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GLOBAL TRANSPORT

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Introduction

KPMG member firms advise public and private sector rail operators worldwide on an array of commercial and financial projects. We also work with Government policymakers and regulators, rolling stock manufacturers and lessors, and rail infrastructure companies. Our Global Rail Network works closely together to bring sector-specific advice to clients, wherever they may be.

This document presents a selection of KPMG member firms' work in helping clients from across the rail sector.

California High-Speed Rail Authority: Financial and Commercial Advisor

Context

The California High-Speed Rail Authority ("CHSRA") is developing a high-speed rail system that will operate at a speed of up to 220 mph and will connect the San Francisco Bay Area, the Central Valley, and the Los Angeles Basin.

In 2008, voters in California approved taking the first step in the development of a state-wide high-speed rail ("HSR") program. In 2012, the California Legislature agreed state funding, which combined with Federal funds, will be used to construct the first section of the system.

In 2011, KPMG in the US was selected as the CHSRA's commercial and financial advisor to assist the Authority with financial planning, procurement strategies, market sounding and developing funding and financing plans for the development of the system.

KPMG's role

KPMG was awarded a contract to provide financial and commercial advisory services to assist CHSRA with their planning efforts for HSR. The US firm's initial task was to assist the CHSRA in preparing a financial plan as part of a mandated business plan for the California Legislature. The business plan makes a detailed case to develop the HSR program and identifies the levels of investment from federal, state and private sources necessary for implementation. KPMG provided cash flow and funding analysis to support the business plan as well as preparing the business model, funding and finance and risk assessment elements of the plan.

Following the successful release of the business plan in 2012, KPMG continued to assist the Authority in the planning of the system. This included facilitating procurement options evaluation to assist the CHSRA in understanding the relative merits and disadvantages of various delivery options. In early 2013, KPMG organized a series of market outreach meetings with investors and operators KPMG is currently assisting in risk workshops and preparing value for money analysis. The output of this analysis will form the basis for the 2014 business plan.

KPMG assisted the CHSRA in its Statement of Qualification evaluation process in December 2012 and Request for Proposals evaluation process in March 2013 by reviewing financial capacity of consortia bidding for the first construction package which will commence in 2014.

Outcome

The advice provided by KPMG helped enable the CHSRA to release the draft 2012 business plan to the Legislature and to the public. The 2012 business plan provided the detailed information on the CHSRA's long-term strategies and the system's projected overall costs, revenues, and potential profitability needed to support the appropriation of over US$6 billion in government funding. KPMG's advice also enabled the CHSRA to advance its commercial strategy relating to the system with a clear and documented methodology which will form the basis of the 2014 business plan and assisted the CHSRA to develop its initial design build procurement which resulted in five compliant bids from major international and domestic consortia.

Passenger Rail Agency of South Africa (PRASA): Rolling Stock Replacement

Context

PRASA is responsible for the operations, personnel and assets of all of South Africa's commuter and metro rail operations. Much of South Africa's metro rolling stock fleet has now exceeded its useful life and will have to be decommissioned. This presents a major obstacle to PRASA's efforts to transform public transport in South Africa and to support its objective of mobility and accessibility (the movement of people) and 'providing access to real opportunities that will help all South Africans to improve their lives'.

Given this, PRASA is embarking on a complete replacement and expansion of its metro rolling stock fleet over a 20 year period. This will result in the delivery of an estimated 7,200 vehicles, structured into two consecutive contracts of ten years each. In addition, PRASA will require ongoing maintenance provision for this fleet, which will be provided, at least in part, by the private sector.

KPMG's role

KPMG in South Africa was engaged as the lead transaction, financial and commercial advisor for the feasibility study into the procurement of new rolling stock, maintenance, financing and related infrastructure.

In discharging this role, KPMG's scope of work comprised, *inter alia*, the following aspects:

- project management and coordination of the transaction advisor consortium (including legal, technical and rolling stock specialist advisors);
- preparation for, and assistance with, the delivery of a major market engagement for global and local rolling stock manufacturers and financiers, using KPMG's global network of rail specialists with the aim of ensuring the most comprehensive market sounding;
- advice on the financial and commercial issues pertaining to the transaction, including the options analysis, value assessment, economic valuation, and procurement plan;
- advice on localisation aspects of the procurement; and
- compilation and delivery of the overall feasibility study report.

KPMG used its knowledge of the rail market, as well as public procurement regulations in South Africa, to help ensure that the feasibility study was fully suitable for PRASA's needs.

Outcome

The feasibility study was delivered ahead of schedule, and subsequently approved by all the required levels of Government.

The feasibility study established the need to procure 7,200 rolling stock vehicles over a 20 year period, with the heavy maintenance aspect provided by the private sector, under a Technical Support & Spares Supply Agreement, whereby the supplier provides component warranty and overhaul, performance and reliability engineering, and other general technical support for more complex issues.

The feasibility study also identified that due to the extent and cost of the maintenance depot and other infrastructure requirements, a separate procurement process was required for this aspect of the project.

KPMG was subsequently selected as both commercial and financial advisor and as localisation advisor within a new consortium to deliver on the procurement stage of the transaction. This significant procurement phase commenced in December 2011 and is currently ongoing.

Queensland Treasury: QR National Initial Public Offering

Context

In December 2009, the Queensland Government announced that it would split the state owned transport and logistics company QR Limited into two entities. One entity, Queensland Rail, would be retained by the Government, and be responsible for above and below-rail passenger operations.

The other, QR National, would be responsible for the significant above and below-rail coal and freight business, and would be listed on the Australian Securities Exchange by way of an IPO.

This new, privatised business, with revenue of approximately US$3 billion, would be one of the world's largest rail transporter of coal from mine to port for export markets, hauling an average 500,000 tonnes of coal a day. The organisation would also maintain the rail infrastructure, manage access for third parties and provide rolling stock maintenance and overhaul facilities to third parties, including Queensland Rail.

