



SOUTH AFRICAN
RAIL COMMUTER
CORPORATION LTD

BUSINESS PLAN

2008/09 – 2010/11

Accelerating the Momentum for
Change

TABLE OF CONTENTS

1	<i>Executive Summary</i>	4
1.1	SARCC Business Strategy:	8
2	<i>Vision:</i>	9
2.1	Mission:	9
2.2	Corporate Values	9
3	<i>Mandate:</i>	10
3.1	Primary Object	10
3.2	Secondary Object	10
4	<i>Corporate Objectives:</i>	12
5	<i>Business Context:</i>	14
5.1	SARCC Business	14
5.2	Major Initiatives going forward:	15
5.2.1	The Future of Public Transport	16
5.2.2	Challenges facing rail passenger transport – Train Performance	17
5.2.3	Major Risks:	23
5.2.4	Business Model	24
5.2.5	Creation of a platform for future growth	25
5.3	Operating Structure	34
5.4	Role of SARCC as Rail Passenger Transport Entity	35
5.5	Strategic Initiatives of SARCC Departments:	35
5.5.1	Engineering Services	35
5.5.2	Office of Chief Financial Officer	39
5.5.3	Group Human Resources	43
5.5.4	Risk and Legal Services	45
5.5.5	CIO's Office	46
5.5.6	Corporate Affairs:	47
6	<i>Metrorail</i>	49
6.1	Introduction	49
6.1.1	Focus of Projects	51
6.2	Reliability through Preventative Maintenance	51

6.2.1	Preventative Maintenance Programme	52
6.3	Metrorail priority projects for 2008/09:	53
6.3.1	Gauteng Region	55
6.3.2	Western Cape Region:	58
6.3.3	Durban Region:	60
6.3.4	Eastern Cape Region:	62
7	<i>Shosholozza Meyl:</i>	64
7.1	Business Context:	64
7.1.1	Challenges facing Shosholozza Meyl:	65
7.2	Turnaround plan	65
8	<i>Intersite Property Management Services:</i>	67
9	<i>Financial Plan</i>	69
9.1	Key assumptions for budgeting and projections	69
9.2	MTEF Allocation	69
9.3	Budget	70
9.4	Income Statement	71
9.5	Balance Sheet	72
9.6	Cash Flow Statement	73
9.7	Capital Expenditure Requirement 2008/09 – 2010/11:	74
9.7.1	Capital Programme Requirement:	75
9.7.2	2010 PROJECTS	76
9.7.3	Capital Allocation: 2008/09 – 2010/11	77
10	<i>Risk management and fraud prevention plan</i>	78
11	<i>Summary of Key Projects</i>	80
12	<i>Key Performance Indicators:</i>	81
13	<i>Annexure 1: Shosholozza Meyl Business Plan</i>	86

1 Executive Summary

The first year (2007/08 Financial Year) of the stabilisation phase of the turnaround strategy for passenger rail presented the SARCC and its businesses with many complex challenges. There are threats and opportunities for rail passenger transport within a changing public transport environment. It is the challenge of leadership on whether or not the opportunities that presents themselves will be harnessed positively in the interest of securing a future for passenger rail.

Among key actions and interventions taken to stabilise commuter rail transport in the first year were efforts to improve on availability of coaches through the Accelerated Rolling Stock Investment Programme, significant improvement in the safety and security environment within rail, focused efforts to improve on punctuality and the general performance of train service, improving on customer experience, introducing a culture of continuous improvement through the ISO programme, the implementation of 2010 projects to ensure that passenger rail plays a meaningful role during the Confederation Cup and World Cup scheduled for 2009 and 2010 respectively.

The introduction of these strategies had seen public confidence in rail passenger transport beginning to change for the better. Overall, customer satisfaction is beginning to suggest that customer experience within the rail improvement is beginning to change. However, it is important to note that the results and benefits of the many strategies aimed at stabilising the business and arresting the decline in services will only be realised and felt in the system over a three year period.

