NEWSLETTER

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SR7bn Railroad Deal Signed

Minister of Finance Ibrahim Al-Assaf signs an agreement with a representative of Mitsui & Co. in Riyadh on Tuesday. (AN photo by Abdullah Atiq)

RIYADH, 4 April 2007 — The Kingdom yesterday signed contracts valued at SR7.1 billion to build a north-south railroad project covering a distance of about 1,765 km for the transport of minerals and passengers. Minister of Finance Ibrahim Al-Assaf, who is also the chairman of Public Investment Fund, signed the contracts with a consortium of three international and national companies to build the project in 42 months.

It is deemed crucial to the success of the Kingdom's ambitious SR13.1 billion downstream oil and gas project, a multibillion fertilizer plant of the same value, and a SR22.5 billion aluminum smelter to be developed in Ras Al-Zour by Saudi Arabian Mining Co. (Maaden).
Mansour Al-Maiman, secretary-general of the Public Investment Fund (PIF), and senior executives of the contracting firms Al-Rashed Co., Mitsui & Co. of Japan, Barclay Mowlem of Australia and Abdullah Al-Suwaikat, chairman of the Al-Suwaikat Group of Companies, along with the group's Chinese partner attended the signing ceremony.

PIF has set up a holding company, Saudi Company for Railways (Saar), to implement the project. It will be funded on a 65:35 debt-to-equity ratio. Part of the equity will be funded through an initial public offering (IPO) expected later this year. The railroad will transport raw materials — bauxite and phosphate — to Ras Al-Zour. Maaden will be looking in 2007 to finance the phosphate plant, for which a contract was signed between Saudi Basic Industries Corp. and Maaden last month.

The first contract for the Ras Al Zour-Al Zubaira Mines

Speaking after the signing ceremony, Al-Assaf said the essential goal beyond executing these projects was to transport the two minerals — phosphate and bauxite — and passengers as well as facilitate the movement of traffic among the eastern, northern and central regions of the Kingdom. He added that the project was expected to transport more than 4 million tons of commodities and two million passengers annually between cities located within the project site.

Big canal, big gamble

The Panama Canal is to be expanded. Reconstruction is needed urgently but also means a huge risk for deeply indebted Panama.

The Autoridad del Canal de Panama (ACP), the body which administers the Panama Canal, conducts a daily auction that is small but selective. It's all about preferential passage through the canal, which is the bottleneck of global maritime trade. Up to 100 ships lie at the canal entrances in the Pacific Ocean and the Caribbean, waiting for their passage - some of them for up to nine days. During this time, the canal authority auctions a slot for immediate passage among the world's largest shipping companies. Some shipping companies have booked a passage for a particular day months in advance, but everyone is forced to wait.

Those who want to go through immediately can buy the privilege of doing so. Depending on the level of congestion, prices can quickly escalate to huge sums. The top offers so far have been between $20,000 and $220,000 - in addition to all the normal passage fees, which currently stand at well over $200,000 for a 4200-TEU container freighter. The rapid growth in sea trade has pushed the canal closer and closer to its capacity in the last few years. The 93-year-old waterway has been experiencing a unique boom.

sector was signed with a consortium consisting of the Binladen Group (in alliance with two German firms) and Mohammed Al-Swailem Co. in partnership with a German firm. The contract, valued at SR2.3 billion, involves laying a 576 km railroad in addition to bridges, flyovers and tunnels. The second contract, worth SR1.9 billion, was given to Al-Suwaikat Group of Companies and involves laying 440 km of railroad from Zubaira to Al-Nafoud Desert, besides constructing flyovers, tunnels and bridges.

The third contract, valued at SR2.8 billion, extends it from Al-Nafoud to Al-Haditha, Hazm Al-Jalamid and Al-Basita. It was signed with Barclay Mowlem Co. of Australia in collaboration with Mitsui & Co. of Japan and Al-Rashed Co. of Saudi Arabia. It will cover about 750 km of railroad in addition to the construction of tunnels, flyovers and bridges.

