

Purchasing new locomotives, the ETCS on-board device and GPS-based locomotive tracking, Hungary's market-leading railway traction company, MÁV-TRAKCIÓ Railway Traction Co is now making serious efforts to offer competitive services in the European market. CEO Dr Imre Márkus sets out the company's strategy and outlines initiatives for international partnerships, technical developments and locomotive modernisation.



Now that you mention locomotives, what steps have you taken to improve the fleet?

Perhaps one of our most important steps was the contract we signed with Bombardier Transportation GmbH at the end of 2008 to purchase 25 new TRAXX P160 AC dual-voltage electric locomotives, with the option for a further 25. We signed the contract to finance these locomotives at the end of 2009 with KfW IPEX-Bank and the European Investment Bank.

According to the terms of the contract, the first of the new TRAXX locomotives should be operational in the first half of next year. All 25 of them could be up and running

within a year on both domestic and international routes. The TRAXX locomotives, which are widely used by European railways, will increase the level of service we provide primarily in long-distance and international traction. By using these modern locomotives we will also increase the reliability and availability of our vehicle fleet.

What sort of investments and technical developments have you made recently to raise the quality of your services?

At MÁV-TRAKCIÓ we pursue a policy of continuous development in the technical systems supporting our services, with one of the main aims being to increase customer satisfaction. Traction dispatching was previously carried out at six regional centres, but two years ago we switched to using an IT-based planning and management system. As a result, locomotive dispatching, driver rostering, and the planning and execution of work schedules - from receiving orders through to dispatching the locomotives - are all carried out via an integrated computer platform. We have already launched a planning module, and implementation of the locomotive management function is now underway.

The software behind the system was supplied by the very-well-known and widely-respected German company, IVU. Management of our locomotive fleet will change from the middle of this year from the present regionally-based system to one built around the different segments of the business.

We have also made a lot of progress regarding on-line tracking of train traffic. We also provide our customers with the opportunity to track the performance of the traction services we offer them, by using a locomotive tracking system based on satellite navigation and GPS positioning, which is something that is not yet widely available in Hungary and Central Europe. Our services can be ordered via an up-to-date online interface that has been specially created for this purpose. Ordering traction services online is more convenient for our customers, and simplifies the administration process for orders.

MÁV-TRAKCIÓ's objective is to gradually increase our presence in international markets. As part of this objective we will shortly begin fitting our locomotives with ETCS train control devices.

Last May we put in a successful bid for the TEN-T tender for this. We received €2 million from EU funds to fit ETCS devices, which are required for operating passenger trains at higher speeds, as well as for providing cross-border services without the need to change locomotives. We were also granted part of the funds for our investment in 25 TRAXX locomotives, which we are in the process of procuring, and for the 10 Taurus locomotives which we already have.

The introduction of ETCS Level 2 modules will significantly increase the range of our locomotives, enabling our TRAXX and Taurus locomotives to travel on compatible tracks across Europe from the beginning of next year.

Has the international economic crisis had an impact on orders and earnings, and if so, how have you coped with this?

The economic crisis, which came about in 2008 and 2009, has led to a reduction in traction orders. This was compounded by the Hungarian government's decision to suspend passenger train services for financial reasons on several domestic lines. In freight transport we have suffered a 30% market loss partly because of the global financial crisis and partly because MÁV Cargo (now renamed Rail Cargo Hungaria) has established its own traction activities.

In spite of the international decline in the railfreight traction and shunting markets, MÁV-TRAKCIÓ has remained both profitable and solvent. Measures we took to deal with the crisis not only compensated for lost revenue, but also improved our long-term competitiveness, so we are emerging from the crisis in a stronger position.

Despite the crisis, we were able to secure finance for our projects. One indicator of our stable economic management, for example, is the financing tender we undertook for the procurement of the new TRAXX locomotives. During the process MÁV-TRAKCIÓ gained the confidence of the participating international financial institutions so that we were able to finance the procurement of these modern locomotives with long-term credit, without any participation from the state or our parent company.

