



Rolling Stock Fleet Renewal Programme

BBBEE Market Engagement

Be moved



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PASSENGER RAIL AGENCY OF SOUTH AFRICA

22 November 2011

metrorail

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Progress since completion of Study



- Feasibility Study results approved by Intergovernmental Steering Committee, PRASA Group EXCO and Board;
- Feasibility Study results submitted and considered by Minister of Transport;
- Funding Proposal for the programme submitted to the National Treasury – allocations to be finalised by end November 2011;
- Appointment of a Transaction Advisor (TA) for the second phase of the programme at completion;
- Feasibility Study results presented to the Portfolio Committee on Transport; and
- Cabinet Memorandum submitted to Cabinet for noting.



2011 Market Engagement Process

April 2011 Market Engagement



The April Market Engagement dealt broadly with:

- Project's appeal to the market;
- Manufacture's appetite for localization;
- Establish level of demand to achieve localization targets;
- Manufacture's ability to supply the quantities of rolling stock required to specifications that suit local requirements; and
- Financiers ability to provide long-term funding for the programme.

Feedback on April Market Engagement Outcomes

RSMs (5-7 April 2011)

- Commitment of 5-10 years at +/- 250 cars per year required to justify:
 - Local investment
 - 65% local content target
- Involvement of B-BBEE / SMME entities envisaged for components supply and skills transfer
- RSMs would like to retain some involvement in on-going maintenance

Rolling Stock Financiers (5-7 April 2011)

- Financiers have sufficient capacity to finance the project
- Expected cost of capital is accepted on a lower risk premium
- A penalty and deduction regime is an acceptable concept
- Government guarantee required

UNIDO surveys (March 2011)

- Based on responses to a survey of South African component manufacturers, local content target of 70% - 80% could be achieved

B-BBEE & SMME

- Agreed to schedule a separate BBEE market engagement
- Strong interest in:
 - Component supply
 - Maintenance



Project Overview

Forecast commuter rail volumes & Market engagement indicate:



New Fleet requirement
7224
procurement at
~ **360** coaches
per year for two x
10 year contracts



Total **R123.5bn** over
the 20 year period

The Programmatic procurement will result in:



Creating
~**65 000** direct
and indirect
jobs



Long term
procurement will
allow local capability
to evolve to **above**
65% of the value of
a coach produced
locally

Technology and Capacity

Rolling stock technology

Platform

Electric Multiple Units (EMUs)

- Cape Gauge
- 3 kV DC traction
- 12 car units
- To be made up of proven standard components and designs

