Central Link	17	9	2018 (Phase I) 2020 (Phase II)	£6.8bn	B&T O&M
			Total	£14.9bn	

Privatisation of railways in the UK

– the fundamental changes

- Separation of infrastructure management and train operations
- Train operations tendered as franchises to UK and foreign bidders
- Rolling stock ownership transferred into independently owned ROSCOs
- Rail Regulator created to oversee the industry
- Infrastructure company Railtrack formed – became Network Rail

The Benefits of Franchising

- Bidding process stimulates cost efficiency, revenue growth opportunities, and innovation
- Franchise specification contains minimum requirements for service specification
- Shareholder reputation upholds quality and delivery once awarded
- Attracts wider pool of senior management candidates to the rail industry

Rail Regulator roles in UK

- Oversees safety
- Grants operating licences to operators
- Allocates train paths and capacity, grants track access to operators
- Sets efficiency targets/funding needs for Network Rail (in 5 year 'control periods')

Misconceptions about 'liberalisation' in UK

- Fares – critical fares are still 'nationalised', not liberalised
- Franchise agreements contain minimum service specifications
- Fragmentation – in fact fewer rolling stock types now than under British Railways
- Private sector making 'super profits' – in fact average of only 3% margin

Privatisation in UK

– Early mistakes and current status

Early mistakes

- Franchises poorly marketed by UK Govt
- Infrastructure owner Railtrack pursued wrong focus
- Early relationships in industry very contractual
- Operators sought unrealistic cost savings, performance suffered

Current Status

- Strong competition, including international railway companies
- Network Rail improving in efficiency and delivery
- Benefits being realised from cooperation and alliancing
- Performance and achievable value for money better balanced

Has it worked?

- Strong growth in demand and passenger revenue
- Much improved operational performance
- Significant improvement in quality (new trains, improved stations)
- Highest ever number of services
- High levels of customer satisfaction

Current issues for UK rail

- Crowding, particularly in the morning peak
- Rate of continued passenger volume growth, versus available capacity
- Cost of providing additional (peak-only) capacity
- Balance of overall funding sought from general taxpayer, versus passenger fare revenue