

Staff briefing No.1 – July 2005

Business Update

Our five business principles of customer service, cost control, asset utilisation, safety and people underpin everything we do at EWS. It is important for our staff to understand the latest business position and how it relates to the five principles.

Customer service

Delivering reliable service to our customers the way we said we would.

- There is a huge, untapped wagon and trainload market opportunity that we need to grasp.
- EWS has identified 33 million tonnes of potential new business.
- We are strengthening the marketing teams to improve our selling capability.
- We had three of the best infrastructure weekends for almost five years on 11/12, 18/19 and 25/26 June. We provided 390 trains for our biggest customer, Network Rail, and there were no EWS cancellations:

	11/12 June	18/19 June	25/26 June	3 week average	Target
Right time starts	96%	91%	93%	93%	95%
Right time arrivals (0-30 minutes)	97%	97%	97%	97%	95%
Correctly marshalled trains	99%	100%	99%	99.5%	95%
No. of trains cancelled by EWS	0	0	0	0	0
No. of trains provided	137	129	124		

This level of performance by EWS staff was a major achievement. Congratulations to everyone involved.

- EWS continues to win new business to rail:
 - A contract to move almost 1m tonnes of Pulverised Fly Ash (PFA) from Drax Power has been agreed for the Northwich mine infill project over the next 30 months. Brine will also be hauled to British Salt at Middlewich as part of this project.
 - Tesco has joined Morrisons on the Mossend to Inverness container service.
 - A new daily service, from the Port of Tilbury to Hams Hall near Birmingham, for Geest North Sea Line has begun, removing 28,000 lorry miles a week from road.
 - Engineering Support Group (ESG) has designed an at seat entertainment system that fits to the seats of a First Great Western (FGW) passenger coach, allowing users to watch films, TV, surf the net and keep up-to-date with the news. FGW is now conducting a six-month pilot with the coach to evaluate customer responses.
- But, it's not all good news. We have recently received a number of customer complaints, notably from wagonload customers, UPM Kymmene, a Finnish paper company, for failure to deliver any wagons on two consecutive occasions, and Kronospan Ltd., a chipboard manufacturer for whom we move timber, regarding a lack of timber wagons caused by shunting issues at Carlisle. We have also received complaints from ScotRail over locomotive and driver issues.
- It's tough to constantly deliver good service, but that's what all our customers require. If we don't deliver good service, then the only way to defend our markets is through price reductions.

Cost control

EWS must control its costs. This will be achieved by improving efficiency and increasing productivity, which is about the way we utilise our assets and people. Costs must be controlled at all levels, while delivering the service to which we have committed.

- EWS's profit before tax target for this year is **£29.2m**.
- This is a **£5.6m** reduction based on last year's results and reflects the increase in fuel, pension and paybill costs being experienced by the company. As you know, our financial year begins on 1 April each year, so a quarter of the year has already passed, with worsening expenditure because of fuel prices.
- Fuel accounts for a large part of EWS's expenditure and, the company, like others, is affected by the rise in global fuel prices and will also be hit by the Government increase in fuel duty in the Autumn. If prices stay at current high levels, it could cost the company more than **£10m** per annum in increased costs.
- Our revenue shortfall for the financial year to end of June was **£0.6m**, which has to be recovered over the next two months as every penny matters.
- Coal revenue was ahead of budget due to increased volumes and because we have been moving more tonnage over longer distances (gross tonne miles), we have seen an increase in track access charges.
- The combined effect of revenue shortfall, increased track access charges and higher fuel prices means that we are **£2.6m** behind on our profit target for the year to the end of June.
- EWS plans to invest more than **£60m** this year - more than double its profit target - in new wagons, new signalling systems for European locomotives, line reopening, yards and terminals. This shows a vote of confidence by our shareholders in the future of our business.
- EWS remains concerned about the profitability of the intermodal business.
- There is a significant intermodal market out there, but we cannot even begin to make inroads in this important market unless we find ways to reduce our costs and look at new ways of approaching this business and defining our product.

Asset utilisation

There is no point in having assets if they are not used to full effect. Our assets must be fully used to ensure EWS is productive and competitive.