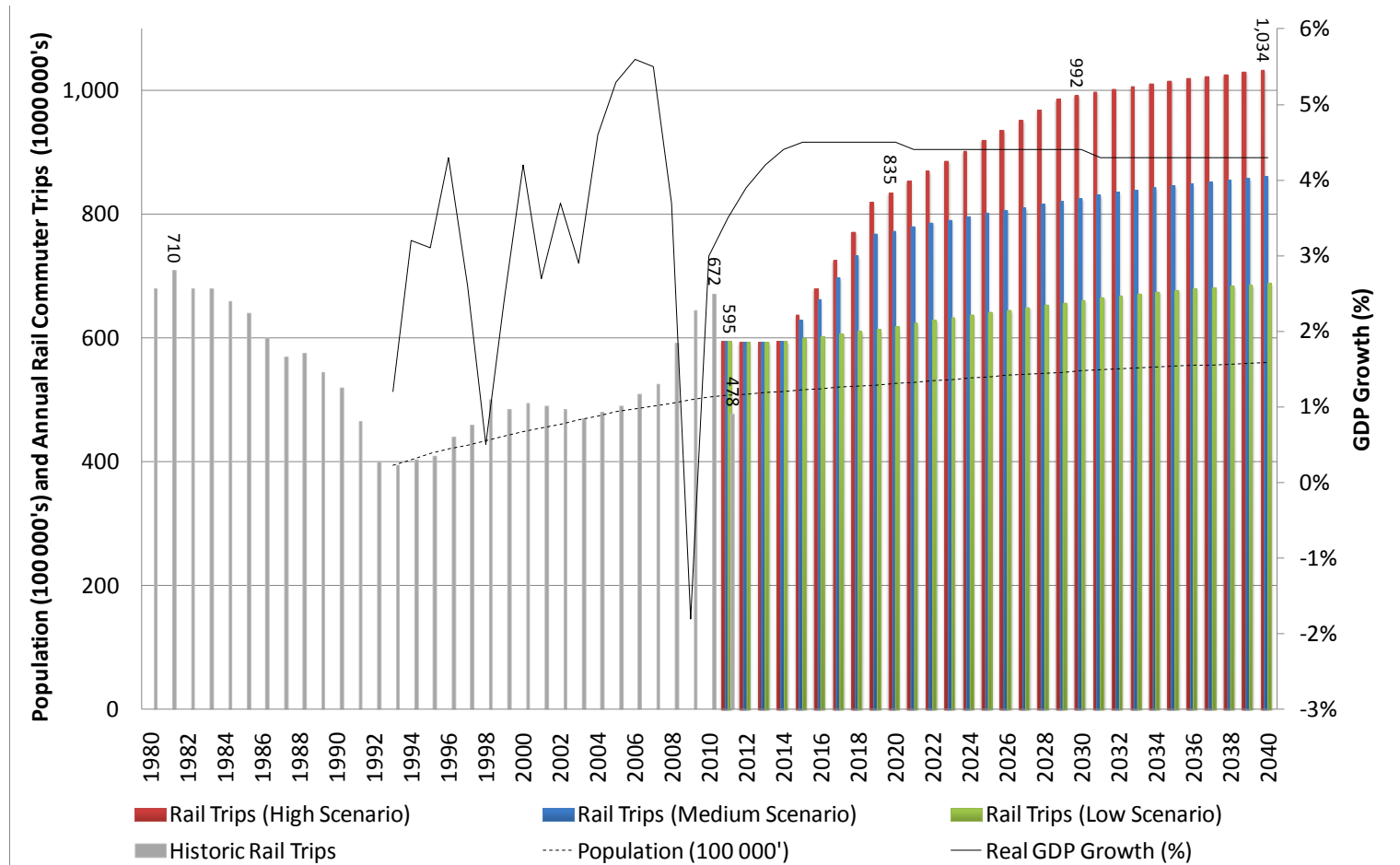
Capacity

2 503 passengers per train set loading 5 pax/m²
12% higher capacity than existing rolling stock