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Now the canal is to be expanded so that the ships of tomorrow, holding more than 10,000 containers, can also pass through. In October 2006, Panama's citizens decided by means of a referendum to think big. The canal authority is to build a third lock passage, allowing container ships with 12,000 standard boxes to be accommodated. Panamanians approved this plan, albeit with a low voter turnout, and politicians were hugely relieved: "Today we have become masters of our own destiny," said President Martin Torrijos. "Today we have laid the foundation for a better country."

The plan is controversial, however: Environmentalists have voiced concerns, and economists doubt whether deeply indebted Panama is in a position to make an investment of this magnitude.

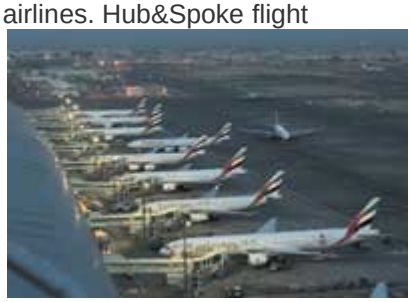
The Hub of the matter

The new interchange airport in Dubai restructures global traffic. Europe's airlines now have to prepare for some tough competition.

The desert metropolis of Dubai is home to what is emerging as the largest airport in the world. Once completed, this new hub is expected to handle around 120 million passengers and more than 12 million metric tons of freight every year. Due to its geographical location, Dubai World Central International Airport will serve primarily as a change over airport for flows of traffic between east and west, acting as an hourglass hub. Emirates, the resident airline, wants to schedule arrivals and departures to connect indirectly, many city pairs between Europe and Asia. On account of its dominant position from the outset when it comes to the fight of business between Europe and Asia.

This means two things for airlines operating on these long distance routes. First, since Emirates will use its supremacy in Dubai to strengthen its market position, competitors will find it necessary to seek out new routes. Second, those competitors will have to accelerate the construction or expansion of their own European hubs to prevent traffic from relocating to Dubai and, in the long term, to Emirates.

However, this matter is particularly troublesome within a global network of airlines. Hub&Spoke flight networks do not operate direct flights between selected city pairs; rather they take indirect air routes, passing through large hub airports where passengers and cargo change from one flight to another. The issue of cost is usually in the foreground when it comes to discussing the advantages of this structure. First, the concentration of passengers and air freight at a hub's arrival and departure connections enables the use of efficient, large capacity airplanes. In hub airports themselves, highly automated transshipment technologies provide additional savings. Both aspects can help to reduce an airline's unit cost.



Therefore, from a service or customer point of view, Hub&Spoke systems are an attractive proposition because, compared with a direct traffic system with a given number of flight connections, more pairs of cities can be served due to the multiplier effect. The same number of airplanes can fly more frequently using these flight connections than when using a direct traffic system.

However, a significant disadvantage of Hub & Spoke flight network is the interruption to the direct flight path caused by the lengthy changeover process for passengers and airfreight consignments. It is not surprising that

minimum changeover times are perceived as an important competitive advantage by hub airport operators.

Designing Hub&Spoke system is seemingly easy. However, this is an area of conflict for airlines. On the one hand, they must be able to operate their capital-intensive airplanes effectively while achieving specific passenger figures and freight volumes on their routes. This is why, when operating between city pairs with low traffic figures, if often pays for airlines to endure detours to hub airports and serve other destinations indirectly at the same time. For this **Dubai International Airport** reason, Emirates does not offer direct flights between, say, Bangkok and Athens. Instead, it connects this city pair via its turnstile in Dubai.

On the other hand, the needs of customers have to be taken into consideration when designing a flight network. For airfreight consignments, it is particularly important that they arrive safely and on time at their destination airport, while passengers must take into consideration whether they want to fly direct or mind a changeover when they purchase their tickets. Attractive direct connections can only be justified in terms of profits if passenger figures are sufficiently high. One example: the number of passengers traveling between Düsseldorf and New York/Newark is sufficiently high as to be cost-effective for Lufthansa to offer non-stop flights.

