

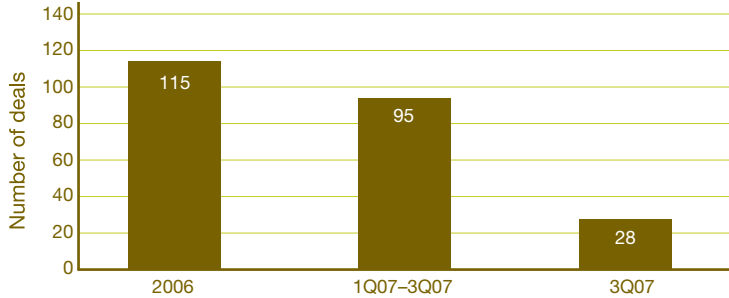
Intersections*

Global Transportation and Logistics Transactions Analysis
Third quarter 2007



2007 deal volume is likely to surpass 2006

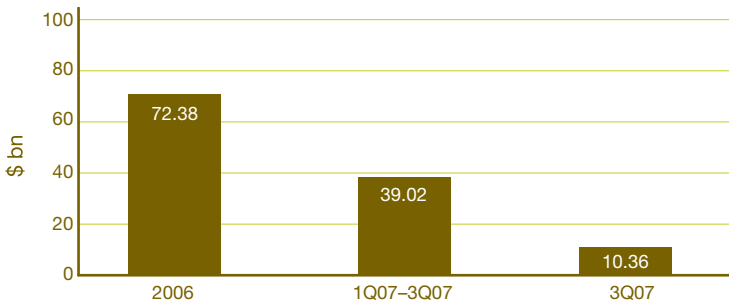
Deal Activity by Number of Deals
Measured by number of deals with disclosed value at or above \$50 million (2006, 1Q07–3Q07, 3Q07)



With 95 announced deals through the first quarter of 2007, deal volume in 2007 remains on pace to exceed 2006. Despite this continued increase in deals, the pace of announced deals has eased slightly in the third quarter of 2007 (28 deals). We attribute this ease to acquirors, particularly financial investors, being influenced by the decline in debt market liquidity and stock market volatility.

Large deals in 2007 driving total deal value higher than 2006

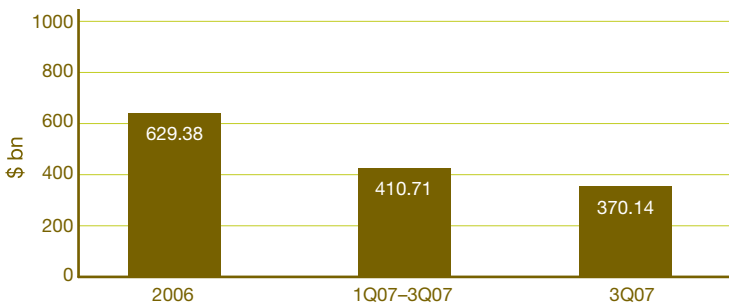
Deal Activity by Total Deal Value
Measured by number of deals with disclosed value at or above \$50 million (2006, 1Q07–3Q07, 3Q07)



Merger & acquisition activity as measured by total deal value during the first three quarters of 2007 exceeded the total deal value announced during the comparable 2006 period (\$39.02 billion vs. \$26.91 billion) though it is not on pace to exceed the total deal value announced during all of 2006 (\$72.38 billion).

This is due to several large deals that were announced during the fourth quarter of 2006—including the proposed acquisitions of Delta Airlines and Qantas Airlines—both subsequently withdrawn. In the case of Delta, creditors backed a reorganization plan to bring the company out of bankruptcy as a stand-alone entity. Qantas Airlines rejected the bid from a consortium led by Texas Pacific Group, ostensibly due to conditions attached to the proposed deal.

Deal Activity by Average Deal Value
Measured by number of deals with disclosed value at or above \$50 million (2006, 1Q07–3Q07, 3Q07)



The prevalence of large deals announced during the fourth quarter of 2006 also led to a decline in the average deal size between 2006 and the first three quarters of 2007¹ though average deal size for the third quarter of 2007 and the first three quarters of 2007 remain above the level of the first three quarters of 2006². The robust value of deal activity in 2007 is further evidenced when deal value is adjusted to strip out deals that were later withdrawn.