With the lessons of the first year, some changes and shifts in emphasis within the key strategic and programmatic tasks of the SARCC became necessary. The essence of current SARCC strategy adopted by the Board of Control (BoC) in August 2006 is hereby reaffirmed. However, the SARCC should focus its various strategies and interventions more effectively so that the Corporation is able to meet short-term goals by corridor and region where increased investments will make an early and material impact on levels of service, safety and reliability of rolling stock and infrastructure.

In essence, the SARCC is required to focus strategies to find the appropriate balance between availability and reliability. In the first year, the business pushed and dedicated significant investment resources towards improving the availability of coaches to the exclusion of reliability, whilst investment in infrastructure lagged significantly behind. To this end, the SARCC has identified as a major strategic programme the critical need to enhance the reliability of its fleet through a philosophy and programme of preventative maintenance. The role of the various Rolling Stock Depots in the Metrorail Regions will be enhanced to meet key short-term goals for improved customer-focused service delivery. The relationship between train operations and rolling stock will be changed to ensure effective coordination and efficiency in the delivery of commuter service.

As the SARCC enters the second year of its turnaround strategy still aimed at the stabilisation of commuter rail services, special focus will be placed in the integration of the Northern (Tshwane) and Southern (Wits) regions of Metrorail into a single Gauteng Metrorail Region. The implementation of a Gauteng Signalling and Centralised Operational Control Centre Project will bring major operational and maintenance efficiencies as well as improved train services to the commuters. This flagship project will be key to the delivery of improved 3-minute headways by 2010 in accordance with objectives of the Rail Plan.

The SARCC will need to give greater meaning to its Corporate Objective aimed at the optimisation of asset value. The strategic role of Intersite in unleashing the potential of the SARCC Property Portfolio has become important. In the second year of implementation, the SARCC will focus Intersite on a role of property development, station upgrades and station improvement programme. Intersite will be required to identify and implement key flagship projects for development. These developments in stations such as Cape Town, Durban and Mabopane are key to realising the full potential of the property assets of the SARCC and ensure that in the long-term, the property portfolio plays a major role in the funding of the rail passenger business. The day to day management of stations will be the sole responsibility of Metrorail as part of a coherent strategy to ensure improved customer experience in the rail environment. Station management will be aimed at ensuring that customer experience is improved, high-quality customer service is delivered, facilities management, contract management (cleaning, security, horticulture) and improve on revenue for stations.

The mandate of the National Rail Passenger Entity is about movement of people. The strategy for the Entity seeks to position rail at the centre of public passenger transport. The main immediate goal is to secure the future of rail by positioning it as the primary preferred mode of choice in high-density, high-volume corridors where its strength lies. Transport policy sees rail passenger transport as the backbone of mass rapid public transport networks. The introduction of new railway links, new services, increased frequencies, greater accessibility, increasing operating hours are therefore key to the realisation of efficient and seamless movement of people. The National Rail Passenger Company (PAXCO) being constructed out of the consolidation of SARCC, Metrorail and Shosholozha Meyl should serve as an important vehicle to implement and drive key national strategic objectives as well as transport policy, including the important objective of promoting public transport over private-car use. The strategy is informed by principles of inter-modalism and integrated transport to optimise the performance of the transport system as a whole. To this end, the SARCC is transforming and will over the long term be the provider total public passenger transport solutions, which may include the operation and/or delivery of essential feeder and distribution services. The future of public passenger transport lies in harnessing the strengths of each transport mode to contribute to the overall goals aimed at the efficient and seamless movement of people.

The Strategy is informed by research information contained in the National Passenger Rail Plan as well as the two Due Diligence Reports, which together determined the operational and capital funding requirements of rail passenger services. The information contained in the National Household Travel Survey undertaken by the Department of Transport assisted by STATS SA also serves as important background and planning material. Overall, the strategy seeks to give effect to the requirements of the National Passenger Rail Plan approved by Cabinet in December 2006.

