INTRODUCTION

Distinguished guests,
Ladies and gentlemen,
Dear friends,

I thank you for this invitation and welcome the opportunity to participate in this forum.

Bombardier Transportation has always been a vocal proponent of Canada-Europe free trade in the past, which is why I want to start by congratulating CERT for the work they accomplish.

In this respect, the development of NAFTA redefined trade and investment in North America: more specifically, a lot of foreign companies invested into Canada and Mexico to get access to the largest market in the world.

While some could easily draw a parallel between the intentions of NAFTA and the enlargement of the European Union, I'll show what our experience of Central and Eastern Europe is. And it is quite a different story. I'll then try to clearly lay out a few recommendations which would encourage further European development.

However, I would like to begin by providing a brief overview of the Bombardier organization, for the benefit of those who might not be up to speed on our company.

Bombardier Inc. Overview

Bombardier Inc. is a diversified, Canadian-based multinational with operations that — in addition to transportation — include aerospace and a financing arm. With revenues of approximately US$15.8 billion for the fiscal year ended January 31, 2005, the corporation employs some 60,000 people worldwide.

Bombardier's mission is to be the world leader in its chosen markets — a goal it already has achieved in many instances with unparalleled success.

BT: European Rail Champion

Bombardier Transportation offers customers an unsurpassed range of rail products and services worldwide. Our portfolio includes propulsion and control systems, state-of-the-art rail vehicles, turnkey transit systems, a complete range of fleet management and maintenance services and advanced rail control solutions.

BT presence in Europe dates back to the 80's, with our first acquisition in France in 1986 and our last (and largest) being Adtranz in 2001, which shot us from 4th to 1st place in market share worldwide. Today, we are clearly leading the global market, with a 24% share[1].

Europe clearly is the centre of gravity for Bombardier's rail-related operations:

- Around 2/3 of the world market is concentrated in Europe
- Accordingly, in Fiscal 2005, 78% of BT the workforce was located in Europe and 83% of the revenues were generated in Europe.

By strengthening the rules and procedures governing trade and investment, the NAFTA has allowed trade and investment flows in North America to grow dramatically. One could therefore think that the EU enlargement would, in similar fashion, open the gates for massive foreign investments and trade.

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[1] Average share of Bombardier relevant market (2002-2004)

Speaking strictly of our experience, the enlargement does not bring much change for BT's strategy, as we had already invested in Central and Eastern European Countries (CEEC) before accession. Our presence in CEEC today is quite significant, with BT having more than 2,500 employees there (roughly 12% of our European headcount).

The BT set-up includes sites in CEEC mostly to cater to a market we believe will pick up in the near future but also to migrate some of our production and use CEEC as a low-cost supply (internal procurement) and manufacturing base.

However, in our opinion, the enlargement of the European Union still represents mostly a tremendous set of challenges for rail transportation:

Large Investments Needed

Changing Market Conditions since 1989
During the rule of communism, the centrally planned economies in Central and Eastern European countries (CEECs) depended heavily on the rail sector for the transport of freight and passengers. After 1989, restructuring of the economies in the CEECs resulted in a 50 per cent decline in the demand for rail transport services. This was mainly due to a dramatic decrease in heavy industrial activity, and to increasing private car ownership. Since the mid-1990s, rail freight volumes in the CEECs have started to grow again, while rail passenger volumes have stabilized.

Backlog in rolling stock investments
There has only been extremely limited rolling stock investment in the CEECs since about 1985, so that at present almost the entire rolling stock base in the CEECs is virtually life-expired in technical terms. The railway sector in the CEECs must make major investments in rolling stock in the next few years, if system failure is to be avoided. The CER has assembled the investment plans of its members in Central and Eastern European Countries on locomotives for freight and passenger operations as well as other rolling stock for passenger transport. The value of these investment priorities was estimated at ca. € 10 billion.

Infrastructure demand
In addition to rolling stock, huge infrastructure investments are needed:
The need for coordinated high-quality infrastructure gave rise to the Trans-European Transport Networks (TEN-Ts). The rail networks in Central and Eastern Europe include around 12,000 km of lines, which form part of the TEN-Ts.
The networks in the CEECs also have about 51,000 km of other lines, which connect regions and cities within the boundaries of the new Member States. These lines often suffer from a maintenance backlog and a dependence on life-expired assets (for example signaling systems).
Plans identifying the TENs in Western Europe were drawn up in the 1980s and a revised list of 30 priority projects was approved in 2004. The cost of the investment is estimated to be 225 billion Euro over the period to 2020.

