TransCentury

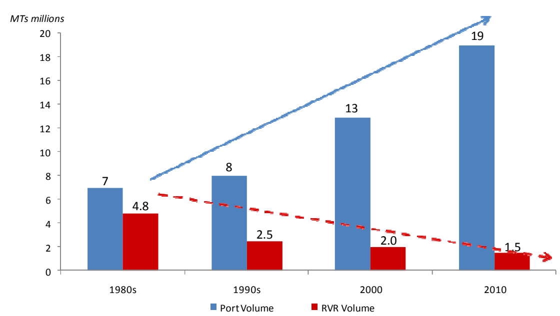
Why is Trans-Century in Rift Valley Railways?

A glance at the Port of Mombasa reveals queues of trucks stretching kilometers long to collect cargo for transport into the interior of Kenya and other Eastern African countries. Port through put will continue to increase as: (i) the economies of the region continue to grow; (ii) population pressure increases demand for goods and services and (iii) the developing natural resources industries (oil, gas, vermiculite, nickel ore, iron ore, coal ore) need for an export route. These factors are most clearly demonstrated in the plans already underway to increase the capacity at the port of Mombasa by tripling the container handling capacity[1].

It should be noted that the Port of Mombasa serves not just Kenya, but also Uganda, Northern Tanzania, Rwanda, Burundi, Eastern DRC and Southern Sudan. Furthermore, once the road connection (currently underway) between Kenya and Ethiopia is complete, Mombasa will also become a potential import/exit corridor for that neighbour.

In the 1980s, the rail hauled upto 4.8 million tones, accounting for 2/3rds of the port's cargo then. Today, the same rail network transports only 1.5 million tonnes annually, accounting for only 8% of the port's cargo, with trucks transporting approximately 92% of volumes. The decline in the importance of the rail to the region is mainly due to lack of investment in the rail's assets.

While rail tonnage has decreased to a third, the port volumes have grown tremendously, tripling from 7 million tonnes in the 1980s to over 19 million tonnes annually today[2].



Port Volumes Vs. Rail Volumes

Trans-Century Limited ("TCL") envisions that this trend is not sustainable for a developing economy as the pressure on roads will drive demand for different solutions to cargo logistics.

Firstly, the region does not have road infrastructure that can adequately and efficiently handle cargo movements considering that less than 18% of roads are paved (tarmacked) in Kenya[3]. **Secondly**, rail haulage is more cost effective than road transport for bulk homogenous cargoes such as cereal, heavy fuel oils, cement, clinker and mineral ores. **Thirdly,** with the increase in urbanisation, growing affluence and need to stimulate local economies it is important to de-congest the roads. Kenya does not yet have an active plan to significantly upgrade the road from Mombsa to our Western borders, which should be a priority with or without a functioning railway. Therefore, the logical alternative to roads in the region is the railway line.

Congestion at Gilgil weigh bridge

THE CONCESSION

Rift Valley Railways ("RVR") is the holder of a 25 year concession to operate the Kenya-Uganda railway line built by the British. It stretches from the Port of Mombasa to Kampala in Uganda, touching major economic towns within the region. RVR comprises of:

- Over 2,800 Km of railway track.
- Approximately 100 locomotives and 3,800 wagons.
- Direct access into the Port of Mombasa.
- Yards at the bread basket areas of Kitale, Eldoret, Nakuru and Nanyuki.
- Yards at industrial centers of Nairobi, Athi River, Thika, Ruiru, Kisumu, Jinja and Tororo, which are characterized by a mix of heavy industry (e.g cement, steel and chemicals) and consumer goods manufacturing (e.g edible oils, flour, brewing, household and personal care products).
- Ferries (and required port infrastructure) operating out of Kisumu and servicing Mwanza and Jinja.

Railway network through economic towns

THE RVR OPPORTUNITY

TCL firmly believes that the turning around of RVR essentially involves investing in people and the existing assets.

---

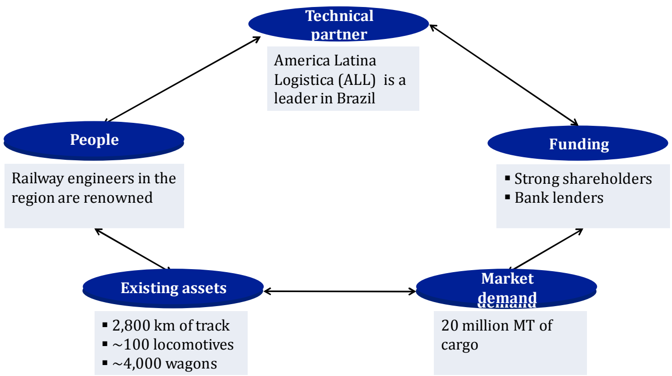
[1] *Source: KPA Handbook 2010-2011*

[2] *Source: KPA, Kenya Railways Corporation and RVR estimates*

[3] *Source: Kenya Roads Board- Based on 11,189 Kms of paved roads out of a total of 61,936 Kms of classified roads*

RVR cargo freight

Over the next five years TCL is confident of a successful turnaround, given:



Strong market fundamentals: The Mombasa port handles more than 19 million tons of cargo and this is only expected to grow given the economies of the region are all experiencing growth and are expected to grow even more with the increased focus on key economic programmes such as Kenya's Vision 2030, Uganda's Vision 2035 and Rwanda's Vision 2020. Additionally there is increased focus on natural resources across the region such as oil, gas, gold, gemstones; which require the export of the natural resource and/or the importation of exploration and production supplies.