As part of reviewing the effectiveness of the various strategies introduced in the first year of stabilisation, the SARCC will focus its energies in ensuring that these individual interventions are effectively coordinated and gain the necessary critical, qualitative mass for change. The introduction of many different or isolated initiatives will not assist the Corporation to meet its short-term goals. The Corporation, its businesses, various Departments and regions must focus on a few strategic programmes rather than spread their energies wide. The various strategic programmes must be transformative and strengthen the momentum for change within rail passenger transport sector as a whole. The initiatives undertaken in the first year of stabilisation will remain of strategic importance over the next coming two years. However, the challenge for the SARCC is to harness these various initiatives, consolidate them and accelerate the momentum for major changes.

Background:

This Business Plan for the SARCC covers the MTEF period 2008/09 - 2010/11. The Business Plan provides the vision, strategies, plans and activities for the next three to five years, and has measurable objectives for each one of the financial years.

The focus of this Business Plan is to assess whether all the issues, plans and actions are still relevant, to examine progress and challenges, and to identify how the business plan needs to be tweaked to respond to these. This was a participatory process that involved employees in the regions and departments at all levels of the Corporation.

The overall strategic direction is valid and sound, and the Corporation is still at an early stage in its implementation of the stabilization phase. However, various elements of the strategy such as specific action plans and their targets may need further alignment and re-balancing to reflect lessons learnt during implementation in the 2007/08 financial year but with focus on shorter time-frames to 2010.

State of Commuter Rail in South Africa:

SARCC is responsible for some 2240 km of rail network, 90% of it electrified and owns more than 470 stations countrywide which exclude Port Elizabeth and East London where Transnet Freight Rail (formerly Spoornet) owns the infrastructure. The future network will be expanded by between 500 – 700 km of additional new track, with a major portion represented by the various phases of the Moloto Rail Development Corridor. In this total there are also plans to extend existing services such as Hammanskraal in Tshwane, Fisantkraal in Cape Town and extensions such as Motherwell in Port Elizabeth, CTIA Rail Link and Bridge City Extension-. The National Rail Passenger Plan proposes 40 future rail extensions.

The past years have shown a continued decline in the availability of rolling stock. The condition of the rolling stock has been deteriorating faster than the rate of overhauls and refurbishments. The strategy of the SARCC has been to accelerate the rate of upgrades, overhauls and refurbishments in the short-term as part of efforts to improve on the level of service. Detailed interventions to improve on the situation were made during 2007/08 and will be covered in the action plans under maintenance to stabilize this part of the business.

This Business Plan outlines the actions needed and funding requirements from an operational and capital investment point of view to enable the business to implement the Priority Corridor Strategy through the turnaround strategy with its phased approach of :

- Stabilization phase (2007 – 2010)
- Recovery phase (2011 – 2014)
- Growth phase (2015 – 2030)

Government investment in rail has been on the increase since the Financial Year 2007/08 and currently stands at R18 billion over the MTEF. Much of the increased investment is being spent on accelerating rolling stock upgrades, upgrading the signalling and telecommunication systems as well as improvements on reliability of assets through increasing the capacity of the company to implement a planned and preventative programme of maintenance. Significant financial resources are being spent on 2010 FIFA World Cup preparations.

The success of the strategy adopted by SARCC will dependant on a number of critical success factors:

- The nature and quality of increased public investment to drive the priority corridor strategy of the NRPP as well as to support the long term policy objectives that seek to position rail as the backbone of public passenger transport;

- Extent to which the business is able to keep modernising and harnessing operational efficiencies;
- In order for the business to meet its long term funding requirements the optimisation of the SARCC's property portfolio becomes of critical importance;
- Transport policy, planning and coordination at local, district, provincial and national are critical for long term success of public transport of a mixed nature;
- To position SARCC as a complete service provider for transport service incorporating feeder and distribution services and
- Continuous strengthening and effectiveness of Corporate Governance.

1.1 SARCC Business Strategy:

SARCC's strategy is about:

“Transforming and Positioning Passenger Rail to form the basis of Integrated Mass Rapid Public Transport Networks in South Africa”

This is underpinned by our strategic focus:

SARCC is a rail passenger transport company of South Africa.

