

Privatization in Latin America — 15 years of unprecedented change

HENRY POSNER III
Chairman

RDC RAILROAD
DEVELOPMENT
CORPORATION

LatAmRail 2006
Miami
6 April 2006

www.RRDC.com

AGENDA

- Background on RDC
- OVERVIEW: 15 Years of Unprecedented Change in Latin America
- CHALLENGE: Matching Results with Expectations
- BRAZIL: Why It's Different
- Financing Strategies in Difficult Environments

AGENDA (cont.)

- CASE STUDY: Financing the Nacala Corridor
- Structural Trends In Africa
- CASE STUDY: Financing Ferrovias Guatemala
- Structural Trends in Central America
- Conclusions

Background on RDC - General

- Pittsburgh-based, privately held railway investment and management company
- Focus: Emerging Corridors in Emerging Markets
- Financial structure based on Joint Ventures

Background on RDC – Businesses

Country	Entity	Length Km (Miles)	Employees	Tons Y. 2004 (in millions)
USA	Iowa Interstate	1,005 (623)	181	5.2
Argentina	ALL Central	5,350 (3,324)	1,012	3.4
Argentina	ALL Mesopotamica	2,740 (1,703)	313	1.4
Guatemala	Ferrovias Guatemala	322 (200)	115	0.16
Peru	Ferrocarril Central Andino	591 (367)	94	1.7
Malawi	Central East African Railways	797 (495)	487	0.24
Estonia	Eesti Raudtee	693 (431)	2,536	42.8
Mozambique	Nacala Corridor	872 (523)	227 Rail	0.27

SAFETY

IAIS — Gold Harriman Award 2004

FVG — One Year No Injuries on Feb. 3, 2006



Background on RDC – Investment Parameters

- **Most important factors are:** *(descending order)*
 1. Committed government
 2. Rational competition among bidders
 3. Local partners
 4. Investment & management skills

AGENDA

- Background on RDC
- OVERVIEW: 15 Years of Unprecedented Change in Latin America
- CHALLENGE: Matching Results with Expectations
- BRAZIL: Why It's Different
- Financing Strategies in Difficult Environments

OVERVIEW: 15 Years of Unprecedented Change in Latin America

- | | |
|-------------|---|
| 1991 | Argentina as “World’s First” (after USA, Japan, etc.) |
| 1994 | Brazil adapts the Argentine model |
| 1995 | Chile grafts the Argentine & European models |
| 1999 | Peru adapts the Chilean model |
| 1999 | Guatemala reverses the Nicaraguan model... |

AGENDA

- Background on RDC
- OVERVIEW: 15 Years of Unprecedented Change in Latin America
- **CHALLENGE: Matching Results with Expectations**
- BRAZIL: Why It's Different
- Financing Strategies in Difficult Environments

CHALLENGE: Matching Results with Expectations

		OBJECTIVES	RESULTS
Argentina	FREIGHT	Profitability	Varied
		Traffic Growth	Traffic Stable
	PASSENGER	Improved Quality	Improved Quality
		Reduced Losses	Reduced Losses
Brazil	FREIGHT	Profitability	Profitability
		Traffic Growth	Traffic Growth
	PASSENGER	Improved Quality	Improved Quality
		Reduced Losses	Reduced Losses
Peru	FREIGHT	Profitability	Profitability
		Traffic Growth	Traffic Growth
	PASSENGER	Profitability	Profitability
		Traffic Growth	Traffic Growth
Guatemala	FREIGHT	Restore Service	Partial
		Traffic Growth	Traffic Growth
		Profitability	Unprofitable

AGENDA

- Background on RDC
- OVERVIEW: 15 Years of Unprecedented Change in Latin America
- CHALLENGE: Matching Results with Expectations
- BRAZIL: Why It's Different
- Financing Strategies in Difficult Environments

BRAZIL: Why It's Different

	Peru	Argentina	Brazil
Physical Condition	Fair	Poor	Good
Traffic Density	Medium	Low	High
Customer Support	Medium	Low	High
Availability of Financing	Low	Low	High

AGENDA

- Background on RDC
- OVERVIEW: 15 Years of Unprecedented Change in Latin America
- CHALLENGE: Matching Results with Expectations
- BRAZIL: Why It's Different
- Financing Strategies in Difficult Environments

Financing Strategies in Difficult Environments

(Examples)