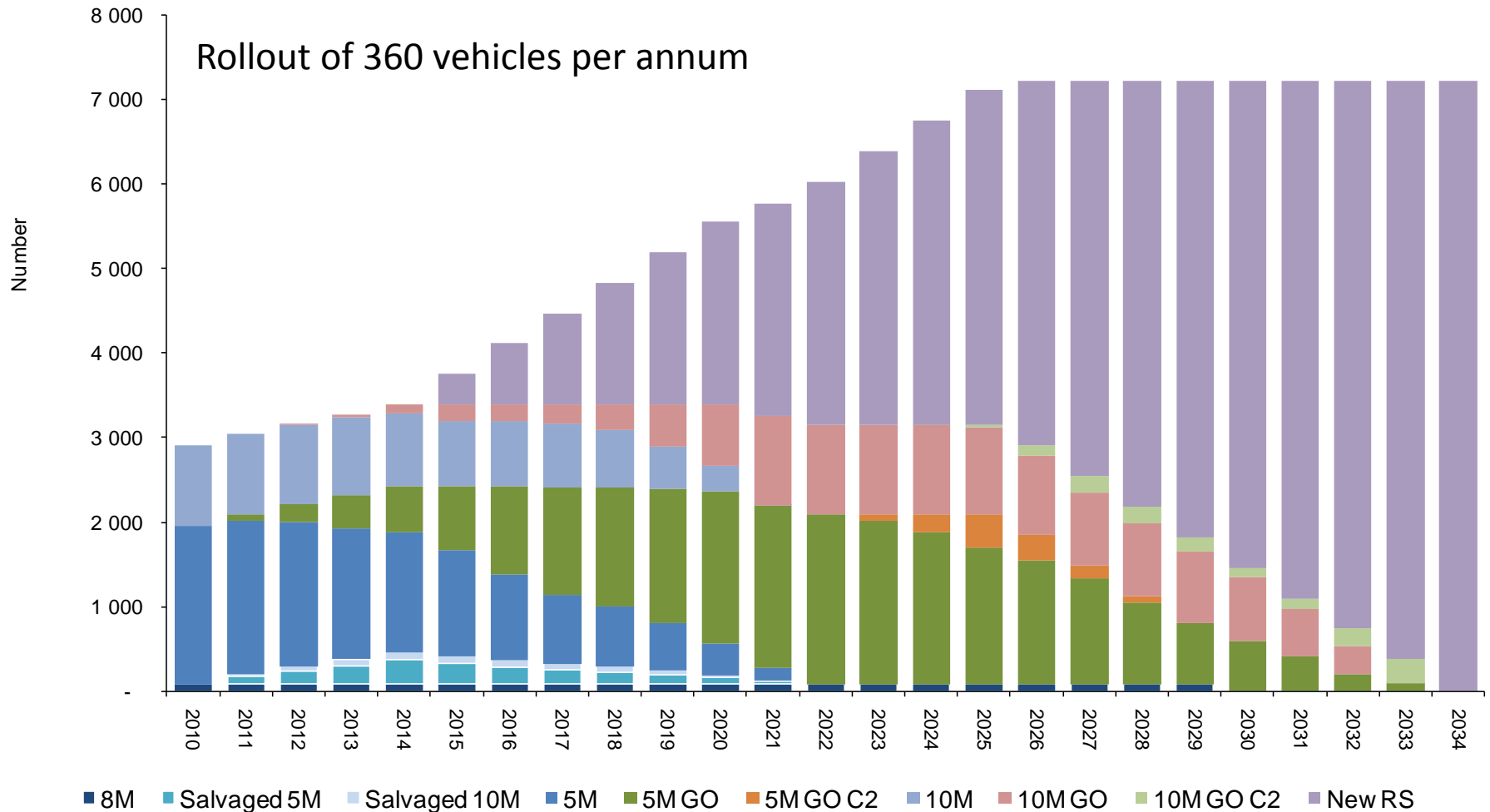
Estimated overall cost

3 600 vehicles (1st batch) = R61.6 bn (10 years)
5 712 vehicles (current feasibility study) = R97.7 bn (16 years)
7 224 vehicles (includes estimated growth) = R123.5 bn (20 years)