- Our operating plan continues to develop with more than 60% of our trains each week now stable:

Weekly Totals	Stable	Total	% Stable
Trains	3,500	5,500	64%
Locomotive diagrams	216	369	59%
Driver diagrams	3,000	7,000	43%

- The stability achieved so far has enabled us to reduce the locomotive fleet to below 400 and to get more cycles out of each wagon set each week, as well as increasing driver 'throttle time' by 4% over the last two months.
- We are working with customers to find ways of putting more trains into the stable plan, particularly in the coal sector where big gains can be made, and we are also working to increase the stability of driver diagrams.

- EWS moved significantly higher coal tonnages for its customers during May, compared with the same month last year and has also shown a 25% improvement in coal wagon utilisation, through more effective management of the wagon fleet. The comparisons are shown below:

	May 2004	May 2005
Coal tonnages ('000s)	2,465,505	2,826,523
Number of wagons	3,348	3,072

- Each locomotive is now actively used for 18 hours each weekday. This shows an improvement of 6 hours a day over the past year.
- A class 66 stood idling costs EWS £5.00 an hour in fuel. Needless idling of locomotives wastes money and staff should follow the EWS 'no idling policy'.
- A budgeted programme of work to modify 48 class 60 locomotives has commenced to maximise the operating life of these locomotives and improve their reliability.
- EWS acquired the assets of Probotec at the end of April, which supplied advanced rail freight wagon suspension systems in Europe. The acquisition will enable the Commercial Maintenance Services division of EWS to extend its range of services.

Safety

Following safety rules is not an option; it is mandatory. Deviation will not be accepted. By continually working to deliver improvement, we make EWS a safer place to work.

- Sadly, we lost two members of staff this year. Paul Melleney, a member of EWS groundstaff, died in January, and in early April we saw the loss of Peter Hill, an EWS driver.
- We need to be vigilant at all times. In addition to the two fatalities involving EWS staff, one of our trains was involved in a contractor fatality on a Network Rail work site on Sunday 12 June. This is a further reminder of the hazards on the railway.
- All safety incidents are treated seriously at EWS and tragic incidents affect us deeply. Everything we do in the workplace must recognise safety requirements.
- Overall, the results for EWS, for the safety year to 31 March 2005, were excellent.

	2003/4	2004/5	Improvement
Personal accidents	594	401	193
Lost time accidents	222	137	85

- Operationally, after a poor start, SPADs, collisions and derailments showed improvement:

	2003/4	2004/5	Improvement
SPADs	67	60	7
Collisions	90	87	3
Derailments	361	296	65

- The efforts of staff have been tremendous as we continue with improvement targets for this year:

	Last year to end June	This year to end June	Improvement
Personal accidents	101	86	15
Lost time accidents	43	27	16
SPADs	15	13	2
Collisions	29	16	13
Derailments	86	58	28

People

We cannot deliver on these principles without committed people. Our people are important to us and are the key to our future success.

- We have employed Tim Robinson, former Commercial Director of GB Railfreight to work on marketing development initiatives. We are also in the process of appointing a new Commercial Director.
- EWS will be gathering a cross-section of employees together from each area of the company in mid-July, to establish staff views about the company and to help design an employee opinion survey that we will be carrying out during August.
- EWS has signed new procedure agreements for conducting industrial relations with CSEU and TSSA and is in discussion with ASLEF.
- These agreements mean that there will be appropriate representation and meaningful dialogue on future negotiations on behalf of employees covered by these Trade Unions.
- EWS met with RMT representatives on Thursday 26 May and presented them with a draft procedure agreement to replace the old Partnership Agreement.
- Regrettably, at a meeting with RMT on Tuesday 5 July relating to other matters, RMT stated that an immediate response to the draft procedure agreement was unlikely.
- As part of our continuing drive for productivity improvements and cost control, a further 89 groundstaff positions have been identified as at risk, with alternative work opportunities for all involved.
- This is in line with the current promotion, transfer, redundancy & relocation (PTR&R) arrangements. A national consultation meeting to progress these changes has taken place.
- You will be able to nominate colleagues, from across the company, for the EWS staff Awards for Excellence again this year. It is an award scheme that recognises the contribution staff make to the running and success of EWS. Start thinking now about who you might wish to nominate.