¹ \$629 million to \$411 million

² \$370 million and \$411 million compared to \$364 million

Deals by Mode of Transportation (2006, 1Q07–3Q07, 3Q07)

In 2006, passenger air targets accounted for the largest percentage of announced deal value. This is the result of the aforementioned large announced airline deals of 2006 which have acted as outliers that have skewed deal value composition for that period. In subsequent periods (1Q07–3Q07 and 3Q07) the announced deal value associated with passenger air targets declined in favor of trucking targets and, in the third quarter of 2006, rail.

The increase in announced deal value for rail targets during the third quarter of 2006 is almost entirely due to the announced acquisition of Dakota, Minnesota and Eastern Railroad (a Class II US Railroad) by Canadian Pacific Railway. While acquisitions of large Class 1 railroads is more difficult from a regulatory standpoint, the growth of infrastructure funds have created significant interest in rail assets.

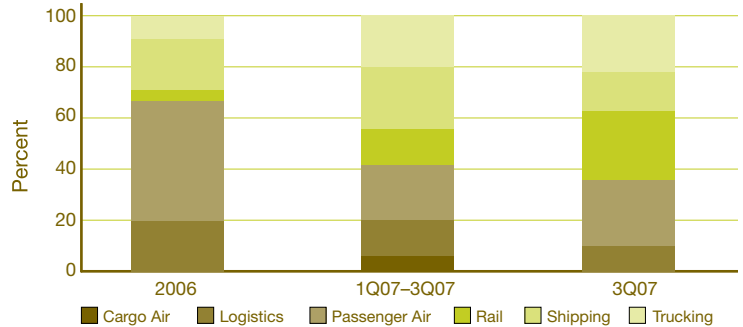
The shipping markets continue to be strong, especially in the bulk cargo segment. The currency for acquisition activity is being provided by high rates and high stock prices.

Deals by Investor Group (2006, 1Q07–3Q07, 3Q07)

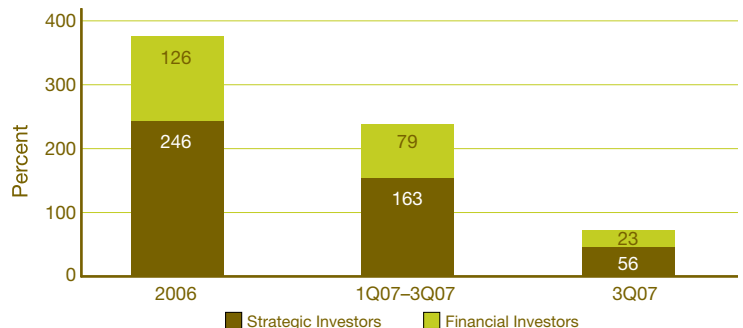
Despite increases in deals originated by financial investors in recent years, strategic investors have accounted for an increasing proportion of deal volume since 2006 (approximately 65% of deal volume in 2006 and approximately 70% of deal volume in 2007). The decline in financial investor deal volume (relative to strategic investor deal volume) reflects uncertainty in the broad debt market, the precursor of which was the increase in sub-prime mortgage defaults over the summer.

Whether this flight to quality in the debt market continues will have implications for the ability of financial investors to raise capital for acquisitions. While financial investors have played an active role in deal volume recently, it is interesting to note that strategic investors have not fled the scene. In addition, some strategic investors have financial ownership with interest in the transportation and logistics industry.

Deal Value Composition by Percent of Announced Deals Measured by number of deals with disclosed value at or above \$50 million (2006,1Q07–3Q07,3Q07)



Deals by Investor Group (2006,1Q07–3Q07,3Q07)



Mega-deals in 2006 and 2007

Evidence of the desire to acquire large targets can be found in the number of announced mega-deals during 2006 and the first three quarters of 2007. Mega-deals are defined as acquisitions with a proposed transaction value exceeding \$1 billion. There were ten such deals announced during all of 2006.