KPMG's role

KPMG in Australia was appointed as accounting and taxation advisor to the State of Queensland and the investigating accountant for the IPO of QR National.

Due to the wide ranging nature of the project, KPMG applied a multidisciplinary approach, which allowed the client to receive advice on a range of financial and non-financial issues. The dedicated team contained professionals from the audit, tax, accounting advisory, IT advisory, and transaction services functions.

In order to ensure compliance with the US SEC Rule 144a, KPMG was required to re-perform the audit of QR Ltd for 2008 and 2009 as well as performing an audit for 2010.

The organizational separation of the two entities was highly complex. KPMG worked with the client, Queensland Treasury, to provide comfort to them on this separation from an operations perspective and ensured that the financial separation was done in accordance to leading practice and audit standards.

KPMG used their capital market transaction experience, as well as their previous experience of major projects in the industry, to provide analysis and challenge on prospectus forecasts and, ultimately, to the Investigating Accountant's Reports over the historical and forecast financial information presented in the Offer Document.

KPMG also provided advice and assistance in a range of other areas including IT advisory, tax structuring and accounting advisory.

Outcome

QR National was successfully listed on the Australian Stock Exchange less than 12 months after the decision to IPO the business.

The offer, for 66 percent of the share capital of the business, raised over US$4.05 billion for the Queensland Government, who retained the remaining 34 percent stake.

HS2 Limited: Commercial Analysis

Context

High Speed 2 ("HS2") is a planned high-speed railway from London to the north of England, with services continuing on existing rail lines to Scotland. Phase 1 of the scheme will involve the construction of a high-speed rail line between London and the West Midlands, with Phase 2 continuing to Manchester via Crewe and Manchester Airport, and to Leeds via the East Midlands and Sheffield. Phase 1 is programmed to open in 2026 with construction of Phase 2 planned to open in 2033. At a projected cost of over £40 billion the scheme is the largest investment in rail infrastructure in Britain since the Victorian era.

KPMG's role

In 2012, KPMG in the UK was selected to advise HS2 Ltd, a company established by the UK Government, on the commercial analysis required to demonstrate the on-going affordability of the scheme. The analysis considered the cash flows between the Government and infrastructure, rolling stock and train operating companies following scheme opening. It considered the impact of HS2 on specific parts of the network as well as its impact on the network as a whole.

Our work involved the development of a series of financial models of infrastructure, rolling stock and train operations, and the application of those models to consider the size of the rail market once HS2 opens, the allocation of demand and revenues between high-speed and existing services, and the risks and opportunities arising from variations in:

- pricing;
- on-track competition – with existing rail and open access operations;
- cross-modal competition;
- external demand and revenue growth; and
- HS2 and existing fleet assumptions.

The engagement team was composed of colleagues from corporate finance, business modelling and economics and regulation, providing the client with the breadth of experience required to deliver a detailed financial assessment of a genuinely transformational infrastructure scheme.

Outcome

The advice provided by KPMG helped HS2 Ltd and the Department for Transport develop the analysis required to support the Outline Business Case for the scheme. Specifically, it considered the potential impact of HS2 on the on-going requirement for public funding of the railways, taking account of the implications of the scheme for existing train operators. The analysis considered a number of scenarios and sensitivity tests to establish the magnitude of the risks and opportunities to projected costs and revenues.

The analytical framework developed by KPMG provided HS2 Ltd with the tools to consider the financial implications of potential future changes to the design of the scheme, the assessment of alternative commercial structures and operating models, and the implications of the scheme for national rail policy.

State Government of Victoria: Melbourne Rail Refranchising

Context

In 1999, the State Government of Victoria put in place franchise contracts with the private sector to operate and maintain Melbourne's metropolitan train and tram network. These franchises are vertically integrated (i.e. the operator is responsible for operations, along with infrastructure and rolling stock management and maintenance).

The Government announced that the franchises would be competitively re-tendered with the new franchises to commence in November 2009.

KPMG in Australia was engaged as the Department of Transport's lead commercial and financial advisor throughout the re-tendering process.

KPMG's role

KPMG provided advice on a range of areas within the franchising process.

This included:

- policy formulation and decision making on the structure of the franchises;
- advice on the commercial principles of the franchise agreement, infrastructure lease and inter-operator agreements;
- financial modelling of the franchises and business forecasting;
- evaluation of indicative and final bids;
- interaction and negotiations with bidders;
- vendor due diligence; and
- taxation and accounting advice.

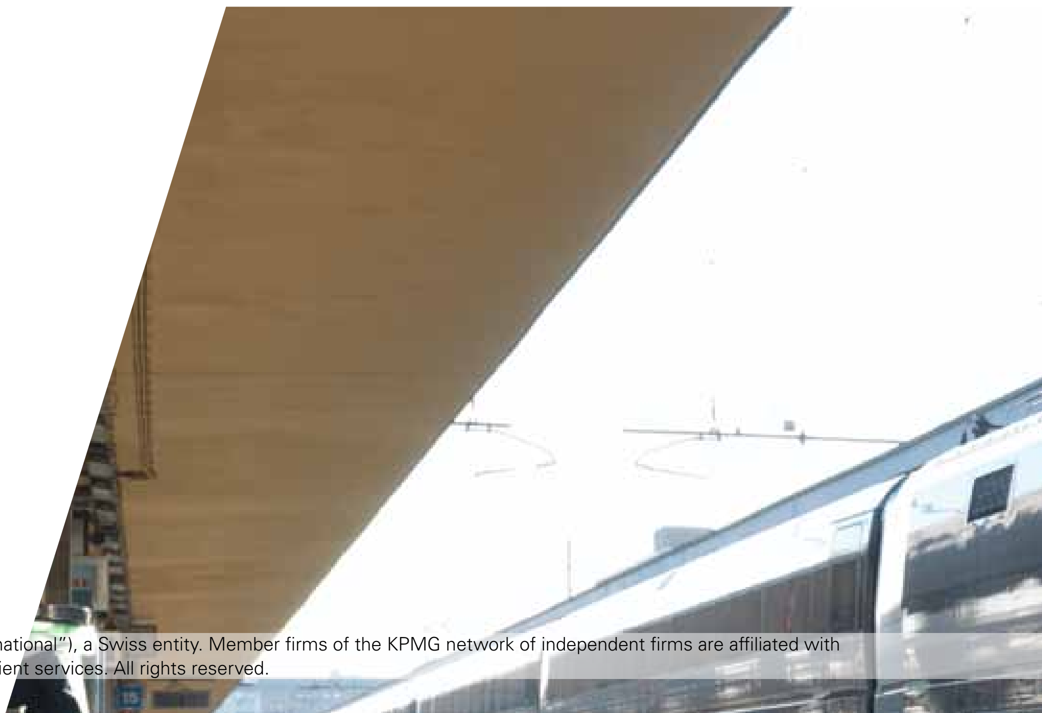
In addition, a team from KPMG in the UK provided an independent review of the transaction documentation from a market acceptability perspective.