In practice, flight network planners use mathematical models. They often include the challenging hub location problem in order to determine the optimum configuration for a defined objective. This helps to answer, in particular, the following questions: will specific city pairs be connected, and if so, by which route? Will airports be constructed and if they will, in which location? Which transport flows should be directed through the network on which transport route and on which capacities? Such planning finally makes it possible to determine the customer route to the destination airport. But since planning is primarily oriented around cost and specific volumes, only a cost-optimum one-time configuration of the flight network is determined.

However, the economic environment of airlines is dynamic and is characterized by several uncertainties. For example, will traffic flow shift when the real income of the population increase? Will political majorities change depending on whether they support or oppose the construction of a hub airport? Will new airlines join forces to become alliance partners in cooperation?

Will macroeconomic framework conditions cause deterioration in the airlines cost structures?

Planning approaches need to take the important aspects of these dynamics and uncertainties into consideration. The transport volumes of an airline are particularly susceptible to fluctuations over time, which, in addition to the effect of seasonal cycles, are produced by external events. Indeed, many airlines still have painful memories of significant drop in passenger figures to and from Asia due to SAR epidemic in 2003.

The concentrating effect of hub airports can absorb a portion of these unpredictable fluctuations on individual flight routes. This means, however, that the required transhipment capacity of a hub airport becomes significant in determining how well each Hub&Spoke system succeeds. If existing transhipment capacities are sufficient, an airport runs the risk of transfer traffic flows being switched to another hub airport.

Indeed, in densely populated Europe, it is already proving difficult to expand airports that are located close to urban centers. Both the relocation of Tecona/Celanse chemical plant close to the arrival area of the north-west runway planned for Frankfurt Airport, and the re-location of the communities of Diepensee and Selchow as part of an expansion of Berlin's Schonefeld Airport into the New Berlin Brandenburg International hub, are representatives of the difficulties faced by building projects of this sort.

Schenker is Global No.2 in Airfreight

Lufthansa CEO Wolfgang Mayrhuber logically stresses that the Frankfurt hub airport is "Interchangeable", since neighbouring hub airports can be used just as efficiently for the changeover of passengers and airfreight consignments. If it is going to prove difficult to increase existing hub capacities, there is also the option of increasing flight capacities to other airports and redirecting transport

flows through them.

If an airline changes its network structure and adapts to new developments, it needs to plan exactly how it is going to reduce or increase existing hub capacities, where new capacities will be created, and which direct connections it is going to set up or abandon in order to respond appropriately to fluctuations in transport volumes. However, if too much is spent planning in this respect and trying to increase dynamism, not enough attention will be paid to the needs of customers.

Customer needs are particularly important when it comes to how much people are prepared to pay for specific transport services. The higher the demand by customers for a direct connection between two cities, the more they will be prepared to pay for this service. Planning approaches that are focused purely on cost neglect to take into consideration people's willingness to pay.

One theoretical and practical way of covering the aforementioned aspects is to develop dynamic planning models that consider both circumstantial fluctuations in transport volumes and profit-oriented objectives. This enables planners to determine an optimum series of reconfiguration measures for the Hub&Spoke network, taking these fluctuations into account.

By using more efficient optimization software, it is possible to calculate the effects more accurately. This information can then be consulted by airlines as support for the critical decisions they need to make regularly regarding investment strategy and network policies.

Moreover, the latest research in this area embraces recent developments and, as a result, improves an airline's basis for making long-term decisions. In the end, of course, there are many paths to reaching your goal when designing flight networks. But experience has shown that only a handful of them actually turn out to be the ones which are truly required by an airline company and its customers.

Sea turns to Ocean

Schenker and Bax are integrating with the fastest pace. The two companies are joining forces to form a leading integrated logistics services provider. In order to underline the global approach of the joint organization of Schenker and BAX, it was agreed to re-name the business unit on DB Logistics Division Board level and the corresponding Board Responsibility on Schenker Board level from Air/Sea to Air/Ocean Freight.

From now, our global sea freight product will be called Ocean Freight product.