Financing issues

With total investment needs estimated to be more than € 15 billion a year over the next 15 years, the question of financing all those projects, in such a short time frame, is quite a challenge.

Public and private sector financing
In order to compete fairly and successfully, the rail sector must be able to invest in modern and efficient infrastructure and rolling stock. But attracting sufficient financing for all necessary investments is a major issue for both public authorities and the railway companies. As public

sector financing alone is very unlikely to be sufficient, the rail sector needs to consider private sector financing.

Unfortunately, to this date, the financing of rolling stock is still not resolved. Support from the public sector or innovative financing (e.g. leasing schemes) cannot exist without clear and permanent rules.

Cross-subsidy between freight and passenger operations
Another problem is that, traditionally, rail passenger services in Central and Eastern Europe have received very little state funding, even though revenues from passenger operations did not cover their own costs. This practice is actually a form of cross-subsidy and hinders liberalization of the rail sector. Cross-subsidy deprives the railway companies of the funds needed for investment in, for example, rolling stock. With the rail freight market being liberalized from 1 January 2007, elimination of the cross-subsidy between freight and passenger operations is becoming a vitally important requirement for the railway companies.

Financial autonomy of railway companies in CEECs
Financing of rolling stock cannot be funded by railway companies independently; neither on the strength of their balance sheets nor on expected future (free) cash flow or profitability. This conclusion implies that the development of appropriate financing instruments is a most critical and extremely urgent issue.

Competitive pricing for the use of infrastructure
An overview of track access charges for an average freight train made in June 2004 shows that these charges are highest in the new Member States. For example, Poland and the Czech Republic both had access charges nearly ten times those in France. This situation is of great concern to the rail sector as well as to EC as it undermines the competitiveness of rail transport.

One of the reasons for the high costs of infrastructure networks in CEEC stems from obligations to keep many loss-making sections in operation. Also a backlog in modernization of national networks causes these networks to be labor-intensive and costly to operate.

Lack of Homogeneous Standards across EU25

Railway systems in Europe have different track widths and gauges, power supply systems, signaling systems, operational rules and safety regulations.

Due to this lack of technical harmonization in Europe, the rail supply industry cannot take advantage of potential economies of scale in their principal market, which ensures that production costs remain high.

In addition, each country within the EU has its own procedures and specifications for homologation and licensing of rolling stock. And the acceptance in one country does not carry over to another European country, which drives up costs of tests, documentations and reengineering... In this regard, there really is a pressing need for a single European homologation agency.

BT operates in a sensitive sector

BT operates in a very political environment, in which the governments are often customers and market regulators at the same time, which can sometimes prove detrimental to a fair tender process. In CEECs, the transparency of the bidding process can at times be quite minimal..

A borderless, united Europe diminishes the importance of rail transportation as a domestic issue but unions continue to have a strong influence on the railway industry, a traditional labor stronghold, and are loathe to lose this bastion of power, especially in countries where our biggest clients are still nationalized companies (where, for instance, products overhaul is often still done internally).
Finally, we need further recognition as a European player and champion: with this enlargement, BT needs to get the same kind of support by the European governments and EU bodies (export support, loans, guarantees, marketing,) as other major European players (e.g. Siemens).

Conclusion

With the enlargement, the rail sector in the whole of the European Union has undergone radical changes. However, this applies even more to the rail sector in the new EU Member States, which has had to adjust to abrupt changes in new market conditions and implement the entire EU legal framework in only a few years.
The fundamental prospects for the rail market in Central and Eastern Europe are good. Economic integration will produce economic growth based on trade between Member States.

But EU targets in rail transport will only be met if politicians at the EU and country level are fully committed to a unified market, especially in Eastern Europe and that means :

- To finalize the liberalization of operations
- A thorough technical unification (e.g. signaling (ERTMS) and certification), as country-specific product development and regulatory approval is costly for manufacturers
- A need for realignment of rail with other modes of transport (road, air) in terms of taxes, investments in infrastructure, management of external costs
- End of cross-subsidies

BT is supporting and will support the rails operators in these challenging times but needs to be recognized as the European rail champion.

Thank you very much for your attention. Now I would be pleased to answer any question you might have.