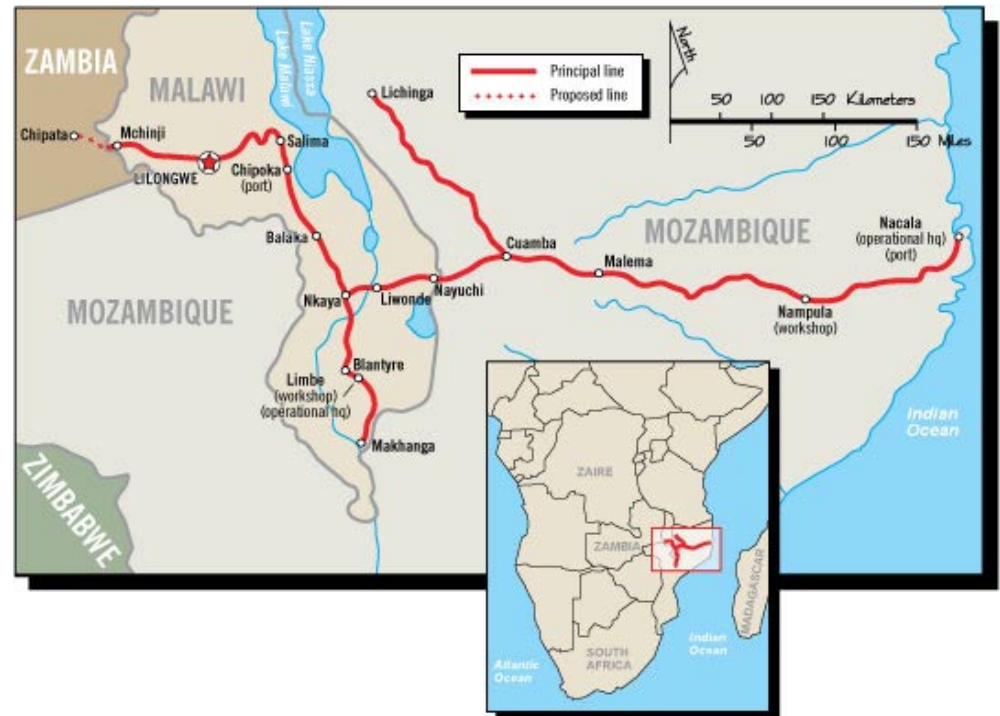
Country (RR)	Private Sector - Investment	Private Sector - Customer Equity	Public Sector
Argentina (Various)	Equity, Customer Contracts	High	Passenger Subsidies Not Funded
Peru (FCCA)	Equity	Medium	N/A
Brazil (Various)	Equity, Debt	High	BNDES Debt
Guatemala (FVG)	Equity	Low	Public & Private Sectors as Squatters...etc.

AGENDA (cont.)

- CASE STUDY: Financing the Nacala Corridor
- Structural Trends In Africa
- CASE STUDY: Financing Ferrovias Guatemala
- Structural Trends in Central America
- Conclusions

CASE STUDY: Financing the Nacala Corridor

- Begun 1996 – 1st private sector integration of port & rail in the world?
- Malawi concessioned 1999, but with incomplete financing
- Cyclone damage in 2003 fixed in 2005 due to incomplete financing
- Mozambique operational start-up January 2005



CASE STUDY: Financing the Nacala Corridor (cont.)

- Private Equity 25%
- Private & Quasi-Private (OPIC) Debt 75%
- Donor Support for Famine Relief
- No Renegotiation of Terms with Govt.

Structural Trends In African Privatizations

	Rail Investor	Ultimate Owner
SITARAIL (Cote D'Ivoire/Burkina)	Sofrerail	Govt. of France
CAMEROON	Comazar	Govt. of South Africa
SIZARAIL (DRC)	Comazar	Govt. of South Africa
ZAMBIA	Comazar	Govt. of South Africa
NACALA CORRIDOR	RDC	RDC & Partners

Structural Trends In African Privatizations (cont.)

- Public Sector Aid programs in past competed with private sector potential
- Today's competition primarily between Public Sector investors & Private Sector investors (but Aid programs still represent competition)

Example: Donated Locomotives



AGENDA (cont.)

- CASE STUDY: Financing the Nacala Corridor
- Structural Trends In Africa
- CASE STUDY: Financing Ferrovias Guatemala
- Structural Trends in Central America
- Conclusions

CASE STUDY: Financing Ferrovias Guatemala

- 1996 – 100% Abandoned
- 1997 – Concessioned for 50 yrs
- 1998 – Hurricane Mitch
- 1999 – Atlantic corridor reopened
- Pacific & Mexico corridors still abandoned



CASE STUDY: Financing Ferrovias Guatemala (cont.)

- Private Equity & Quasi-Equity 100%
- No Donor Support
- Ineligible for multi-lateral financing
("Category A Environmental Problem")

Morales – Commercial Squatters



Morales – Municipal Squatters



El Rancho – Squatting Funded by BCIE



Structural Trends In Central America

- Small, isolated networks marginal unless connected (examples: Guatemala with Mexico, El Salvador)
- Rail is not a priority, even in Plan Puebla-Panama
- Social problems overwhelming (squatters, etc.)

A Final Anecdote...

GUATEMALA

ESTONIA

TONS 2004	157,000	42,830,000
LINES OF BUSINESS	Atlantic – Containers, Steel, Sugar Pacific – ? Electricity rights-of-way, etc. – ?	Oil, Fertilizer, Metals
PURCHASE PRICE	\$0, plus 10% of Revenue	\$60 million for 64%
INITIAL FINANCING	RDC Local Capital Markets	Strategic Investors Int'l Capital Markets, IFC

AGENDA (cont.)

- CASE STUDY: Financing the Nacala Corridor
- Structural Trends In Africa
- CASE STUDY: Financing Ferrovias Guatemala
- Structural Trends in Central America
- Conclusions

CONCLUSIONS

- Multi-laterals helpful in rich countries, ineffective in poor countries
- Political component (e.g. squatter policies) contribute to economic inefficiency, highway deaths, pollution, etc.



Guatemala 2000



Guatemala 2001

A LUTA CONTINUA!

- RDC has done its part, but has finite financial capacity.
- Multi-laterals should consider how to become Part of the Solution.



Privatization in Latin America — 15 years of unprecedented change

HENRY POSNER III
Chairman

RDC RAILROAD
DEVELOPMENT
CORPORATION

LatAmRail 2006
Miami
6 April 2006

www.RRDC.com