How would you describe the company's business partnerships?

The vast majority of the orders for our services come from other members of the MÁV Group. We provide traction services for MÁV-START, which operates passenger trains, and shunting services for MÁV, our parent company. Revenue from these companies in 2009 was close to Forints 73 billion, which represents about 80% of our total revenue from traction services.

MÁV-TRAKCIÓ also occupies an important position in the railfreight traction market. MÁV Cargo is no longer a member of the MÁV Group following its privatisation in 2008 and the

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company now operates under the name Rail Cargo Hungaria. Nevertheless, it is still our largest freight customer. Revenue from Rail Cargo Hungaria was close to Forints 15 billion in 2009, about 16% of the revenue we earned from our main activity.

Although Rail Cargo Hungaria's market situation is largely determined by the current economic climate, the change of ownership also plays a role, as does the fact that they have started to establish their own traction capacity. Nevertheless, in the medium term, they will continue to use the services of MÁV-TRAKCIÓ for at least 70% of their needs. The traction contract we signed with Rail Cargo Hungaria runs to December 31 2011 with an option to extend it to December 31 2012, providing a reassuring guarantee that we can keep a large part of our freight locomotive capacity occupied.

Hungary's geographical and geopolitical position also means that the Schengen borders and the border and customs control obligations that go with this have an influence on lines which cross the Hungarian border. Because the movement of trains across the border is unpredictable, there has to be flexibility in providing traction. This partly explains why about 50% of Hungarian freight traffic is currently on scheduled trains. We receive the majority of our orders from the freight sector on the day of operation or the day before. The proportion of "scheduled" orders placed at least 30 days in advance has fallen virtually to zero in recent years. This makes it difficult for us to plan and presents us with a serious challenge when executing our orders. We strive to overcome this by being as flexible as possible.

Our business relationships with Rail Cargo Hungaria and foreign customers - particularly ÖBB-Produktion and CFR Marfa - are harmonious and well-balanced. We want to increase the number of European partners in the future, and we aim to



have a presence in new sectors of the market. So we are definitely open to cooperating with other railway companies.

What other development and expansion plans do you have?

One of our main strategic objectives is to provide competitive and flexible services in foreign markets in line with customer demands. We are convinced that we can successfully maintain our order base in the Hungarian traction market if we continue to provide the proper quality of cross-border traction services at better value for money than our competitors. This is why we are carrying out the improvements to our vehicle fleet and our technical capabilities.

I believe that putting our efforts into practice will enable us to offer an increasingly modern and growing range of services, aimed specifically at meeting the needs our existing customers at home and our potential partners abroad. I also hope that our planned developments will provide the framework for a Hungarian railway company which demonstrates dynamic growth in every sense, including financially.



The Hungarian railway sector has undergone major changes during the last three years. The former Hungarian State Railway Corporation (MÁV) has been reorganised into several independent rail companies. MÁV's traction subsidiary - MÁV-TRAKCIÓ Railway Traction Co - was established in January 2008 by transforming MÁV's engineering division into an independent and indirectly-state-owned legal entity. MÁV-TRAKCIÓ is now the market leader in Hungary and currently

has around 4,500 employees and 870 locomotives, suitable for carrying out a diverse range of traction and shunting tasks. Thanks to the company's experience in the traction market, its geographic coverage and ability to plan and execute complex activities, MÁV-TRAKCIÓ offers more competitive prices than its domestic and Central European competitors. Based on balance sheet data for 2008, MÁV-TRAKCIÓ came 87th in the list of "Hungary's 500 highest earning companies". But in the "forwarding and transporting" category, it was fourth.

Preliminary results for 2009

Total revenues	Forints 90.2 billion
EBITDA	Forints 9.2 billion
Equity	Forints 40.6 billion
Profit after tax	Forints 0.1 billion
€1 = Forints 264	

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