Historic Commuter Rail Volumes and Future Year Forecast



Rollout of the new fleet



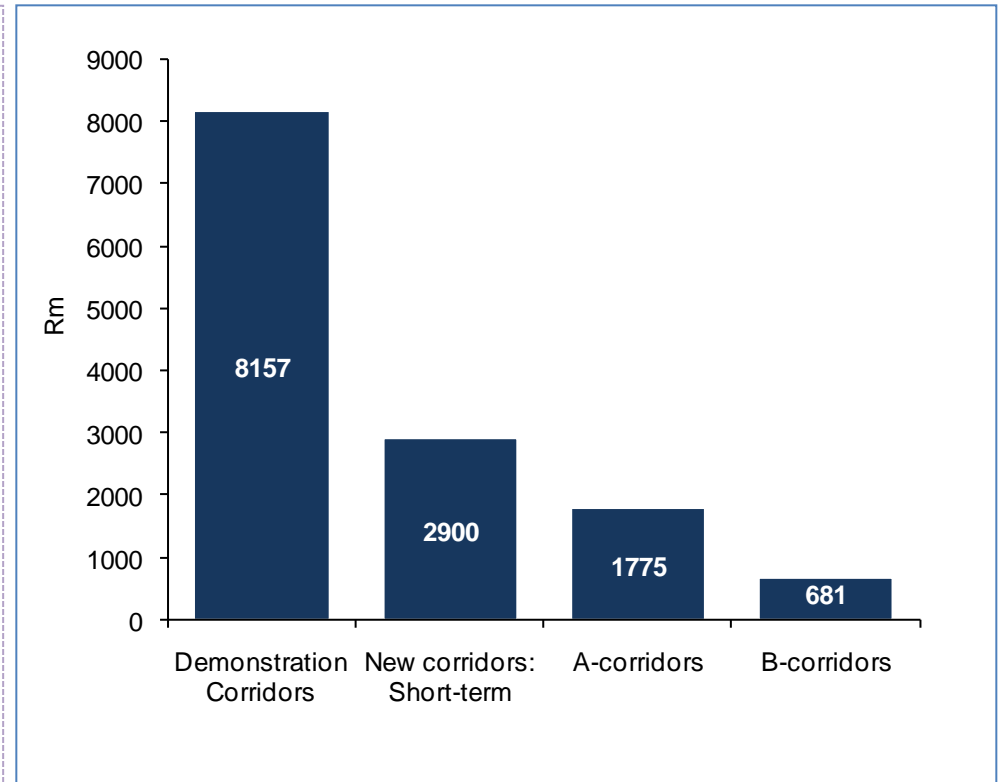
Infrastructure interventions

Infrastructure

- Infrastructure intervention envisaged at an estimated cost of R13.5 bn (excl new corridors):
 - Intervention needed to permit operation of new rolling stock
 - Intervention needed to obtain optimal use of new rolling stock

Depots

- New depots required at all sites:
 - Gauteng
 - Cape Town
 - Durban
 - East London
 - Port Elizabeth



Impact on the Economy

Total economy wide impact on operational and capital expenditure

Results	Total impact - 60% local content	Total impact - 65% local content	Total impact - 70% local content
Initial impact (Rb)	R 95.6	R 103.2	R 110.7
Economy wide GDP impact at basic prices (Rb)	1 R 236.7	R 255.2	R 273.9
GDP multiplier	2.5	2.5	2.5
Total employment created (no. of jobs)	2 61 046	65 992	70 937
General government revenue (Rb)	3 R 73.3	R 79.1	R84.9
Indirect taxes	R31.6	R34.1	R36.6
Company taxes	R23.9	R25.8	R27.7
Personal taxes	R17.8	R19.2	R20.6

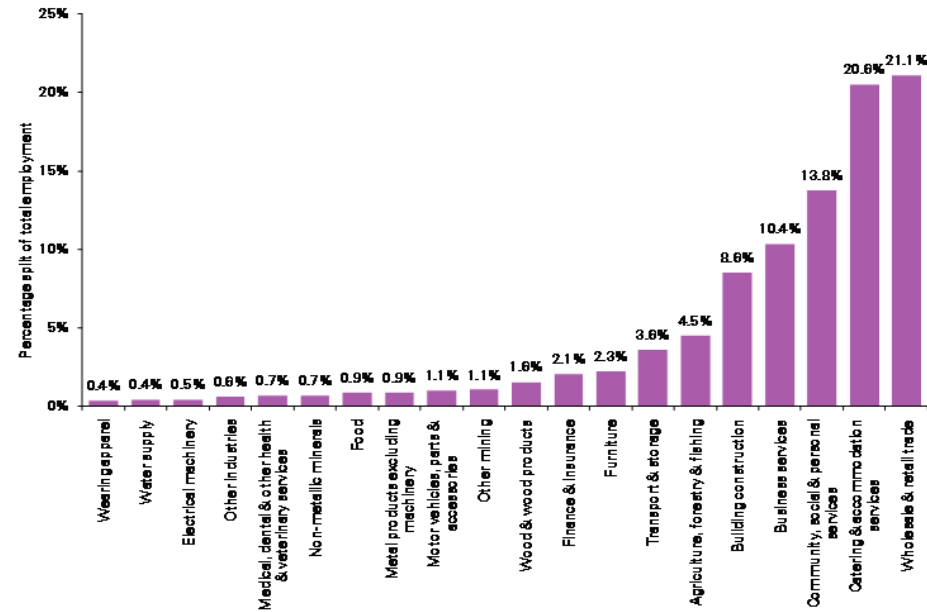
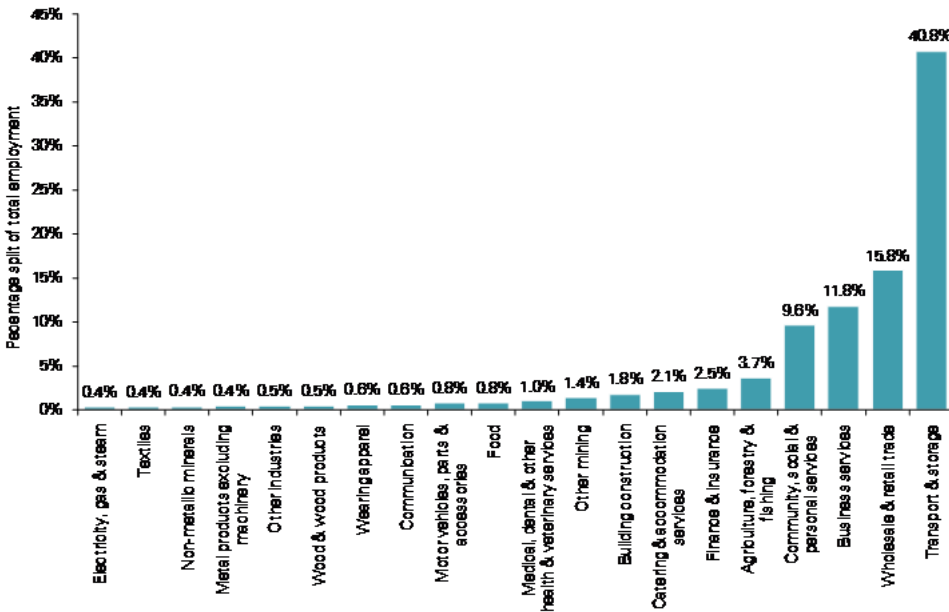
Employment opportunities