Outcome

The State Government of Victoria signed new franchise agreements for the Melbourne metropolitan train and tram franchises.

Keolis Downer Rail, a joint venture between Keolis and Downer EDI, was selected as the preferred tenderer for the tram franchise and Metro Trains Melbourne, a joint venture between Hong Kong's MTR Corporation Ltd and Australian companies John Holland Melbourne Rail Franchise Pty Ltd and United Group Rail Services Ltd, was selected as the new train franchisee.

Transition to the new contracts began in October 2009 with control of the network passing to the new franchisees from 30 November 2009.



UK Department for Transport: Rail Franchising Review

Context

Rail franchising in the UK has resulted in significant benefits with patronage increasing by 60 percent since privatization and unprecedented levels of investment being delivered in rolling stock and passenger facilities. Amongst operators a mature market for franchises has developed which gives Department for Transport ("DfT") the potential to drive value from rail operations through competition.

However, in the summer of 2009, DfT took advantage of a pause in the franchising timetable to undertake a review of the current model.

This review was prompted by:

- the economic downturn which tested the financial resilience of the model in a way that had not occurred since privatization; and
- concern that the level of contract specification, combined with relatively short franchises, was constraining innovation and investment by operators.

KPMG's role

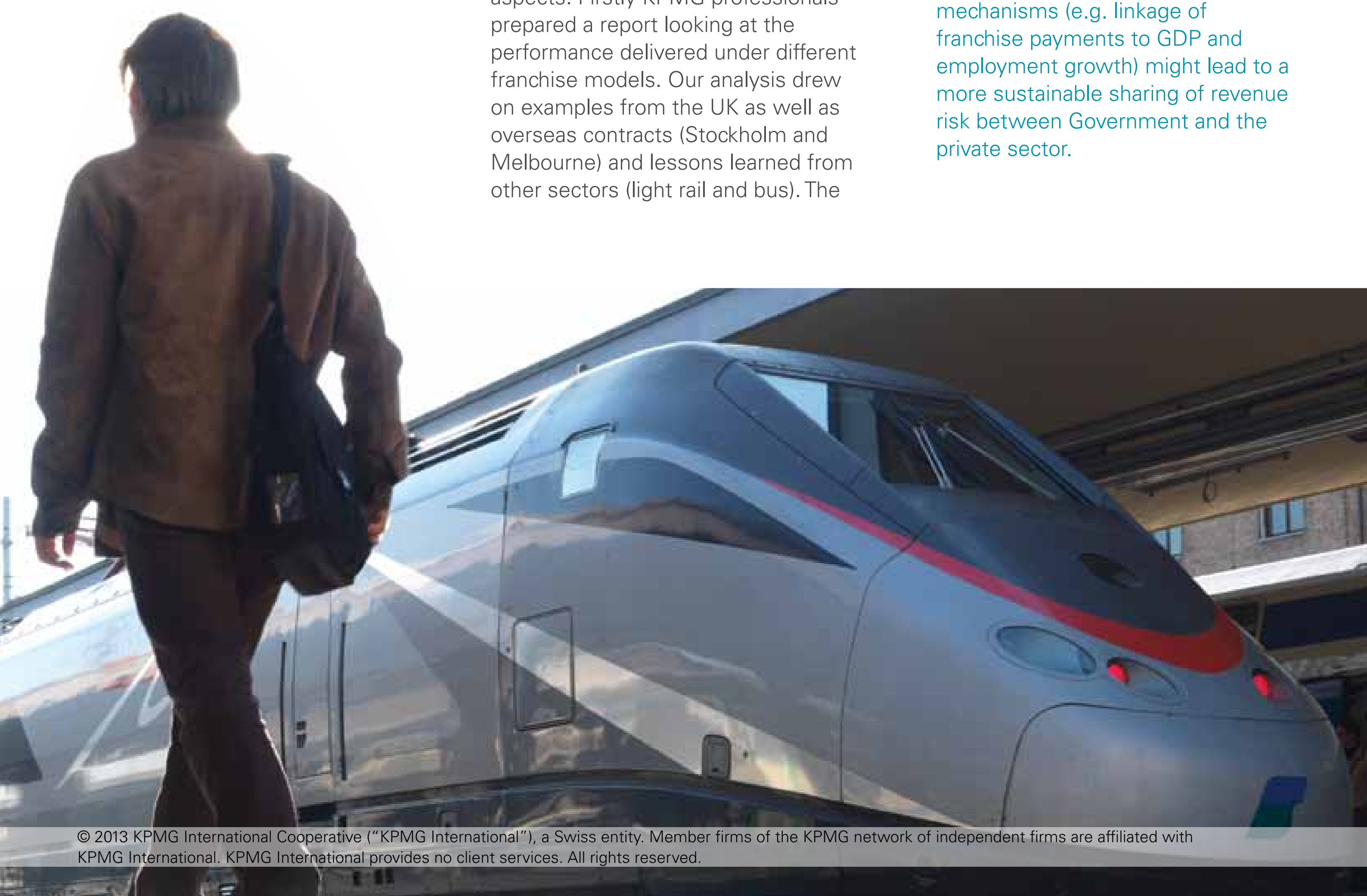
DfT appointed KPMG in the UK to assist in undertaking the review. Initially we assisted DfT in an evidence gathering exercise. Subsequently, based on the findings of this work, we provided input into developing and evaluating potential reforms to the franchise agreement.