The pace of mega-deal announcements has picked up in 2007 with nine mega-deal announcements during the first three quarters of the year. Four of the mega-deals announced during 2007 have already been completed while four are pending or intended. The remaining announced mega-deal of 2007 is the first proposed acquisition of EGL Inc, which was subsequently withdrawn.

Some mega-deals were withdrawn in 2006 and 2007 for typical reasons.¹ Acquirors of EGL and Peninsular & Oriental Steam were outbid, the Aer Lingus bid was withdrawn due to antitrust concerns and the bid for Iberia Lineas has been held up by the credit crunch. The largest of the mega-deals, both involving air carriers, fell through because those bids were not accepted as previously discussed. We nonetheless still see the likelihood of air carrier M&A globally because of where airlines are structurally and investor sentiment in the market. Catalysts of airline consolidation include increasing pressure from investors and the open skies agreement between the US and the EU.

Mega-deals in 2006

Date announced	Target name	Acquiror	Value of transaction in \$	Deal status
15 Nov 2006	Delta Air Lines Inc	US Airways Group Inc	17.96	Withdrawn
13 Dec 2006	Qantas Airways Ltd	Airline Partners Australia	8.70	Withdrawn
10 Jan 2006	Peninsular & Oriental Steam	PSA Venture(UK)Ltd	6.14	Withdrawn
13 Dec 2006	Toll-Transport Infrastructure	Shareholders	5.75	Completed
6 Nov 2006	Swift Transportation	Investor Group	2.78	Completed
23 Aug 2006	TNT NV-Logistics Division	Apollo Management	1.89	Completed
6 Mar 2006	EnCana Corp-Gas Storage Bus	Carlyle Riverstone Global	1.50	Completed
5 Oct 2006	Aer Lingus PLC	Coinside Ltd	1.41	Withdrawn
6 Jun 2006	Shanghai Port Container Co Ltd	Shanghai Intl Port(Grp) Co Ltd	1.11	Completed
5 Jun 2006	Hong Kong Dragon Airlines Ltd	Cathay Pacific Airways Ltd	1.02	Completed

Mega-deals in 2007

Date announced	Target name	Acquiror	Value of transaction in \$	Deal status
29 Mar 2007	Iberia Lineas Aereas de Espana	Investor Group	4.60	Intended
4 Sept 2007	Dakota, Minnesota & Estn RR	Canadian Pacific Railway Ltd	2.54	Pending
19 Mar 2007	EGL Inc	CEVA Group PLC	2.24	Completed
8 May 2007	Florida East Coast Inds Inc	Fortress Investment Group LLC	2.24	Completed
19 Jun 2007	Scandlines AG	Investor Group	2.09	Pending
2 Jan 2007	EGL Inc	Investor Group	1.92	Withdrawn
22 Jan 2007	Guggenheim Aviation-Asts(38)	Aircastle Ltd	1.59	Completed
17 Apr 2007	OMI Corp	Investor Group	1.56	Completed
17 Aug 2007	NCL Corp Ltd	NCL Investment Ltd	1.00	Pending

¹ During the period 2006 there were 11 withdrawn deals. During the period 1Q06-3Q06 there were 6 withdrawn deals. During the period 1Q07-3Q07 there were 5 withdrawn deals. During 3Q07 there were no withdrawn deals. Deals are normally not withdrawn in the same quarter in which they are announced.

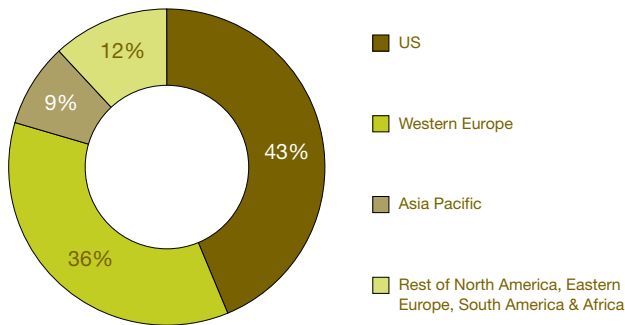
Regional Distribution of Deals Worth > \$50 million, Measured by Value

The regional distribution of deals indicates that US firms have been the leading acquisition targets when evaluated on the basis of value of deals in both 2006 and through the first three quarters of 2007.