Total economy wide impact of capex and opex on employment

	Opex	Capex	Total
Total employment created (no. of jobs)	13 226	52 766	65 992
Direct impact	6 217	21 675	27 892
Indirect effect	2 701	18 083	20 784
Induced impact	4 308	13 007	17 316

Employment sector break-down: Top 20 sectors -OPEX

Employment sector break-down: Top 20 sectors -CAPEX



Economic Multipliers



- **40.8%** employment opportunities within the Transport sector;
- **15.8%** within Wholesale and retail trade;
- **11.8%** within Business Services;
- Community, Social and Personnel services at **9.6%**;

Skills Development Plan



- In the process of developing a skills development plan which will form part of the fleet renewal programme;
- Engagement with Higher Education regarding skills development for local production in the manufacturing;
- Skills development within PRASA in areas of maintenance and operations – targeting engineers, artisans and technologists;
- Training of engineers, artisans and technologists by the successful bidder; and
- Partnership with third parties.

Procurement plan

- **Contract structure**

A contract with design, build, and defined maintenance responsibilities for the RSM.

- **Contract size**

Procurement at 360 cars per annum for two X10 year contracts – PRASA may appoint one or two suppliers. Two suppliers with a contract size of approximately 1 800 vehicles each at 180 vehicles per annum () for a total of 3 600 vehicles for the first batch.

- **Period of rolling stock roll-out**

The period of rolling stock roll-out to approximately 20 years, with the initial batch enduring over 10 years (2015 to 2025). Subsequent procurement could take the form of a second batch over 10 years, or several subsequent batches over shorter periods, depending on the state of readiness of new lines that are currently in planning stages.

- **Flexibility**

Procurement framework to be designed as flexible as possible to provide PRASA optimum protection in procurement, given complexity of project.

Indicative Rolling Stock Programme Timelines

Number	Detail	Date
1.	Budget approval	By 1 st quarter 2012
2.	Procurement preparation	September 2011 to February 2012
3.	Request for Proposals (RFP) Process	March 2012 to July 2012
4.	RFP evaluation	August to September 2012
5.	BAFO process	October to December 2012
6.	Contract negotiations	January to April 2013
7.	Financial / Commercial Close	June 2013
8.	Pre-payment for contract	March 2015
9.	1 st test vehicle	Early 2015
10.	Delivery of first train batch	Late 2015



BBBEE Market Engagement Process

BBBEE Market Engagement



- BBBEE Market Engagement – broadly to engage on the following:
 - An understanding of ability and capacity for production and supply of components of rolling stock;
 - Potential blockages which might hinder meaningful achievement of BBBEE in the programme;
 - Familiarise the South African market with the project and its BBBEE requirements;
 - Funding support packages for the SMME/Cooperatives;
 - Training and development; and
 - Emphasize a broad base nature of the acquisition programme.