The evidence gathering phase had two aspects. Firstly KPMG professionals prepared a report looking at the performance delivered under different franchise models. Our analysis drew on examples from the UK as well as overseas contracts (Stockholm and Melbourne) and lessons learned from other sectors (light rail and bus). The second part of the evidence gathering phase was a consultation exercise during which KPMG professionals interviewed around forty senior figures within the rail industry in order to determine the effectiveness of the franchising model. Issues discussed included franchise length, sharing of revenue risk with Government and contract management processes.

Outcome

DfT issued an interim paper in January 2010 setting out its initial thinking and the further work that it planned to undertake. KPMG was retained to advise DfT in two areas:

- developing approaches that would better encourage investment by operators in the railway; and
- evaluating how different contractual mechanisms (e.g. linkage of franchise payments to GDP and employment growth) might lead to a more sustainable sharing of revenue risk between Government and the private sector.



Singapore Land Transport Authority: Review of Rail Franchising Framework

Context

The Singapore Government is planning a significant extension of its Mass Rapid Transit ("MRT") rail network. It is proposed that S$20 billion will be invested in a number of new lines.

Land Transport Authority ("LTA") sought an adviser to help establish a new Financing Framework for the operating licenses.

LTA's objectives for the new Financing Framework were:

- enabling the expansion of the network in a way that is financially sustainable;
- establishing greater contestability in Singapore's rail industry; and
- a system that was robust with certainty for both Operators and LTA.

KPMG in Singapore was appointed by LTA based on the rail experience and knowledge of member firms around the world, particularly in the area of franchising.

KPMG's role

In order to assist LTA in its decision making, KPMG professionals:

- constructed a model to assess the financial sustainability of the new extended network;
- established an evaluation framework to assess the suitability of different operating licence structures. Operating models were evaluated against policy objectives such as financial sustainability, contestability and service quality; and
- for the preferred licence structure, developed the payment mechanism to be put in place between Government and the operators. In addition, we advised on the transitional issues that could arise in moving from the current structure to the new framework.

Outcome

At the end of the project, we presented our work to the Singapore Transport Minister. LTA is incorporating a number of the changes that were proposed into the tender for the new Downtown Line which is scheduled to begin operating in 2013.

Amtrak: Integrated Northeast Corridor Program

Context

The current passenger rail system along the Northeast Corridor ("NEC" or the "Corridor") in the US serves approximately 263 million passengers annually on Amtrak high-speed, regional rail, and on commuter services operated by transit agencies. As such, it experiences regular system constraints due to a lack of capacity. The NEC Program is a visionary infrastructure undertaking involving a complete overhaul of rail service along the NEC, including development of a robust, intercity high-speed rail network.

Amtrak anticipates investing up to US$117 billion over 30 years into the Corridor to develop the "Next Gen" High Speed Rail ("HSR") service. The service would include a new dual-track train system extending 423 miles from Boston to Washington D.C. with principal stops at major cities through New York on the route. With trains capable of running at up to 220 miles per hour, trip times will be reduced by up to two-thirds relative to current performance. The capital program will also encompass approximately US$52 billion of improvements needed over 20 years to achieve a state of good repair along the existing NEC.

With significant capital expenditure of this size the program is arguably the largest infrastructure project in North America.

KPMG's role

KPMG in the US along with its sub-contractors was appointed as Amtrak's advisor for the project. The role includes:

- assisting in project initiation, preparation, and scoping and developing the analytical foundations needed for the development of the Business and Finance Plan;
- development of a white paper that explores and evaluates all possible sources for funding and financing the capital program;
- assisting in the development of an options assessment and analysis to help determine the most appropriate plan for the project implementation;
- assisting Amtrak with a risk assessment to identify and evaluate potential pitfalls with various delivery structures; and
- construction of a cash flow model to help Amtrak evaluate funding and financing options for project delivery.

Outcome

KPMG delivered the Business and Finance Plan in the summer of 2012. Key findings of the Plan were published by AMTRAK in "The AMTRAK Vision for the Northeast Corridor – 2012 Update Report" published in July 2012.

HSBC Rail and Eversholt Rail Group: Sell Side Services

Context

HSBC Rail was originally formed as one of three rolling stock leasing companies, or "ROSCOs", created following the privatisation of the UK rail industry.

The company's business model is to acquire rolling stock assets, principally passenger trains but also cargo locomotives and wagons, and lease these to train operating companies.

The business now operates solely in the UK market, having previously built a small presence in the continental European freight sector.

HSBC took the decision to dispose of the business, and commissioned KPMG to work with its other advisors to assist with the disposal.

KPMG's role

KPMG in the UK provided vendor due diligence services to HSBC, under which a detailed report on the business was prepared, covering the key issues across the following areas:

- financial – including consideration of historical and projected performance;
- taxation – including consideration of the transaction steps and ownership structure; and
- pensions – focusing on the separation and funding of the existing pension provisions.

The vendor due diligence team also prepared specific reports on the 'locked box' completion mechanism and balance sheet that was used for the transaction. As the transaction progressed, meetings were held with the prospective bidder community in order to answer questions on the analysis contained in the reports

In addition to the core vendor due diligence services, separate specialist KPMG teams were engaged to:

- comment on the mechanics of the projections model that had been prepared by the company and its corporate finance advisers; and
- provide reporting accountant services in relation to the bond issue programme that was implemented to replace existing HSBC debt financing

Outcome

In 2010, the business, rebranded to the Eversholt Rail Group, was sold for £2.1 billion to a consortium of investors comprising Morgan Stanley Infrastructure, 3i Infrastructure and STAR Capital Partners.

