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## **AnsaldoBreda: Change of strategy saves reputation**

By Emily Backus

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In the late 1990s, Boston's Massachusetts Bay Transportation Authority (MBTA) looked forward to introducing cutting-edge, low-floored light rail cars. The order was for 100 cars, worth \$222m, entirely custom-built and leagues beyond the troubled, 30-year-old Boeing cars they would partially replace.

By December 2003, problems fuelled a crisis so dire it refused further shipments. There were 40 in service. The rest remained in limbo for a year.

When the Italian manufacturer, AnsaldoBreda, a subsidiary of Finmeccanica, the Italian industrial group, realised its credibility in the North American market was at stake, it changed its strategy and production quality. It created a US subsidiary and agreed to upgrade the Boston fleet at its own expense. It declines to say how much it cost.

"Today our relationship is excellent. Deliveries were completed as promised in 2006. The cars are 10 times more reliable than they were five years ago, and we expect reliability to double again by this time next year," says Gerald Kelley, first deputy general counsel for the MBTA.

The Boston case is a dramatic illustration of how AnsaldoBreda, like other light rail manufacturers, struggled to make the great engineering and operational leaps necessary to provide new generation vehicles demanded by urban operators without sinking into the red.

AnsaldoBreda's loss before taxes and interest for 2005 came to €128m, according to Finmeccanica's 2006 annual report. The rolling stock business dragged down results for Finmeccanica's entire transport sector.

"The company suffered indigestion, with far more orders than our manufacturing capacity could meet," says Roberto Asserato, chief executive of AnsaldoBreda.

Finmeccanica appointed Mr Asserato in March 2005 to turn the rolling stock business around in three years. He presented a plan that would focus business development on modular products, such as the Sirio, where the platform remains essentially the same. He also replaced most upper management.

Finmeccanica recapitalised AnsaldoBreda by €270m in December 2006. The rail carmaker had reduced losses for 2006 by €51m to €77m but fell short of targets set out in the 2005 Development Plan. Recapitalisation hinged on the implementation of programmes to shorten implementation times, rationalise business processes, and foster competencies at production facilities. "We are not out of the tunnel yet, but we do see light," says Mr Asserato.

However painfully acquired, AnsaldoBreda's competitive rolling stock, such as the Sirio low-floor tram, the driverless metro, and the high-speed ETR 500 to name a few, helped it to dominate its home turf and to reposition its international offering.

It holds a 72 per cent share of the Italian market in urban transit rail, says a company source. Italy spent an average of \$200m on light rail each year in the period 2003-2005, according to a recent study on the industry conducted by Roland Berger, the strategy consultants and commissioned by Unife, the European association for the railway supply industry.

"Italy's light rail market is one of the two most dynamic in western Europe," says Tobias Schoenberg, project manager for Roland Berger, the consultants.

"Italy and France are the only major light rail markets there that are expected to grow more than 5 per cent per year through to 2015."

That compares with 3 per cent per year projected for the same period in western Europe as a whole. Western Europe is by far the largest consumer of light rail, spending half the global budget of €5bn per year from 2003 to 2005, the study shows.

Plunging into low-floor light rail, particularly with the Sirio, has also helped AnsaldoBreda establish an international presence in a sector, says Laurent Dauby of the International Union of Public Transport.

The Sirio has debuted in Gothenburg and five Italian cities. AnsaldoBreda has custom light-rail cars running in Cleveland in the US, Copenhagen, Manchester in the UK, Oslo, Lille, San Francisco and Boston. It had significant penetration of the UK light rail market in the 1990s, where it supplied vehicles to Manchester Metrolink and to West Midlands Metro, but Mr Asserato confirms the company withdrew from the UK market because he does not consider it of strategic importance.

"The projects are not large and there are few of them. Technical specifications require a lot of customisation. It is not our high priority," he says.

"We've developed a complete range of avant-garde products. We want to optimise our resources and reduce costs to deliver the best value for price."