Alignment to Policy Framework



- Industrial Policy Action Plan (IPAP2) – increase participation of historically disadvantaged people and support meaningful BBBEE participation in the programme. Further, long term industrialization and diversification
- Competitive Supplier Development Programme (CSDP) – increasing the competitiveness, capacity and capability of the local supply base;
 - Increase localization from 60% to 70% of the SOE capex and opex by 2012
- National Industry Participation Programme (NIPP) – increased local sales SMME and BBBEE promotion, research and development and technology transfer;
- New Growth Path – change the trajectory of the economy.

PRASA's strategy to local production and local development



Fleet Recapitalization Programme strategy

- Alignment of procurement initiatives to the Government primary objective for localization – high level local content relative to import content;
- Assist in creating local industries that can sustain local production – setting high local content targets;
- Focus on manufactured and non-manufactured areas such as engineering, technology transfer, design and components manufacturing;
- Long-term investment outlook – create long term certainty in the market; and
- Set high targets for BBBEE participation in the recapitalization programme

PRASA's strategy to local production and local development (Cont)



Fleet Recapitalization Programme strategy

- Set a minimum target of 65% local content for the manufacturing – identify certain components for local manufacturing;
- Invest in a production line of 20 year consistent procurement of new rolling stock;
- Skills development and transfer for local labour to sustain local production ;

Key areas of 65% local content



- Foreign currency spend on localization;
- Local job opportunities;
- Skills development and training;
- Technology transfer;
- Development of new manufacturing plants and facilities;
- Enhance the existing manufacturing plants and facilities; and
- Sourcing of locally manufactured components.

Targeted components for local production



Car Body

- Car body shell
- Door system
- Windows
- Seats
- Heating and ventilation
- Lighting
- Grab pillars and rails
- Interior cladding
- Passenger gangways
- Cable and wire
- Coupler and draft gear

Bogies

- Bogie frame
- Traction motors and gears
- Wheels
- Axles
- Bearings
- Suspension
- Braking system
- Electric System**
- Air System
- Auxiliary converter and batteries
- Electric propulsion
- Dynamic regenerative brake
- Control, diagnostic and communication system

Broad Based Black Economic Empowerment Opportunities



- Equity in the SPV
- Equity in the supplier base as per value chain
- As a supplier in the value chain
- As an SMME from which suppliers can source products

Broad Based Black Economic Empowerment Opportunities



SPV

- Ring fence the cash flows;
- To create space for BBBEE participation;
- Ease of monitoring and evaluation; and
- Enables measurement across the entire value chain