European State Railway Infrastructure Provider: ICT Outsourcing

Context

Our client, a European state railway infrastructure provider, privatised its Information and Communications Technology ("ICT") division. The resulting entity was acquired by a global ICT provider with a minority share retained by the state entity.

Due to legislative changes, our client needed to take a new approach to its ICT outsourcing. These changes meant that over €200 million per annum of ICT services could no longer be awarded directly to the newly formed entity, and had to be competitively tendered.

The situation was additionally complex because most of the key IT applications belonged to our client, but hardware was split 50 / 50 between our client and the new entity.

Our client sought external expertise in developing a strategy for ICT outsourcing to reflect the new legislative reality.

KPMG's role

The KPMG member firm engaged, used their own expertise to define and implement an IT Outsourcing Strategy that met the bespoke needs of our client. The engagement involved several competencies, drawing on professionals in the IT Advisory and Corporate Finance teams, as well as rail market specialists.

KPMG worked closely with our client to understand the current situation and to generate a series of options for a future state ICT outsourcing approach. This was achieved through workshops and detailed discussion with individuals across the organisation. Client data, including spend data, was analysed thoroughly, and KPMG's global network was used to compare the options to leading practice.

The project looked at options in various areas including:

- the strategy for control of strategic and core applications;
- the strategy for less important, 'commodity' applications;
- the approach to pricing and cost dynamics with ICT providers; and
- potential partnership arrangements with ICT suppliers.

After agreeing this strategy, KPMG developed the ICT Service Catalogue, defined the desired structure and interactions of the ICT architecture, put in place the KPI and reporting structure, and developed the technical specifications for the tender documentation.

Outcome

As a result of the new outsourcing strategy, our client decided to call a tender for ICT service provisions. At the same time, they arranged for the sale of their minority share in newly formed entity.

After the award of the tender, KPMG supported the client in drafting the outsourcing contract, worth €1.2 billion over six years.

Borealis Infrastructure and Ontario Teachers' Pension Plan Board: HS1 Concession Bid

Context

KPMG in the UK assisted the Borealis Infrastructure and Ontario Teachers' Pension Plan Board consortium with their successful bid for High Speed 1, the 30 year concession holder of the UK's first high speed rail link between St Pancras and the Channel Tunnel. The consortium will be responsible for operating the 109km line as well as the stations on the line (St Pancras International and the international stations at Stratford, Ashford and Ebbsfleet). High Speed 1 is currently used by international Eurostar services between London and European destinations as well as domestic high speed services between London and Kent.

The business had been prepared for sale by its UK Government owned parent company, London & Continental Railways, through restructuring of key supplier contracts and through preparation of a number of Vendor Due Diligence ("VDD") reports.

KPMG's role

KPMG was appointed as buy side advisor. The role included reviewing the financial VDD report and providing incremental financial, tax and pensions due diligence, tax structuring advice and model audit services. Key areas of focus included:

- producing trading updates using the most recent financial information;
- detailed working capital analysis to understand the impact of the new contractual terms on cash flows and cash conversion rates;
- analysis of underlying working capital, adjusted net debt and identification of value leakages post the locked box date;
- technical accounting advice in respect of asset valuation, impairment implications, cash extraction and potential impact of IFRS conversion;
- due diligence of arrangements for the proposed new defined benefit pension scheme;
- tax structuring of the acquisition to maximise tax relief for acquisition funding, minimise tax leakage and accommodate investors' regulatory requirements; and
- review and comment upon the draft share purchase agreement provided by the Vendors.

Outcome

The Borealis Infrastructure and Ontario Teachers' Pension Plan Board consortium were successful in their bid for High Speed 1.

Rail Industry Supplier: Restructuring

Context

Our client was a group of lenders to a UK based company which had a number of plant hire operations, one of which supplied vehicles to maintain and upgrade the rail network in the UK. The company had been severely impacted by the recession and was in financial difficulty for a number of reasons including reduced government spending, insolvency of a key customer, oversupply in the market and a high cost base.

The company completed a strategic review. The outcome of the review was that it would exit non-profitable and non-core operations, and re-focus the business on its core rail business. However, over the following 12 months the company continued to suffer from oversupply in the market, with fleet utilization and prices declining, which was compounded by further increases in operating costs and low level of government spending.

KPMG's role

The lenders to the company engaged a KPMG member firm to advise on an exit strategy. The key aim was to maximize realization to lenders and creditors. The KPMG team worked with management and lenders to identify alternative exit strategies and identify the benefits and risks of each strategy.

Once agreement had been reached on the chosen strategy, KPMG assisted in the implementation of the chosen strategy by:

- advising on the sale of a non-core operation;
- identifying non-core assets which could be sold, and other cash management actions that could be taken. The aim was to improve the cash position and provide a longer period to achieve a sale of the rail business;
- KPMG was initially engaged to oversee the sales process and to ensure that any sale would represent the best return to lenders and creditors. KPMG subsequently assumed management of the sales process of the rail division and sold it within a week to another party;
- the company was placed into administration to deal with legacy and contingent liabilities.

We maintained regular dialogue throughout the process with the company, its lenders and other stakeholders.

Outcome

While we identified the exit strategy to enable the best return to creditors, finalizing a sale of the rail division was extremely challenging given the market environment and lack of appetite in the market place. KPMG's understanding of the business and of the rail industry helped us to identify potential bidders and helped ensure that we were giving appropriate advice to our client. This combined with a willingness to think of innovative solutions and tenacity enabled us to complete a sale in difficult circumstances.

This sale saved over 530 jobs and provided continuity of supply to the company's ultimate customer, the UK railway. It also generated a better return to the company's lenders and creditors than the alternative of a managed wind-down in insolvency.

Our ability to act as advisors, assist in the sales process and subsequently act as administrators enabled the lenders to have a greater consistency of advice and service throughout the process.