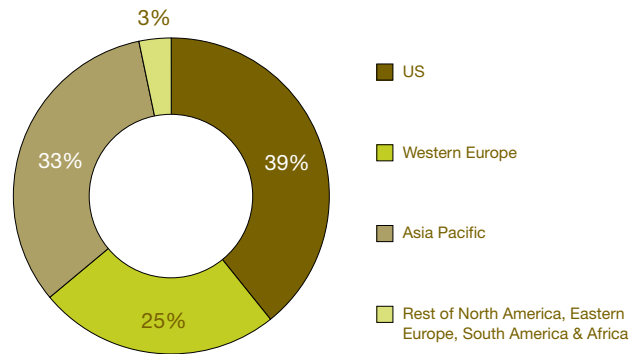
Also notable is the decline in deal value for Asia Pacific targets between 2006 and the first three quarters of 2007 which is largely due to the announcement of several large deals targeting Australian companies during 2006.

For most of the mega-deals on our 2007 list in which the United States was the home nation of the target company, the acquiror was also a United States-based firm. This was particularly true when the acquiror was a financial investor.

Regional Distribution of Deals worth \$50m or More Measured by Value (1Q07-3Q07)



Regional Distribution of Deals worth \$50m or More Measured by Value 2006

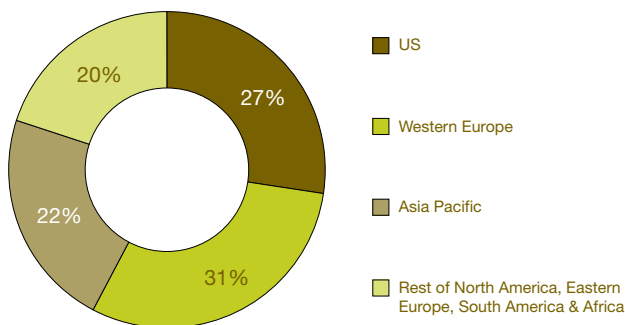


Regional Distribution of Deals Worth > \$50 million, Measured by Number of Deals

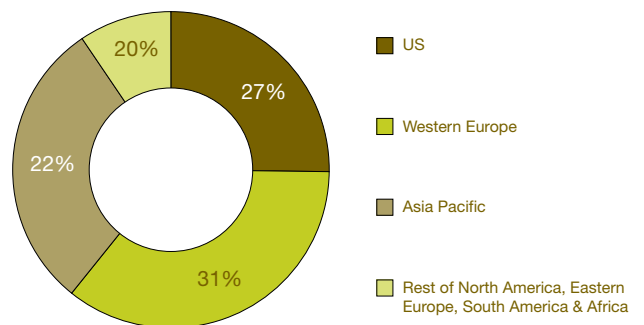
Through 2006 and the first three quarters of 2007, targets in Western Europe have lead the regional distribution of deals when measured by volume of deals.

The continued decline in the dollar relative to foreign currencies (as demonstrated in US Dollar performance relative to the Euro) makes US acquisitions by foreign entities less expensive. While this drop in domestic currency has not yet led to a substantial increase in the pace of deals in which a North American firm was targeted, we expect a declining dollar to increase the likelihood of future cross-border deals for North American (specifically US) target companies.