Our primary business is in transportation of people. The core of our business remains rail commuter services. The critical success factor in service delivery is improvement to the passenger on requirements such as speed, safety, convenience and reliability. The implementation of the National Passenger Rail Plan which is aimed at focussing resources on priority corridors forms the basis of the strategy.

Our strategy is to provide integrated, seamless transport for the South African public. We intend to transform SARCC into a safe, reliable and hygienic provider of rail passenger services that meet passenger demands.

2 Vision:

A provider of integrated public transport solutions.

2.1 Mission:

To ensure efficient and seamless movement of people through the provision of safe, reliable, clean, affordable and sustainable rail passenger services; and to develop rail assets in the interest of South Africans.

2.2 Corporate Values

The corporate values of the National Passenger Rail Company are:

- Excellence in service;
- Customer focus;
- Probity;
- Safety and
- Communication.

Through a Change Management program, the company will continue to inculcate these values as a way of life for all our employees, customers and stakeholders. Change Management seeks to change behavior and ensured we are an organisation that espouses a positive culture based on accountability to the public, teamwork, ownership and enthusiasm in the delivery of services.

3 Mandate:

The primary and secondary objects of the SARCC as stated in the Legal Succession Act are:

3.1 Primary Object

The SARCC's mandate is to ensure that, at the request of the National Department of Transport or any sphere of government, rail commuter services are provided in the public interest, and to promote rail as the primary mode of mass commuter transportation.

3.2 Secondary Object

To generate income from the exploitation of assets, transferred to the SARCC by the Minister of Transport under Section 25 of the Legal Succession act to the SATS Act (Act 9 of 1989).

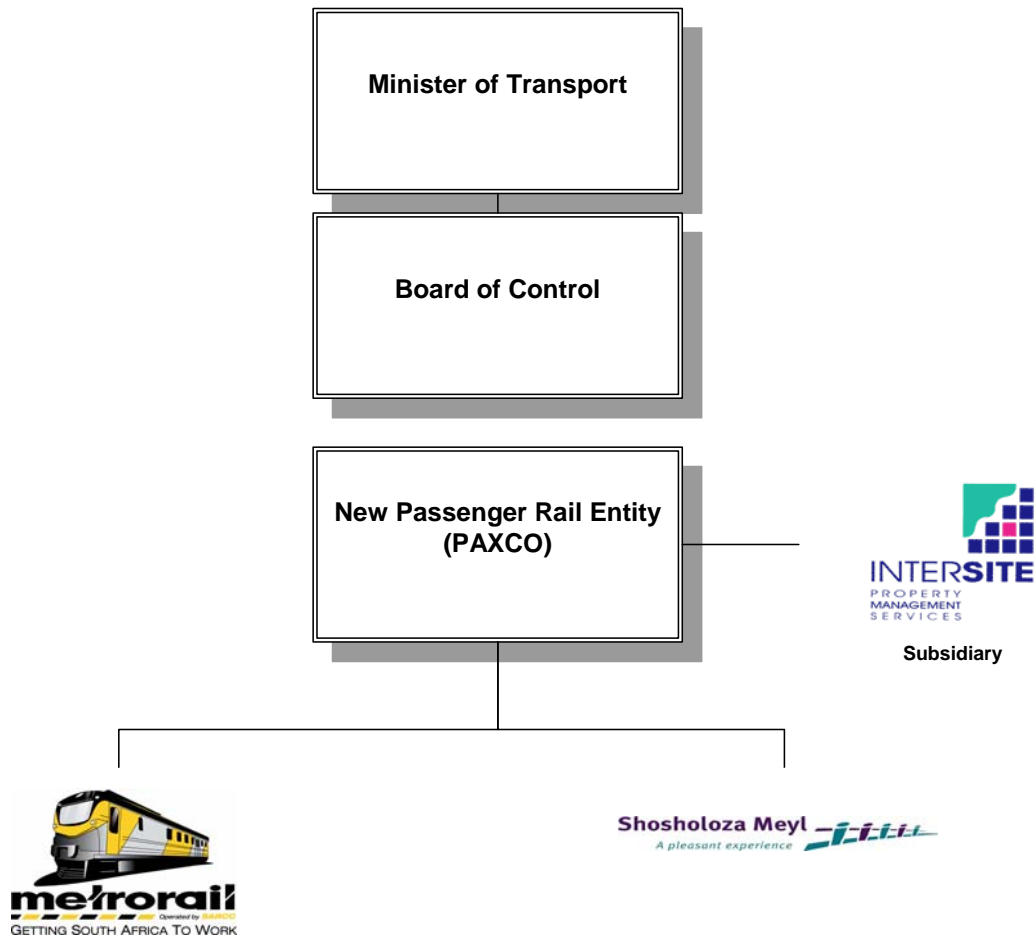
The functions of the SARCC include:

- The financial management of the rail commuter business in South Africa.
 - Secure operational and capital funding for the business.
 - Subsidy management.
 - Capital funding requirements and allocation.
 - The offset of property revenues against subsidy requirements.
- To ensure the provision of rail commuter services at the request of DOT and any sphere of government.
- The management of the asset base (infrastructure, rolling stock, perway, signalling and telecommunication) of the rail commuter including the planning, upgrade and extension of the rail network in line with local integrated transport plans (ITP's).
- The management and exploration of the property portfolio consisting of 473 commuter rail stations, associated land and residual properties.
- Provision of rail information to rail planning bodies and relevant stakeholders.

The Cabinet decision taken in December 2004 provides for the consolidation of SARCC, Metrorail and Shosholozza Meyl to form a passenger rail company (PAXCO). This constituted a change in mandate and definition of our business. Amendments to the Legal Succession Act, are to be presented by the Department of Transport to Parliament in 2008 to enable the consolidation of Shosholozza Meyl into the passenger rail company. The end state of the Passenger Rail company is envisaged as follow:

The new PAXCO will have two divisions and one subsidiary after the take-over of Shosholoz Meyl.

Figure 1: End state of South African Passenger Rail Company



4 Corporate Objectives:

To ensure delivery of its mandate in the medium term, the SARCC will continue to be guided by six the following six strategic objectives:

i. Boosting Revenue

Among the key interventions to achieve this objective is to improve services, reduce fare evasion as well as to re-balance the fare structure.

ii. Increasing Patronage

The primary objective is in the short term to retain passengers and in the longer term to grow ridership. The Corporation has plans in the medium to long term to capture key strategic corridors with the view to introduce new rail services.

iii. Investing in Human Capital

People are the power behind our Business and specific focus areas for this objective are:

- Organisational Culture
- People relationships and Harmony
- Development and Empowerment
- Reward of superior performance
- Corporate social responsibility
- Welfare and Safety
- Customer service

iv. Customer Focused Improvements

The aim of this objective is directed in providing commuters with reliability, convenience, speed, communication, compliance, safety and security and improved efficiencies.

v. Optimising Asset Value

The focus of optimizing asset value is on the investment in infrastructure assets based on the Rail Plan priorities, unlocking value in the rail property portfolio and implementing the rolling stock refurbishment programme. The aim is to improve and strengthen the balance sheet as well as to increase internal resources for rail operations through redefining the role of Intersite to focus on the development of stations and property, in a manner that supports increased usage of rail services and in the long term to generate the necessary resources to finance rail infrastructure requirement.

vi. Strengthening Corporate Governance

Effective functioning of the Board, its committees, addressing risk management and effective internal controls are the focus of this objective.

5 Business Context:

5.1 SARCC Business

The phases of the turnaround strategy were defined as :

- Stabilization phase (2007 – 2010)
- Recovery phase (2011 – 2014)
- Growth phase (2015 – 2030)

The focus of our actions and projects are therefore still within the stabilization phase of the turnaround strategy.