MARTA: Management Audit and Strategic Transformation Assistance

Context

The Metropolitan Atlanta Rapid Transit Authority ("MARTA") is the ninth largest transit agency in the United States, providing over 146 million passenger trips annually through bus, rail, and paratransit service. MARTA operates in the City of Atlanta and Fulton and DeKalb Counties under the authority and oversight of the state legislature, but receives no operational funding from the state. State law also restricts MARTA's use of sales tax revenue for operational purposes.

Like most organizations, MARTA was forced to alter operations and services in reaction to significant downturns in the global, national, and local economies over the last decade, including freezing employee wages, staff layoffs, and benefit changes.

Going forward, MARTA faces projected annual budget shortfalls of approximately US$25 million and the depletion of its reserve fund within five years.

KPMG's role

MARTA engaged KPMG in the US to provide three years of annual management audit services designed to assess MARTA's overall operational and financial effectiveness. Key objectives for the management audits include:

- analyzing current business processes and identify specific near-term opportunities for MARTA to narrow its funding gap to achieve greater efficiency and effectiveness;
- identifying longer-term opportunities for MARTA to improve its overall cost effectiveness and enhance organizational efficiently;
- drive sustainable, continuous improvement within MARTA than can be phased in over time; and
- assist MARTA to enhance its overall performance management, reporting and communications across key business areas based on sound benchmarking analyses both within the transit industry and general business.

KPMG identified 47 opportunities across the following workstreams including:

- staffing analysis;
- cost containment assessment;
- sourcing analysis (IT, HR, call center, paratransit, finance, cleaning);
- supply chain assessment;
- utilization of current ERP system;
- procurement assessment;
- regional transit analysis; and
- revenue enhancement analysis.

outcome

KPMG identified sourcing strategies that, when implemented, could result in aggregate potential 5-year savings ranging from US$60 million to US$142 million. KPMG also identified other opportunities to enhance revenues, contain costs and improve efficiency by making changes related to healthcare and personnel policies, supply chain management, utilization of the current ERP system and procurement function. As a result of this analysis, KPMG has also provided MARTA with a Strategic Transformation Road Map and Framework identifying a working plan and model for implementation of transformation initiatives.

Ferrovie dello Stato Italiane: Accounting Advisory Services

Context

Ferrovie dello Stato Italiane SpA ("FS Italiane") is the holding company of the Italian railway group, wholly owned by the Ministry of Economy and Finance, which is active in the field of passenger and freight transport (mainly by rail) and related services. FS Italiane, inter alia, controls the national infrastructure manager Rete Ferroviaria Italiana SpA ("RFI") as well as the railway undertaking Trenitalia SpA.

At the end of 2011 the group had less than 74,000 employees with over €8 billion in revenues. At 31 December 2010 the Group published its first financial statements under International Financial Reporting Standards (IFRS), in order to gain more visibility in the European market and in order to be comparable with other Italian and European groups.

KPMG's role

Following the entire IFRS process transition, KPMG in Italy was appointed as FS Italiane's advisor for various project activities mainly regarding the alignment of internal procedures, planning and control and accounting manual development. In particular, the role of KPMG in the IFRS accounting manual development included the following:

- scheduling of interviews with the Business Process Owners in order to identify the IFRS principles in use in the FS Italiane Group;
- definition of guidelines and accounting rules according to IFRS principles in use;
- scheduling of the interviews with the key users in order to analyze the contents of each account of the FS Italiane Chart of Accounts; and
- sharing of the assessment results and development of the final version of the accounting manual.

Outcome

KPMG delivered the accounting manual which was divided into two main parts:

- Guidelines – description of the IFRS principles, highlighting the main differences with the Italian accounting standards, as well as a description of the disclosures requirements; and
- Chart of Accounts – detailed description of the content and of the IFRS accounting rules related to each account.

Private Sector Rail Operator: Rail Franchise Bid

Context

A listed transport group in the UK decided to bid for a significant passenger rail franchise tendered by UK Department for Transport ("DfT"). KPMG in the UK was hired to assist the client throughout the bidding process which involved the following key stages:

- pre-qualification;
- bid preparation and submission; and
- negotiations with DfT.

The UK rail franchise market is highly competitive and the bid was complicated by the uncertain economic conditions at the time of submission.

KPMG's role

KPMG specialists helped the client prepare a robust pre-qualification response which safely guided them through to the main bid preparation phase.

A dedicated KPMG team then supported the finance work stream of the bid. This included:

- ownership of the overall financial model supporting the bid;
- responsibility for the modelling of non-fare revenue, staff costs and other operating costs;
- detailed business case development, evaluation and presentation;
- preparation of the financial record of assumptions, and operating manuals; and
- preparation of the funding plan.

In addition, KPMG assisted on the drafting of a number of the key bid delivery plans and was an active member of the Bid Steering Group.

Post submission, we assisted the client in its negotiations with DfT and supported a successful mobilisation of the new contract.

Outcome

With KPMG's assistance, the client submitted a robust and ultimately winning bid. KPMG's efforts and hard work helped develop a successful bid, which since handover, has performed well. This transaction consolidated KPMG's strong track record of supporting winning bidders in the UK rail franchising market.

First GB Railfreight: Sell Side Advice

Context

GB Railfreight ("GBRf") was formed in 1999 as part of the privatisation of the UK rail industry. GBRf provides a full range of rail freight services across the intermodal, bulk and infrastructure sectors. Following its acquisition by FirstGroup plc, GBRf expanded significantly to become the third largest rail freight operator in the UK.

In 2010, FirstGroup decided to sell the business to allow it to focus on its core passenger operations. FirstGroup appointed KPMG in the UK to advise on the transaction.

