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Local Insight
Regional Footprint
World-Class Expertise

How to:
**(Re-)Build
a Better
Railroad**



How to: (Re-)Build a Better Railroad

► The Opportunity

High freight transport costs in Africa

Decades of under-investment in inland transportation infrastructure have made it very costly, time consuming and inefficient to transport goods overland to and from the continent's bustling ports. Moreover, Africa's transport infrastructure is less of a "network" and more a collection of non-linked transport "corridors".

Across all modes, transport prices in East Africa are among the highest in the world, due in large part to heavy reliance on long-distance trucking. As a result, the cost of overland transport stands at c. 50% of the sales price of goods in landlocked countries such as Uganda, Rwanda and Malawi. A lack of investment has resulted in rail capturing less than 10% of East Africa's transport market — suggesting a unique market opportunity for an efficient, cost-effective railway.

Today, freight shipments on the two rail systems of East Africa linking Kenya, Uganda and Tanzania stand at less than 2 million tons annually — less than half the traffic volume in 1970.¹

On average, rail costs in Africa exceed 5 cents per ton-kilometer, the standard industry metric. The cost of industrial transport across Uganda and Kenya is particularly high at more than 15 cents per ton-kilometer. In India this rate is 1.6 cents per ton-kilometer; in China its just 0.8 cents per ton-kilometer; and in Russia it is a mere 0.6 cents per ton-kilometer.²

Internationally, railways remain the most efficient, cost effective and environmentally friendly transport mode available. In the United States, for example, railroads account for 43% of intercity freight volume and save American consumers billions of dollars while reducing energy consumption and pollution. In fact, traffic on US rails doubled between 1981 and 2007.³

Citadel Capital estimates that an efficient rail network could, in time, bring East African transport costs down by as much as 35% due to the operational and fuel efficiency of shipping by rail. Rail is particularly competitive with road infrastructure for bulk transport over distances of more than 500 kilometers.

► The Entry Point

Rift Valley Railways

Rift Valley Railways of Kenya and Uganda owns a 25-year concession to operate a century-old rail line with some 2,352 kilometers of track linking the Indian Ocean port of Mombasa in Kenya with the interiors of both Kenya and Uganda, including the Ugandan capital, Kampala.

Prior to Citadel Capital's investment in early 2010, RVR was a loss-making operation with aging and poorly maintained infrastructure and rolling stock. After winning the concession in 2006, a South African consortium

failed to raise the necessary capital to pay concession fees and make the required capital investments. The lack of funding caused further problems including shareholder disputes and an inability to meet the conditions precedent to draw on additional debt and secure a qualified technical partner.

Today, RVR handles over 1.6 million tons per annum out of an existing market of 16 million tons being handled in Mombasa Port. The goal is to see that figure grow to 5 million tons per annum by 2015. Over the same period the port's capacity will likely grow by at least 4 million tons.

“ RVR is compelling evidence that the private sector can still find strong investment theses in this industry while being a major catalyst for the development of the continent. This, however, requires adequate financial, strategic and technical expertise, which Citadel Capital has already demonstrated. ”

*Marie-Hélène Loison, Head of
PROPARCO Private Equity*

► The Solution

Three-point, US\$ 287 mn capital expenditure program

Citadel Capital acquired a stake in RVR in February 2010 and today controls 51% of the rail operator through Platform Company Africa Railways, the firm's platform for investment in Africa's rail industry.

The decision to invest was underpinned by the strong freight volumes moving through the Port of Mombasa, the East African Community's drive toward economic integration, and the simple fact that in a fully rehabilitated state RVR should be the most efficient provider of long-haul bulk transport. Citadel Capital's investment professionals also saw that RVR could be rehabilitated faster and at a small fraction of the cost of building a greenfield railway.

Working with RVR management and its local partners (TransCentury and Bomi Holdings) in the railway, Citadel Capital formulated a three-point turnaround program with investments of US\$ 287 million. The pillars of the program include upgrade of operational systems (2011-12), rehabilitation of existing assets (2011-2013), and addition of new assets to the fleet (2012 onward).

► The Methodology

Create an investment opportunity attractive to sophisticated global investors by reducing political, operational and finance risk

Africa is long on opportunities, but short on capital because of the continent's risk profile as seen by foreign institutional investors. Citadel Capital has developed a proven methodology that has allowed it to deploy US\$ 8.7 billion in equity and debt across 19 platform companies in 15 industries spanning 15 nations.