During 2007/08 we have made progress in terms of

- The preparations for Shosholozza Meyl to be incorporated into the SARCC. The Heads of Agreement was signed on 28 June 2007 which paved the way for the Due Diligence review done by the Price Waterhouse Coopers consortium ;
- Insurance policies were renewed in June 2007 with significant savings on the premiums on existing policies as well as new policies;
- Indications of increased customer numbers on trains despite the serious challenges of the service and retaining core and loyal customers;
- Improved safety that is experienced by commuters due to the presence of railway police and security;
- The implementation of the Accelerated Rolling Stock Programme has seen the implementation of three year contracts with clear penalty regimes and timelines with Rolling Stock suppliers in stead of the annual awards, that are key for forward planning and certainty in the industry. It is expected that the Rolling Stock programme will improve train availability in the system in the coming years and thereby improving the service delivery to commuters.
- The SARCC has adopted a turnkey approach to enable the roll-out of the SARCC's 2010 Soccer World Cup preparations.
- There has been a shift towards focused attention on basic service delivery to our commuters in areas of punctuality, cancellations, security and safety that has improved services for commuters.
- As a result of the focused attention to basic service delivery the customer survey results shown an improvement from 69% to 71% in the 2007 survey.

5.2 Major Initiatives going forward:

The major initiatives for the coming financial year will be focused on:

- The presence of Shosholoza Meyl which will add a new dimension to the National Passenger Rail business and will require initiatives at Head Office to effectively and speedily incorporate Shosholoza Meyl into the business;
- Intensifying the Corporation's maintenance programmes, with a specific focus on preventative maintenance to improve reliability and availability of Rolling Stock and Infrastructure to improve service delivery;
- Directing resources according to the Rail Plan prioritisation to priority A and B corridors with reduced service levels for C and D corridors;
- Effective management of the property portfolio. The role of Intersite are to focus on development of rail property in order to optimise rail use, exploit rail property assets to generate funds for rail and upgrade of stations to improve passenger experience. The SARCC (Metrorail) will be responsible for total station management including all contracts related to security, horticulture and cleaning. This will ensure effective managed stations;
- Improving operational efficiencies which will require
 - A focus on operational cost containment and reduction of wastage.
 - Improvement in efficiencies and cost containment through stricter implementation of the supply chain management policy,
 - A focus on combating fraud and corruption throughout the Corporation and
 - Efficiencies in Human Resource costs.
- Strengthening the Corporation's Human Resource development capacity to build skills and capacity in the engineering disciplines as well as in management, as these are central for project and maintenance delivery. The aim in the medium to long term is to build the capacity to perform the minimum maintenance functions such as general overhauls in – house.
- Spearheading the implementation of increased inter-modalism with municipal bus services and integrated ticketing in order to improve the service the Corporation renders to its commuters and thereby increase patronage;

5.2.1 The Future of Public Transport

The turnaround of passenger rail forms an integral part of Government's initiative to transform public transport. Critical success factors for an improved and sustainable public transport system remain:

- Adequate and long-term funding
- Investment in infrastructure and operations
- Investment in skills for transport workers and better working conditions
- Effective planning and coordination between different spheres of Government
- Alignment between land use and transport planning
- Integrated delivery models;
- Measures aimed at promoting public transport over private car use;
- Effective public control and management of routes and operations
- Increased patronage for public transport and
- Popular participation aimed at transforming unequal power-relations that continue to define people's access to transport services

The most important challenges for public transport are:

- Meeting growing and changing passenger demands (passengers demand convenience, speed, safety, comfort and affordable fares);
- Providing Public transport services that delivers improved mobility and facilitate greater access to economic and recreational activities;
- Transcending the current commuter base public transport services in favor of overall public transport solutions;
- Develop the next generation of skilled transport workforce;

There are almost invariably significant elements of managerial and structural inefficiency in public utility services and these are referred to in this business plan. Yet the global trend, especially in developing countries, away from rail and towards road-based modes of public transport suggests that institutional and structural issues are not the major problem. It is rather a case that rail transport's relatively fixed network does not have the flexibility to respond to rapidly changing patterns of development.