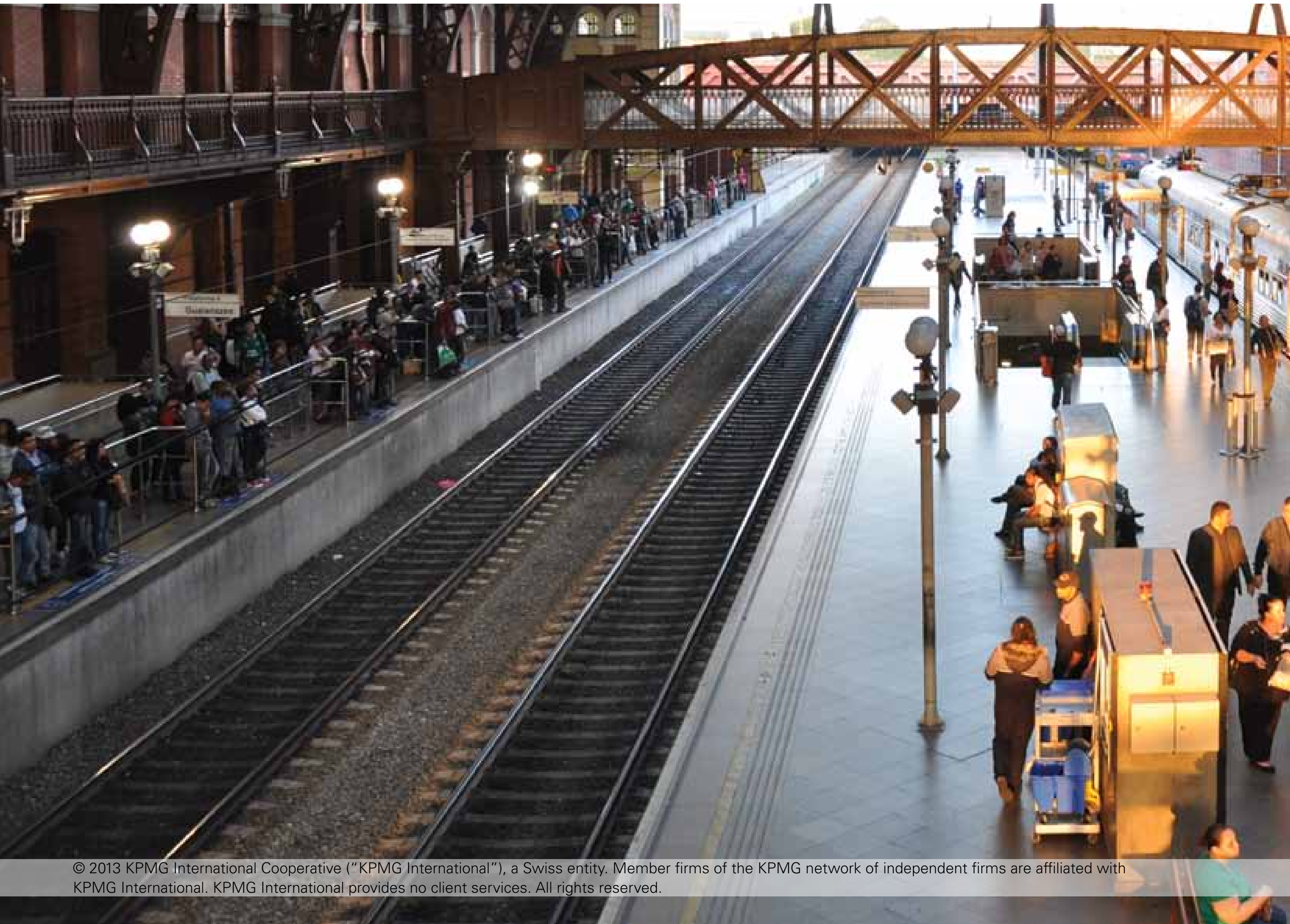
KPMG's role

KPMG provided FirstGroup with a range of sell side services. Firstly, we helped position the business to maximise interest in the market. KPMG professionals developed a broad list of both strategic trade buyers and private equity buyers, and then executed the transaction to completion within a short period of time.

Secondly, using its sector expertise, KPMG carried out a vendor due diligence exercise covering historical and prospective financial performance and the issues around pensions. This work enabled the buyer audience to form a view on the key issues facing GBRf by providing in-depth commentary on the forecasts prepared by the company.

Outcome

A competitive auction ensued and the business was successfully sold for £31 million to Eurotunnel. Eurotunnel acquired GBRf to strengthen its recently created rail freight business, Europorte.



Deutsche Bahn: Acquisition and Disposal Support

Context

Deutsche Bahn acquired the UK listed Arriva PLC for €1.9 billion. In order to obtain approval from the European Commission, Deutsche Bahn sold the German activities of Arriva to a consortium led by Ferrovie dello Stato in partnership with Cube Infrastructure.

Deutsche Bahn is 100 percent owned by the German Federal Government and has approximately 276,000 employees in over 130 countries. In 2010 Deutsche Bahn earned revenue of €34.4 billion.

Arriva is one of the largest providers of passenger transport in Europe. It has approximately 36,500 employees and in 2010 achieved revenue of over €3 billion outside of Germany.

By acquiring Arriva, Deutsche Bahn aimed to strengthen its strategic position in Europe, principally through using Arriva to target Europe's increasingly liberalized and growing transport markets. The European Commission had imposed a tight timetable for the disposal of Arriva's German operations.

KPMG's role

KPMG firms in Germany and the UK supported Deutsche Bahn by providing financial and tax analysis during its acquisition of Arriva.

Given Arriva's significant UK and mainland Europe operations, a team with an understanding of both markets was vital. The KPMG member firms used the global network to provide a team with a mixture of UK and German staff who worked closely with Deutsche Bahn to complete the due diligence process.

Following the acquisition of Arriva, KPMG in Germany and the UK were commissioned to prepare a financial and tax vendor due diligence report on the disposal of the German operations of Arriva.

KPMG member firms also assisted Deutsche Bahn with the purchase price allocation of Arriva PLC for acquisition accounting in its 2010 year end accounts.

