QALAA HOLDINGS القلعة

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 rail system in East Africa linking Kenya and Uganda 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, around 8 cents per net-ton-kilometer in certain regions. In India this rate is 1.6 cents per ton-kilometer; in China it's 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]

Qalaa Holdings 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 Qalaa Holdings' 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 1.7 million tons per annum out of an addressable market of 16 million tons being handled in Mombasa Port. The goal is to see that figure grow to 4 million tons per annum by 2020. 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 Qalaa Holdings has already demonstrated."
>
> *Marie-Hélène Loison, Head of PROPARCO Private Equity*

▶ The Solution

Three-point capital expenditure program of US$ 299 mn

Qalaa Holdings acquired a stake in RVR in February 2010 and today controls 85% 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. Qalaa Holdings' 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, Qalaa Holdings formulated a three-point turnaround program worth US$ 299 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. Qalaa Holdings has developed a proven methodology that has allowed it to deploy billions of dollars in equity and debt across multiple industries and geographies. 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.

The methodology includes:

1. De-risking: by de-risking the investment, you show your potential financial backers not just that you are serious (by committing from your own balance sheet), but that the project is one that could fly. Get the best project architects, area consultants and legal counsel you can for the feasibility study. This also includes placing local communities front-and-center through environmental and community impact assessments.
2. Lining up funding: DFI's and ECA's are more active than ever in supporting large-scale infrastructure projects that have positive economic, social and environmental benefits. National institutions are willing to back projects that create local economic opportunities and promote stability. They just need strong partners and viable projects.
3. Bringing in and training the best talent: International co-operation and knowledge-sharing lies at the heart of any successful project.

▶ The Turnaround

US$ 299 mn in financing raised despite ongoing global financial crisis and economic fallout from the "Arab Spring"

Qalaa Holdings has raised a total of US$ 299 million to back the capital expenditure program for RVR, including US$ 104 million in fresh equity for Africa Railways Ltd. (which will fund RVR), US$ 164 million in senior debt, and US$ 31 million in finance from the Standard Bank of South Africa Limited to finance the purchase of new wagons and locomotives.

For the past four years, Qalaa Holdings has been working with RVR's management and its local partners to implement a successful turnaround program that has included:

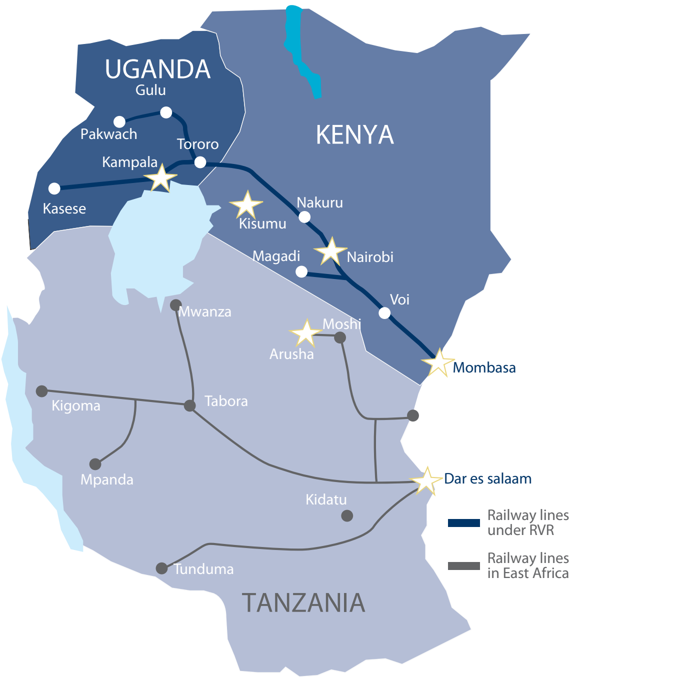
1. Improving key turnaround times by over 30%.
2. Investing in modern rail-operating technology.
3. Rebuilding infrastructure.
4. Expanding haulage capacity through the doubling of its locomotive fleet and the acquisition of up to 500 new high capacity wagons.
5. Developing the skills of its 2,000-strong workforce.
6. Rehabilitating the most damaged sections of the railway track between Mombasa and Nairobi.
7. Rebuilding near-collapsed culverts between Tororo and Kampala in Uganda.
8. Reopening 500 km of the Tororo-Pakwach railway line in northern Uganda after a 20-year hiatus.
9. Installing satellite tracking and GPS-based technology on all trains, which has cut cargo transit times between Mombasa and Nairobi by six hours.
10. Investing in state-of-the-art ballast regulators, tamping machines and handling equipment, which has hugely mechanized track maintenance and ensured a safer railway with fewer incidents.

RVR is the winner of the prestigious 2015 IOSH International Railway Group Award for efforts undertaken in the last three years to address occupational health and safety requirements as outlined by the 2007 Occupational Safety and Health Act (OSHA).

iosh

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.

RVR Facilitates Greater Levels of Intra-Regional Trade



Key Facts About Rift Valley Railways

Headquartered in:	Nairobi, Kenya
Annual Ton-Kilometers (Freight):	1,451 mn
Annual Passengers Served:	Over 6 million
Employees:	2,050
Total Track:	2,352 kilometers
Countries Served:	Kenya and Uganda
Qalaa Holdings Investment:	February 2010
Percentage Controlled by Qalaa Holdings (RVR):	85%

Africa Railways is a subsidiary of Qalaa Holdings

qalaaholdings.com

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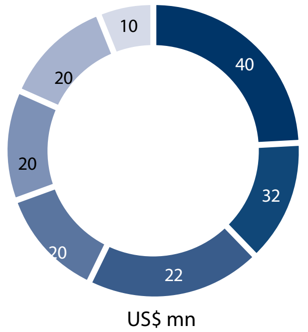
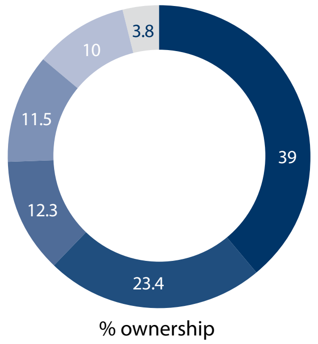
▶ The Backers

Partnerships with key development finance institutions and sophisticated international investors have allowed Qalaa Holdings to raise US$ 299 million in equity, senior debt and additional financing for Rift Valley Railway and Africa Railways, including:

US$ 164 million senior debt package with participation of



US$ 104 million in equity 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 Qalaa Holdings and the other existing shareholders.”

Yvonne Bakkum, FMO's Director Private Equity

About RVR

RVR is Qalaa Holdings' primary investment in the African rail transport sector with a 25-year concession to operate the Kenya-Uganda railway. Since the start of the USD 299 million capital investment and turnaround program that began in January 2012, RVR has invested in modern rail operating technology, rebuilding infrastructure, expanding haulage capacity and developing modern rail operating skills in the company's 2,000 strong workforce. The time that it takes to move a container by rail from Mombasa to Kampala has been reduced by more than half and trains are running on time for the first time in decades. RVR has also overhauled more than half of its fleet of locomotives and purchased 20 additional locomotives in addition to hundreds of new wagons.

About Qalaa Holdings

Qalaa Holdings (CCAP.CA on the Egyptian Stock Exchange) is an African leader in energy and infrastructure. Qalaa Holdings controls subsidiaries in industries including energy, cement, agrifoods, transportation and logistics, and mining. For more information please visit www.qalaa.holdings.com.

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

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

AFRICAN LEADER IN INFRASTRUCTURE & INDUSTRY

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