5.2.2 Challenges facing rail passenger transport – Train Performance

The three major challenges facing rail passenger transport in South Africa remains the ageing rail infrastructure, lack of availability and reliability of the fleet and shortage of skills in the sector. These problems define rail passenger transport and continue to undermine its ability to respond effectively to growing and changing passenger demands.

The figures below depict the continuing challenges in rail service provision:

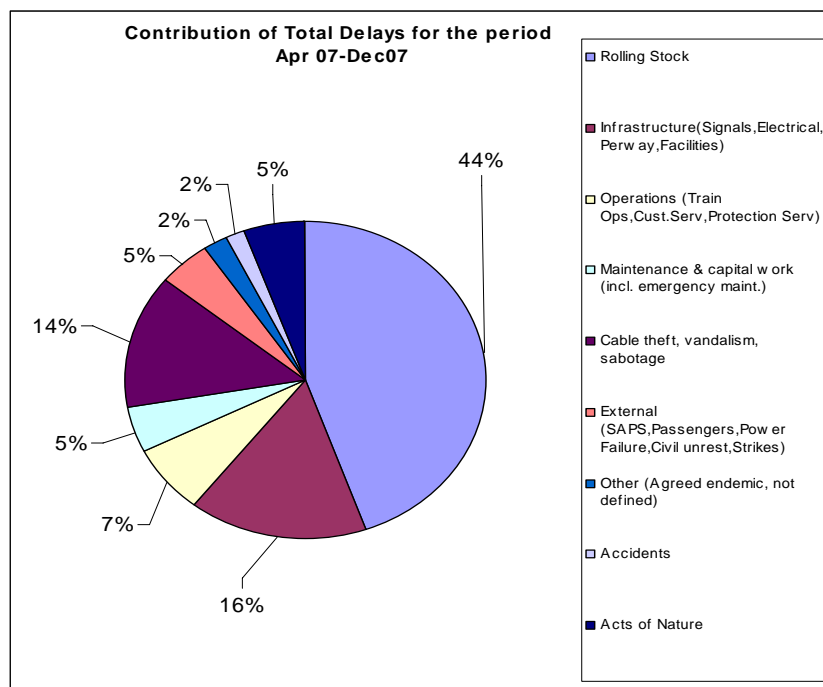


Figure 2 (Contributing factors to Rail Commuter Delays)

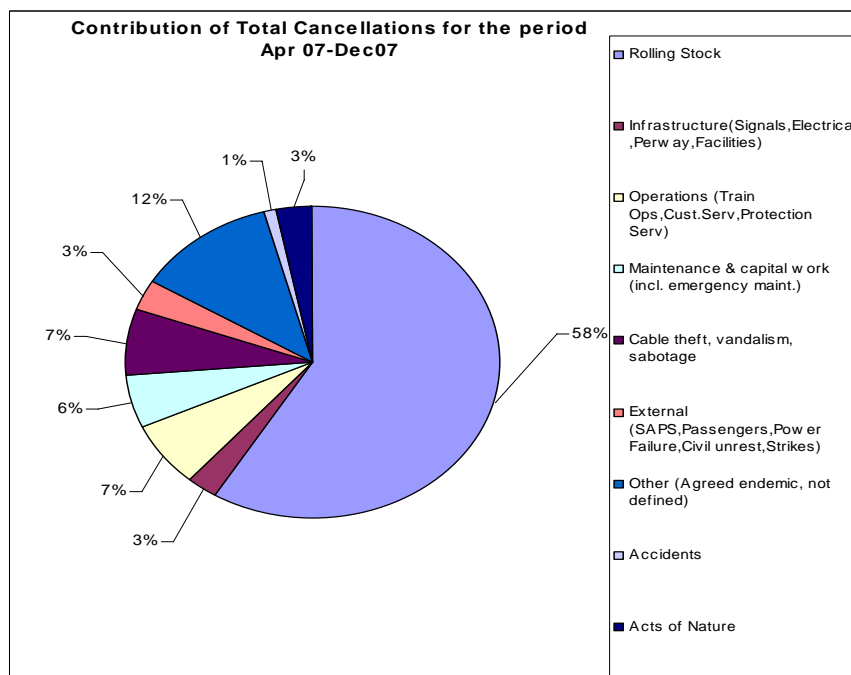


Figure 3 (Contributing factors to Commuter Rail Cancellations)

