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National Express wins German rail contract

By Rose Jacobs and Mark Odell

National Express has won two contracts to operate German regional rail services, representing a first for UK transport companies which had never previously cracked the German market by winning a competitive tender.

The London-listed group said on Thursday that it had been chosen to run two services – one local and one express – in North Rhine-Westphalia for 15 years from late 2015.

While Arriva Trains, a UK group, had a German presence before being bought by Deutsche Bahn in 2010, its initial entry came through an acquisition.

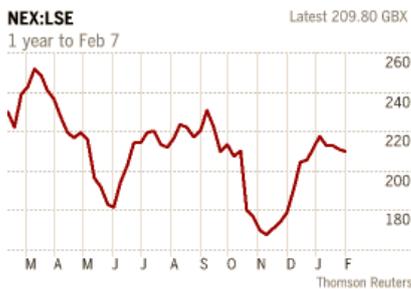
Germany's regional rail market started to liberalise in the early 1990s but progress has been slow, with Deutsche Bahn's regional arm still running about 80 per cent of services. The intercity rail services remain in the hands of DB, which also controls the country's rail infrastructure.

National Express had come in second for another regional rail contract last year and is pre-qualified for three more. It points to 35 further tenders scheduled in Germany over the next two years, though it will not bid for all of those.

German regional trains carry almost 2bn passengers a year.

For the North Rhine-Westphalia services, which together carry about 18m passengers a year and are expected to generate about €100m in revenues, National Express's bid is a bet on volumes growing. It expects to achieve operating margins in the mid-single digits – in line with those achieved in UK rail.

But analysts predicted several years of losses first. "While the profit contribution is still some way off we view this as a positive development for the medium-term prospects of the group as it develops a new business area," said Edward Stanford of Oriel Securities.



Dean Finch, chief executive, last year highlighted privatisation in Germany as a big opportunity for National Express. As its rail business in the UK shrank, in part because it gave up a lossmaking contract to run the East Coast mainline, growth abroad has become a focus.

Already, its bus businesses in Spain contribute more revenues and operating profits to the group than any other division. But those were brought into the company through its acquisition of Alsa in 2005, rather than by competing for contracts under the National Express brand.

Concerns over the Spanish business's performance hit shares late last year. The share price rose 2 per cent in early trading on Thursday, to 210.3p.

In the US, National Express has bought a number of US school bus companies and also runs services such as university campus shuttle buses and pick-up services for people with disabilities. In the UK, it had been vying for the Great Western contract before the contest was cancelled in the wake of the West Coast fiasco.

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