Highly skilled and dedicated workforce: Railways in the region have been an employer of choice for the engineering community. The railway has been in the region for more than 100 years, building up generations of talent in permanent way construction and rolling stock maintenance. Additionally, the growth of industry in the region has resulted in railway skills being available in other industries as we have seen the growth of civil engineering, mechanical engineering and trucking industries, where core skills can be found to augment staff gaps where they exist.

America Latina Logistica ('ALL') as a technical partner: ALL was appointed as the technical partner for RVR and is responsible mainly for execution of the investment plan, strategy plan and operations. ALL has annual revenues of USD 1.7 billion (Ksh 153 billion), EBITDA of USD 810 million (KSh 73 billion) -a 49% margin and is the largest operator of railways in Latin America. It operates more than 21,300Km of railway lines, largely narrow-gauge which comprises:

- 1,095 locomotives and 31,650 wagons
- Connects to the seven most active ports in Brazil and Argentina
- Carries 78% of South America's grain exports

ALL freight train

Source: America Latina Logistica (www.all-logistica.com)

Strong financial partners for the railway: RVR benefits from strong shareholders in TCL and Citadel Capital, together with support from a proposed banking consortium that includes the leading names in the international development finance community, together with support from Kenyan banks.

TURNAROUND STRATEGY

The key issues with the rail network today are limited rolling stock and specific sections of worn-out track, resulting in at most 6-7 trains travelling on the track on each day, in the upward direction. To increase the networks capacity, USD 300 million (KSh 27 billion) investment and strategy plan involves the following:

- Repair dilapidated sections of the railway track: There are certain sections of the track (particularly corners) that require maintenance and sections that were installed for lighter locomotives (mainly culverts and bridges). These sections are the bottle-necks on the track that constrain the overall speed of the network and on this basis, there is a current programme to replace the rails on these corners and, in the medium term, upgrade the culverts and bridges.
- Invest in maintenance and rehabilitation of locomotives: Through the concession provided.
- RVR with approximately 100 locomotives, less than half of these are operational but can be rehabilitated. Additionally, most of the operational locomotives are in need of overhauls so as to reduce the fuel consumption. All the operational locomotives will be modernised through the installation of on-board computers, with a view to improving safety and optimising diesel consumption.
- Invest in maintenance, conversion and rehabilitation of wagons: The concession was provided with 3,800 wagons, though only 2,500 are operational. As the locomotives are rehabilitated, wagons will be rehabilitated and/or converted, with a view to matching the haulage capacity of the locomotives.
- Selectively acquire locomotives and wagons: Once refurbishing existing locomotives and wagons is complete, additional assets will be purchased in order to increase capacity of the rail network.

The financing mix entails USD164 million (KSh 14.8 billion) in debt, USD 80 million (KSh 7.2 billion) in shareholder equity and remainder through cash flows.


RVR commuter station

CONCLUSION

RVR has the scale to successfully execute the turnaround of the Kenya-Uganda railway system through its investment plan which will rehabilitate the track, upgrade, and mordernise the rail fleet. A return to 1980s volumes of 4.8 million tonnes is achievable and suggests that RVR should more than triple its revenues from its current USD 70 million (KSh 6.3 billion) to in excess of USD 230 million (KSh 21.2 billion) in the next 5 to 7 years, creating vast amount of value for its shareholders.

America Latina Logistica, the technical expert to RVR has averaged Operating Profit margins of over 47% over the last 4-years, remarkably turning around the 21,300 Km South American loss-making railway line they took over in 1997[4]. If RVR achieves just 40% Operating Profit Margins, this would suggest a company with a potential of KSh 8.5 billion (USD 95 million). If this were to be a listed company in the industrial and infrastructure sectors, it would be comparable in size to KenGen at KSh 3.5 billion, KPLC at KSh 6 billion and Bamburi at KSh 7.3 billion in terms of Operating Profits as of 2010.

[4] *Source: America Latina Logistica Website http://ir.all-logistica.com/all/web/arquivos/APIMEC%20-%204T10%20ing.pdf*

DISCLAIMER

The contents of this paper are for informational purposes only. Nothing contained in this paper is intended to constitute an offer or invitation to any person to subscribe for or purchase any shares or other securities. Accordingly, TransCentury disclaims any responsibility or liability for the reliance by any person on the contents of this paper. No assurances are given by TransCentury or its officers of the accuracy of the information contained in this presentation. Such information is given to the best of the company's knowledge, information and belief.

This paper contains certain forward-looking statements that are subject to risks and uncertainties. When used in this paper, the words "believe," "expect" and similar expressions as they relate to TransCentury or RVR are intended to identify such forward-looking statements. Such statements are given to the best of TransCentury's knowledge, information and belief based on information currently available. The actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Accordingly, there can be no assurance that any forward-looking statements will be attained. TransCentury does not assume any obligation to update any industry information or forward-looking statements set out in this paper.