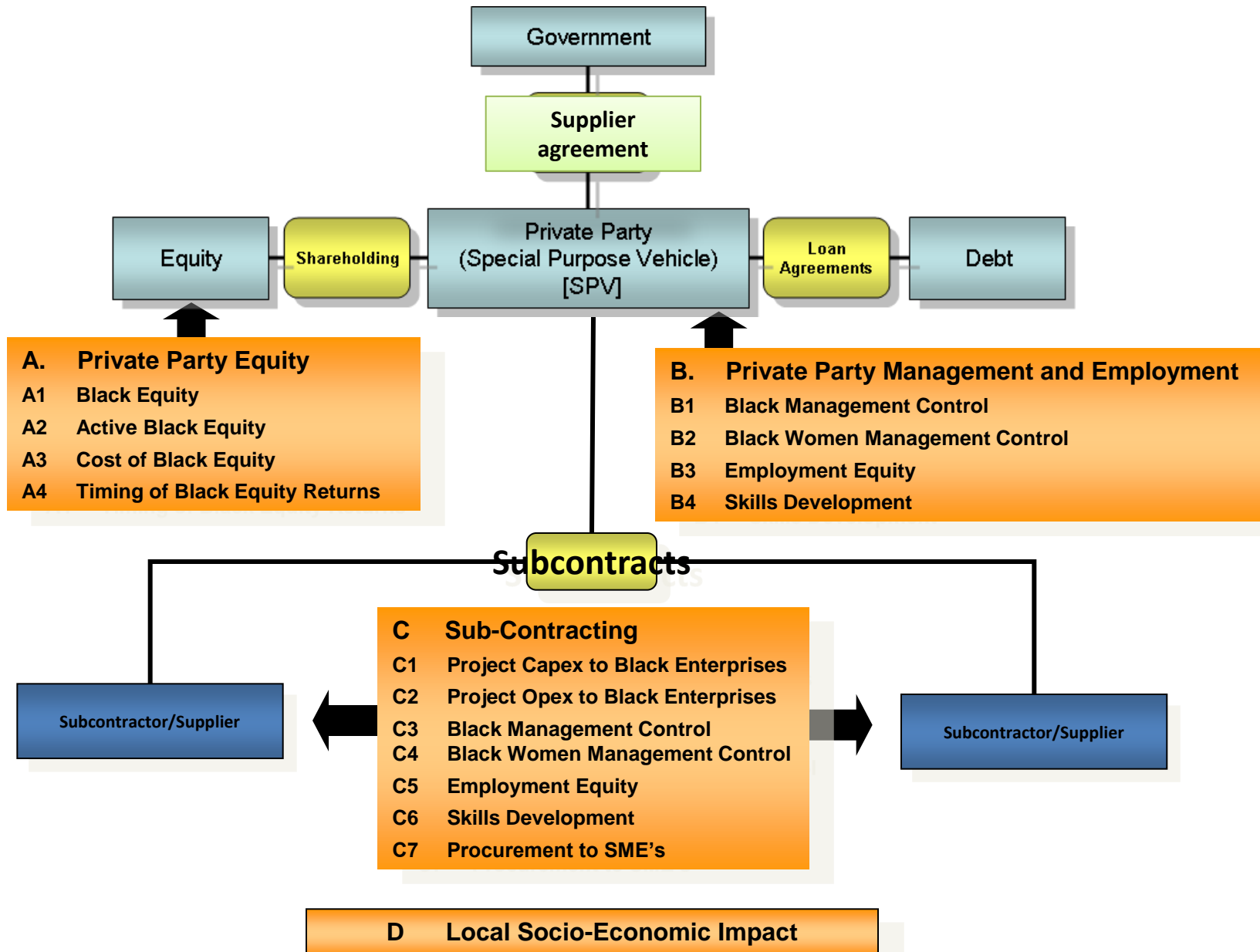
Broad Based Black Economic Empowerment requirements



Potential rolling stock manufactures will have to comply with the the following:

- Equity participation (voting rights and economic interest) in the hands of black people, including woman and black designated groups;
- Management control by black people commensurate with black ownership;
- Employment equity (black, including woman, representation in senior management, middle management, junior management and disabled employees;
- Skills development;
- Procurement of goods and services from black people (based on BBBEE procurement recognition levels), including procurement from qualifying small and micro enterprises

Project Structure



Responsibilities of SMME/Cooperatives & BBBEE participants



Build the necessary partnerships with OEMs;

Where necessary, raise the necessary funding with financing institutions like IDC , NEF and commercial banks;

Rebrand and build strong company profile;

Build the necessary capacity and capability to produce and supply components;



Next Steps

Areas of focus



- Finalize the financing arrangements with the National Treasury;
- Finalize and publish the localization content targets and timeframes ;
- Finalize Skills Development Plan;
- Convene a final market engagement with Rolling Stock Manufactures and Financiers – planned for early February 2012;
- Finalize procurement documentation in preparation for March RFP process; and
- Issue RFP in March 2012.

Concluding Remarks



- Empowerment a priority of PRASA Board , Minister of Transport and Government;
- Empowerment issues are critical; and
- Strengthening local manufacturing capacity remain key; and
- Strong BBBEE participation in the transaction.