This methodology allows the firm to structure large, complex deals by addressing three key risk points, thereby creating opportunities that are both attractive and accessible to global investors including

development finance institutions (DFIs), export credit agencies (ECAs) and other sophisticated institutions.

These risks include:

1. **Financing:** Principal investment by the general partner (GP) signals seriousness to government and potential LPs alike — and provides initial capital for programs to reduce execution risk.
2. **Political:** Not sovereign risk, but specific risk associated with the project, often regulatory in nature. Citadel Capital creates trust over time by working closely and transparently with regulators and policymakers — and by ensuring that its Platform Companies deliver direct, tangible benefits for the communities in which the firm invests.
3. **Execution:** Early GP investments — before a final funding package is negotiated — facilitate concrete operational changes and adjustments in the project's risk profile through bolt-on acquisitions, management team enhancements, adjustment of debt repayment profile, etc.

► The Implementation

US\$ 234 mn in financing raised despite ongoing global financial crisis and economic fallout from the "Arab Spring"

Citadel Capital has raised a total of US\$ 234 million to back the US\$ 287 million capital expenditure program for RVR, including US\$ 70 million in fresh equity for Africa Railways Ltd. (which will fund RVR) and US\$ 164 million in senior debt.

This program began by breaking a cycle that saw unmet private-sector promises prompt the governments of Kenya and Uganda to raise valid concerns about RVR's concessions that, in turn, threatened a deteriorating financial position for RVR. Citadel Capital and its partners in RVR acted decisively to break this cycle by meeting its public-private partnership (PPP) obligations and presenting a clear, bankable rehabilitation program.

This came at the same time as Citadel Capital injected early capital into RVR, allowing it to work closely with key members of RVR's management team to bring in global rail consultants América Latina Logística to

help formulate a long-term operational turnaround plan, strengthen the management team, and identify potential early gains that would be tangible to the governments and to prospective investors and lenders.

With additional funding from Citadel Capital to implement select aspects of this turnaround program, RVR achieved important operational and financial milestones, including a declining accident rate, improved turnaround times, better freight volumes, and its first positive monthly EBITDA in its history as a private company. (See box for select metrics.)

These early operational successes and the clear reduction in regulatory risk allowed Citadel Capital to secure the interest of sophisticated international limited partners and lenders including development finance institutions (which have a mandate to spur development in target geographies), niche investors with demonstrated interest in infrastructure, and commercial banks.

The firm announced closure of the US\$ 164 million senior debt package in August 2011 and the US\$ 70 million Africa Railway Ltd. capital increase the following month.

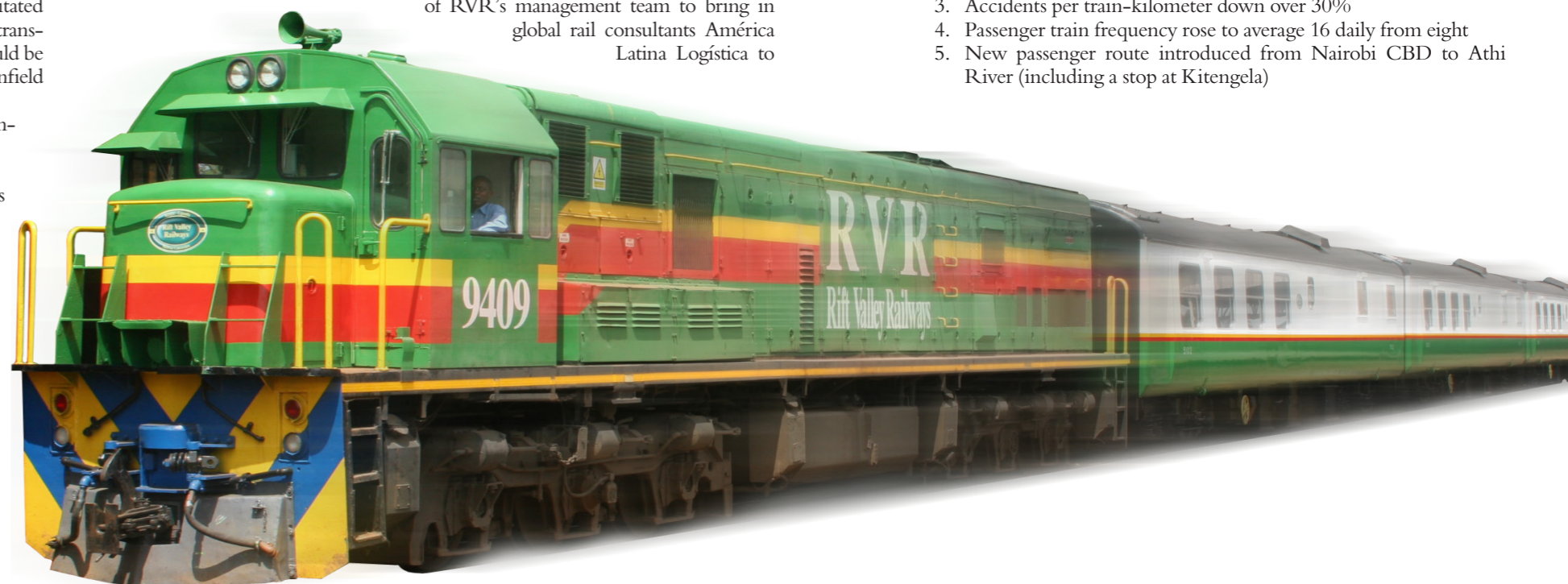
“ We are once more very impressed by Citadel Capital's ability to execute large and very complex equity transactions in Africa. ”