Schenker global ocean freight product management department is based in Hamburg with dedicated staff to continuously work on developing this product and enhancing services for our customers.

Official freight forwarder of Women's Skiing European Cup

Bulgaria hosted the high-ranking international skiing competition for the first time since 17 years now. As official freight forwarder Schenker EOOD took care of the entire logistics and timely delivered over 80 tons of equipment. A round of the Women's Alpine Skiing European Cup took place on 29 and 30 January 2007 in Bansko. As official freight forwarder Schenker EOOD took care of the entire logistics and timely delivered over 80 tons of equipment. The track safety equipment and the poles were delivered from Austria, from Slovenia Schenker transported the construction for the tribune and the tents for competitors, journalists and guests. The electronic display and the timing system were also entrusted to Schenker.

78 competitors from 15 countries arrived in Bansko to compete in two giant slaloms. Viewers could watch 20 of the first 70 skiers in the world rank list among which T. Weirather, M. Rodnik, V. Zuzulova. Bulgaria was represented by five competitors. The runs were covered by over 30 accredited Bulgarian and foreign journalists. Special guests to the event were the world famous skier Mark Girardeli and the two times Olympic champion Michaela Dorfmeister.

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Port of Hamburg

Hamburg Harbour is a deep water harbour off the North Sea, on the river Elbe in Hamburg, Germany. It is named Germany's "Gateway to the World" and is the largest sea-port in Germany and - in terms of numbers of containers handled in 2004 - the second-largest in Europe and ninth-largest worldwide.

In 2004, seven million containers were handled in Hamburg. The harbour covers an area of 73.99 km² (64.80 km² usable), of which 43.31 km² (34.12 km²) are land areas.

The location is naturally advantaged by a branching Elbe, creating an ideal place for a port complex with warehousing and transshipment facilities. The extensive free port also enables toll-free shipping.

Total Cargo handled on Hamburg port in the year 2005 was 125.7 Million Tons. Total 8.1 Million TEUs were handled.

History

The history of the Hamburg harbour is as old as that of Hamburg itself. Founded in 1189 by Frederick I for its strategic location, it has been Central Europe's main port for centuries and enabled Hamburg to develop into a leading trading city with a rich and proud bourgeoisie.

During the second half of the 19th century, Hamburg became Central Europe's main hub for transatlantic passenger and freight travel and from 1871 onward it was Germany's principal port of trade - worldwide. During the division of Germany, Hamburg harbour lost most of its hinterland, but since reunification and the European enlargement the trade volume is growing strongly again.

Welcome to Schenker Family

We are pleased to welcome our new colleagues Ms. Khadeeja Eid, Ms. Hanadi Sulimani and Ms. Shaheera Mahmoud in our Jeddah branch office in operations department.

We also welccome Ms. Eptesam Ahmed Al Huniadi and Ms. Zahra Mohammed Al Sabeehah in our Dammam branch in Customer service.

Mr. Christian Tengs, the Managing Director of Schenker Saudi Arabia welcomed the new colleagues in the country organization. “I want to greet & welcome you from the Head Office in Riyadh…”

"This truly is a historical moment in the history of Schenker Saudi Arabia – the day the first female employees have started working with us."

"I wish you all the best for your training period but am convinced that you will learn the new business with ease and will pretty soon become a valuable asset of our organization in the Kingdom.” Mr. Tengs added.

“I say welcome to our new colleagues and wishing them to get fast familiar with the Schenker system and work together successful within the ‘Schenker Family” says Mr. Dirar Abu-Basha, Schenker Jeddah Branch Manager

Mr. Matthias Leymann, Schenker Dammam Branch Manager added on the historic moment, ”In the name of the whole Schenker Saudi Arabia team I would like to say WELCOME and wish lots of success within this extraordinary company! We all appreciate the start of you and it’s not needless to say that all of us would like to respect the Saudi cultural with your kind assistance.”

We together wish our new colleagues all the best in Schenker family.

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Special thanks to all other colleagues who contributed in making of this newsletter.

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