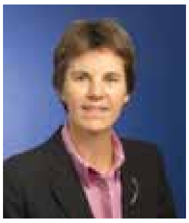
Outcome

Arriva held a press conference announcing it had reached an agreement with Deutsche Bahn and was recommending Deutsche Bahn's offer of 775 pence per share. KPMG member firms' work was vital in helping Deutsche Bahn complete its financial and tax due diligence for its internal decision-making and government approval process, and ensuring that the European Commission's deadline for the disposal of Arriva's German operations was met.

KPMG Contacts

For more information, please contact a professional from the following KPMG member firms.

Global Leadership



Dr Ashley Steel
Global Chair – Transport
15 Canada Square
London, E14 5GL
U.K.
T: +44 20 7311 6633
E: ashley.steel@kpmg.co.uk

Dr Steffen Wagner
Global Head of Rail and Bus
The SQUAIRE
Frankfurt, 60549
Germany
T: +49 69 95871507
E: steffenwagner@kpmg.com

Contact Us

Argentina
Eduardo H Crespo
+54 11 4316 5894
ecrespo@kpmg.com.ar

Australia
Malcolm Ramsay
+ 61 2 9335 8228
malramsay@kpmg.com.au

Belgium
Serge Cosijns
+32 3 821 18 07
scosijns@kpmg.com

Brazil
Mauricio Endo
+55 11 3245 8322
mendo@kpmg.com.br

Canada
Laurent Giguère
+1 514 840 2393
lgiguere@kpmg.ca

Chile
Alejandro Cerda
+56 2 798 1201
acerda@kpmg.com

China
Jeffrey Wong
+86 21 2212 2721
jeffrey.wong@kpmg.com

Costa Rica
Erick Brenes
+50622014100
erickbrenes@kpmg.com

Cyprus
Sylvia Loizides
+357 25869104
sylvia.loizides@kpmg.com.cy

Denmark
Jesper Ridder Olsen
+45 7323 3593
jesperolsen@kpmg.dk

East Africa
Mahesh Punia
+254 20 2806126
mpunia@kpmg.co.ke

Finland
Pauli Salminen
+358 20 760 3683
pauli.salminen@kpmg.fi

France
Philippe Arnaud
+33 1 5568 6477
parnaud@kpmg.fr

Germany
Steffen Wagner
+49 69 9587 1507
steffenwagner@kpmg.com

Greece
Dimitra Caravelis
+30 2106062188
dcaravelis@kpmg.gr

Hong Kong
Shirley Wong
+852 2826 7258
shirley.wong@kpmg.com

Hungary
Zoltan Szekely
+36 1 887 7394
zoltan.szekely@kpmg.hu

India
Manish Saigal
+912230902410
msaigal@kpmg.com

Indonesia
David East
+62 215740877
david.east@kpmg.co.id

Ireland
Michele Connolly
+353 1 410 1546
michele.connolly@kpmg.ie

Israel
Guy Aharoni
+972 4 861 4801
gaharoni@kpmg.com

Italy
Alessandro Guiducci
+39 010 553 1913
aguiducci@kpmg.it

Japan
Atsuki Kanezuka
+81 3 3266 7002
atsuki.kanezuka@jp.kpmg.com

Korea
Ha Kyoon Kim
+82 2 2112 0271
hakyoonkim@kr.kpmg.com

Luxembourg
Philippe Neefs
+35222 5151 5531
philippe.neefs@kpmg.lu

Malta
Pierre Portelli
+356 2563 1132
pierreportelli@kpmg.com.mt

Malaysia
Hasmanyusri Yusoff
+60377213388
hyusoff@kpmg.com.my

Mexico
Alejandro Bravo
+525552468360
labravo@kpmg.com.mx

Mozambique
Reny Varkey
+25821355200
rvarkey@kpmg.com

Netherlands
Herman van Meel
+31 20 656 7222
vanmeel.herman@kpmg.nl

New Zealand
Paul Herrod
+64 9 367 5323
pherrod@kpmg.co.nz

Norway
John Thomas Sørhaug
+47 4063 9293
john.thomas.sorhaug@kpmg.no

Panama
Glenn Tjon
+5072080700
gtjon@kpmg.com

Peru
Victor Ovalle
+5116113000
vovalle@kpmg.com

Poland
Andrzej Bernatek
+48225281196
abernatek@kpmg.pl

Portugal
João Augusto
+351 210 110 000
jaugusto@kpmg.com

Qatar
Gopal Balasubramaniam
+97444576444
gopalbala@kpmg.com

Russia
Alexei Romanenko
+7 495 663 8490 ext.12694
aromanenko@kpmg.ru

Saudi Arabia
Ebrahim Baeshen
+96626581616
ebaeshen@kpmg.com

Singapore
Wah Yeow Tan
+65 6411 8338
wahyeowtan@kpmg.com.sg

South Africa
Dean Wallace
+27 83 251 9585
dean.wallace@kpmg.co.za

Spain
David Hohn
+34 91 456 3886
dhohn@kpmg.es

Sweden
Anders Rostin
+46 8 723 9223
ander.rostin@kpmg.se

Switzerland
Marc Ziegler
+41 44 249 20 77
mziegler@kpmg.com

Taiwan
Fion Chen
+886 2 8101 6666
fionchen@kpmg.com.tw

Thailand
Kasemsarn Tanate
+6626772750
tanate@kpmg.co.th

Turkey
Yavuz Oner
+90 216 681 90 00
yoner@kpmg.com

U.A.E.
Andrew Robinson
+9 71 4356 9500
arobinson1@kpmg.com

U.K.
Ashley Steel
+44 20 7311 6633
ashley.steel@kpmg.co.uk

U.S.A.
Chris Xystros
+1 757 616 7009
cmxystros@kpmg.com

Uruguay
Rodrigo Ribeiro
+59829024546
rribeiro@kpmg.com

Vietnam
John Ditty
+84 8 3821 9266
jditty@kpmg.com.vn

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