*Joachim Schumacher, Head of DEG's
Equity and Mezzanine Department*

► The Early Results

Sharp pre-funding improvement across key metrics

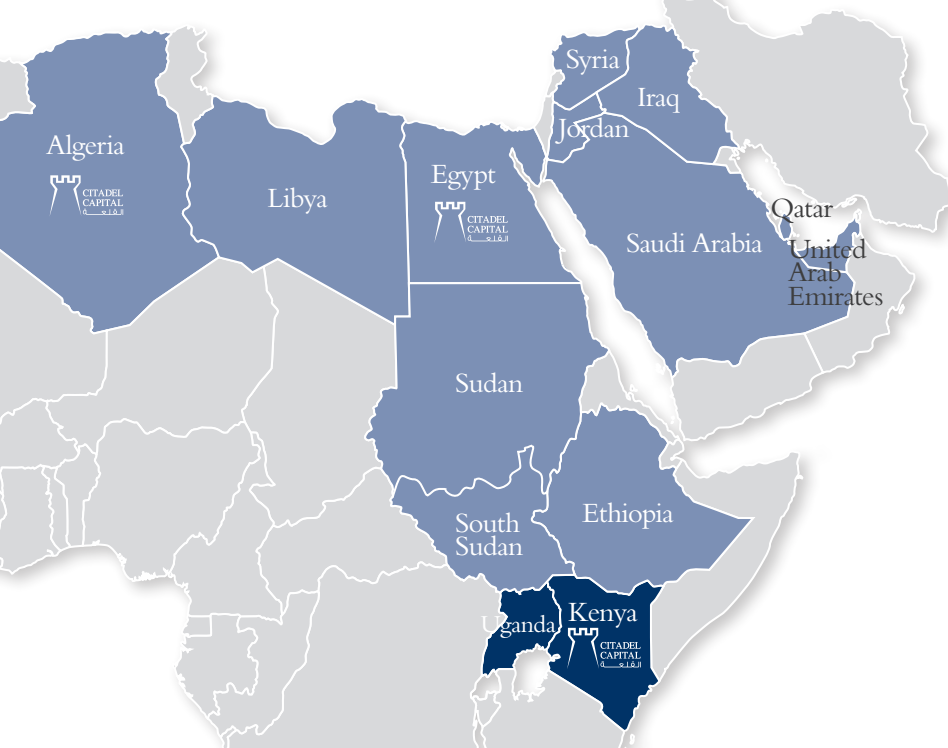
1. 21% improvement in revenue in 3Q 2011
2. Key turnaround times improved by 30%
3. Accidents per train-kilometer down over 30%
4. Passenger train frequency rose to average 16 daily from eight
5. New passenger route introduced from Nairobi CBD to Athi River (including a stop at Kitengela)



1. 2008 study by the East African Community and CPCS Transcom.