Regional Distribution of Deals worth \$50m or More Measured by Number of Deals (1Q07-3Q07)

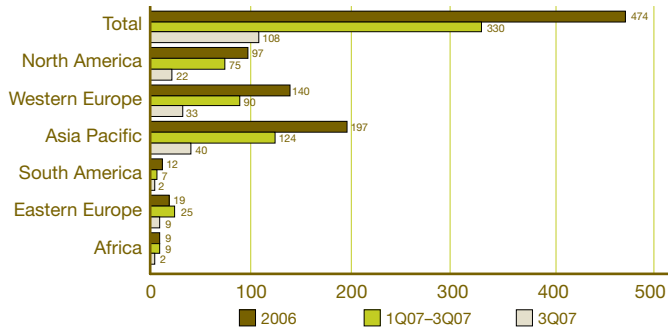


Regional Distribution of Deals worth \$50m or More Measured by Number of Deals 2006



Regional Distribution of All Deals and BRIC1 Deals Measured by Number of Deals

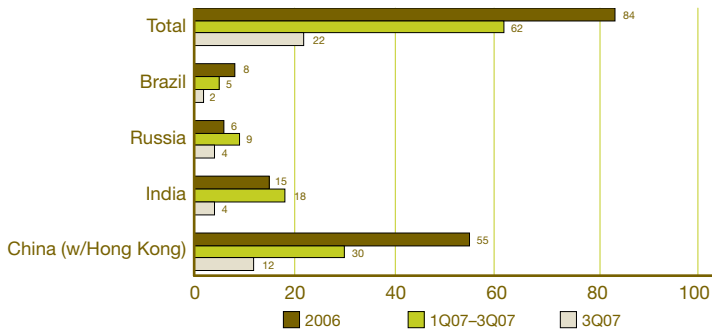
Regional Distribution of All Deals Measured by Number of Deals (2006, 1Q07–3Q07, 3Q07)



The volume of transportation deals for BRIC targets is on pace to approximately equal 2006 volume. This has been driven by an increase in deals targeting Russian and Indian companies (deal volume for these targets already exceeds 2006 levels).

The pace of deal flow in China and India during the third quarter of 2007 as compared to all of 2006 approximates the pace of overall deal flow during these periods. However, the pace of deal flow demonstrated noteworthy strength in India during the first three quarters of 2007 (i.e., exceeding deal flow in India for all of 2006). This anomaly is largely due to the strength of financial investment—that is, financial investors were the acquirors in 10 of the 18 deals during this period. During the third quarter of 2007, financial investors attenuated the overall pace of deal flow in India (i.e., only 2 financial deals announced during the third quarter) to one that more closely resembles that of the overall M&A activity.

Distribution of BRIC Deals Measured by Number of Deals (2006, 1Q07–3Q07, 3Q07)



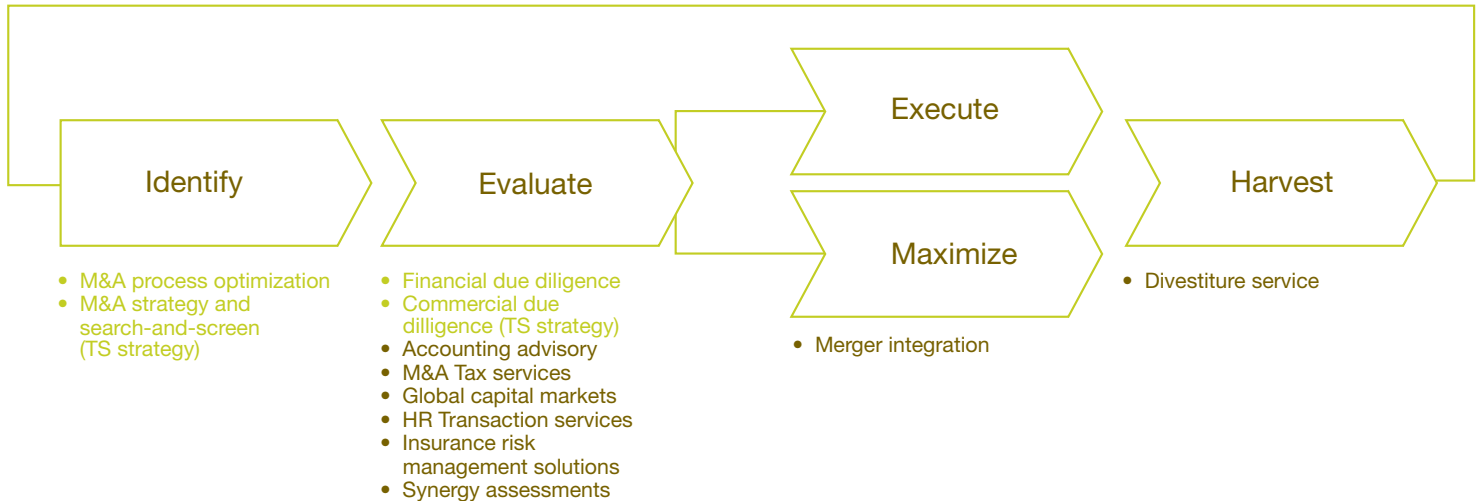
Transaction Services (TS) highlight: TS strategy