2. Ibid.

3. Association of American Railroads, "Railroads: Building a Cleaner Environment," May 2008.



Key Facts About Rift Valley Railways

Headquartered in:	Nairobi, Kenya
Annual Ton-Kilometers (Freight):	Over 1 billion
Annual Passengers Served:	Over 6 million
Employees:	3,282
Total Track:	2,352 kilometers
Countries Served:	Kenya and Uganda
Citadel Capital Investment:	February 2010
Percentage Controlled by Citadel Capital:	51%



Africa Railways is a platform company of Citadel Capital

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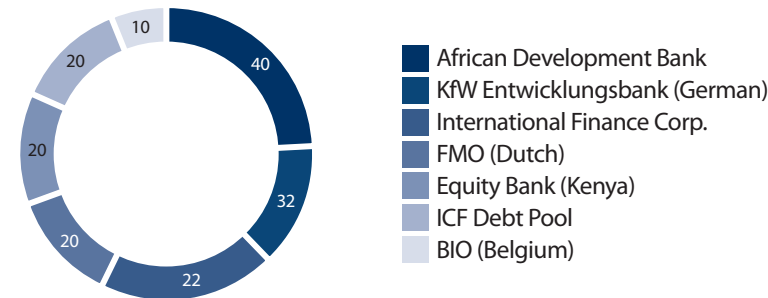
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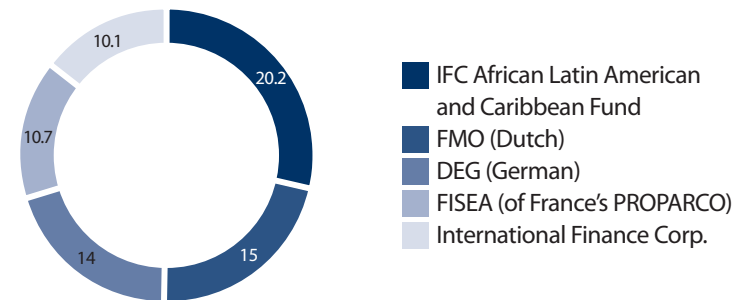
► The Backers

Partnerships with key development finance institutions and sophisticated international investors have allowed Citadel Capital to raise US\$ 234 million in equity and senior debt for Rift Valley Railway, including:

US\$ 164 million senior debt package with participation of



US\$ 70 million capital increase for Africa Railways with participation of



“ RVR meets perfectly our target of providing the most adequate balance between economic efficiency and development impact. ”

Hugo Bosmans, CEO of BIO

“ We are extremely happy to contribute to the completion of this important railway project, not only through our lending program but also as a long-term equity investor alongside our partner Citadel Capital and the other existing shareholders. ”

Yvonne Bakkum, FMO's Director Private Equity

► Related Reading

Interested in learning more about Africa's transportation industry, Africa Railways Ltd. and Rift Valley Railways? The soft-copy of this document (available for download in PDF format at www.citadelcapital.com/current-investments/rift-valley-railways) includes links to select background research, news releases and presentations.



About Africa Railways

Africa Railways is Citadel Capital's platform for investments in the African rail transportation sector. At present Africa Railways is the largest shareholder in Rift Valley Railways and has management control. Following its capital increase in September 2011, Africa Railways has a total paid-in capital of US\$ 110 million. Africa Railways will use the proceeds from the capital raising to fund Portfolio Company Rift Valley Railways (RVR), which has a 25-year concession to operate a century-old rail line with some 2,352 kilometers of track linking the Indian Ocean port of Mombasa in Kenya to the interiors of Kenya and Uganda, including the capital city of Kampala.



About Citadel Capital

Citadel Capital (CCAP.CA on the Egyptian Stock Exchange) is the leading private equity firm in the Middle East and Africa. Citadel Capital focuses on building regional platforms in select industries through acquisitions, turnarounds, and greenfield investments executed via Opportunity-Specific Funds. The firm's 19 OSFs now control Platform Companies with investments worth more than US\$ 8.7 billion in 15 countries spanning 15 industries, including mining, cement, transportation, food and energy. Since 2004, Citadel Capital has generated more than US\$ 2.2 billion in cash returns to its co-investors and shareholders (on investments of US\$ 650 million), more than any other private equity firm in the region. Citadel Capital is the largest private equity firm in Africa by PE assets under management (2006-2011, as ranked by Private Equity International). For more information please visit www.citadelcapital.com.