Growing through acquisitions can create tremendous value when companies focus only on the best opportunities. But when conducted in a reactive manner or without an in-depth review of the market dynamics underpinning the investment thesis, acquisitions can destroy value and ruin growth aspirations. Our services are distinctive, focused and effective at helping clients mitigate these risks and increase the chances of making successful, strategically sound deals. One of our key services is Commercial Due Diligence.

PwC Transaction Services deal continuum

Define the purpose

Manage the process



Commercial Due Diligence (CDD)

- Analyze the attractiveness of the target's market and the strength of its competitive positioning within that market.
- Assess the source and sustainability of revenues and margins.
- Challenge or validate management forecasts in the context of the business model and the company's commercial environment.

Benefits of Commercial Due Diligence

Our CDD services reduce the risk, increase the value and lower the costs associated with prospective transactions by probing a target's market and competitive positioning and by challenging the forecasts underpinning the opportunity.

Reduced risk

Over the last year, 82% of our projects resulted in findings that had a material impact on either the bid price or the viability of the deal—revealing flaws in the investment thesis as well as potential deal-breakers.

Increased value

CDD also helps clients confirm the value in deals where our work validates the investment thesis and uncovers potential upsides—giving clients the confidence to aggressively pursue the best opportunities.

Lower costs

Our issues-driven process is tailored to focus on “go/no-go” topics—saving clients time and money. In addition, our ability to provide a fully integrated Financial Due Diligence (FDD) and CDD offering leads to considerable efficiencies for clients—who benefit from working with a single, high-quality “one-stop-shop” provider.

Commercial Due Diligence case study: Validating a specific deal in the transportation sector

Issue

Our client, one of the largest private equity houses in the U.S., was considering the acquisition of a leading trucking firm and logistics provider. There were significant concerns around the target's strong exposure to the automotive sector in North America, Asia Pacific and Europe. The target's revenue projections relied significantly on the assembly forecasts of its key customers and the attractiveness of the automotive market in these regions. Information shared by the target was limited.

Approach

- Compared target's projected growth rates to automotive manufacturers' assembly forecasts to evaluate achievability of projections and areas of risk in the business plan
- Examined automotive sector's alternative forecast scenarios (Positive, Neutral, Negative) by key region / locations
- Reviewed key customers' manufacturing strategy, brand portfolio, future investments and plant closures

Impact

The target's revenue growth projections turned out to be greater than independent assembly forecasts for most of its key customers would indicate. The target's primary operating markets (NA & EU) were very mature, characterized by intense competitive pressures and low incremental growth potential. The vast majority of future global assembly gains came from emerging markets (e.g. China) where the target had a minor presence. Clients expressed that Commercial Due Diligence made them a much more confident bidder, more comfortable in assessing company projections and on their view of a reasonable price for the deal.

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PricewaterhouseCoopers' TS practice offers a full range of tax, financial, business assurance, and advisory capabilities covering acquisitions, disposals, private equity, strategic M&A advice, advice on listed company transactions, financing, and public/private partnerships. The team consists of:

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PricewaterhouseCoopers' TS Strategy practice consists of over 250 global professionals involved in strategy and M&A consulting. Our core skill is helping clients develop or appraise strategic business plans to insure that they are aligned with a business' industry environment, internal capabilities and strategic positioning. The team consists of:

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