The graphs above give details of factors impacting on the performance of trains at a point in time, and rolling stock is the single most important factor impacting on train performance. Rolling Stock Performance (past 6 months) is expressed in the following three elements:

- 1). Train Set Availability influenced by reliability and failure rate
- 2). General Overhaul / Upgrade Programme: Contractor Performance
- 3). General Overhaul / Upgrade Programme: Flexibility into the Amendment to Program

Train Set Availability:

The table below summarises the number of train sets available versus the expected availability per region up to August 2007 (Graphs 1 to 4).

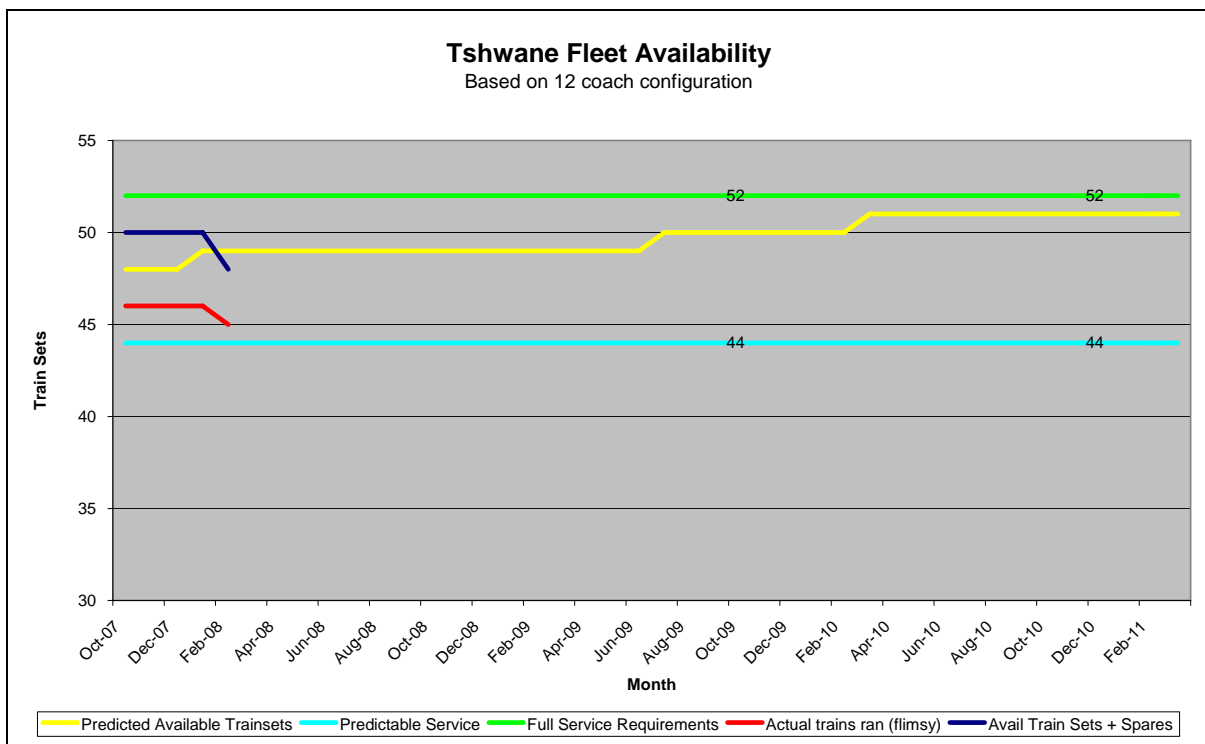
Graph No	Region	Performance
Graph 1	Tshwane	Within expectation
Graph 2	Western Cape	Not within expectation due to shortages of critical components
Graph 3	Wits	Exceeded expectation
Graph 4	Natal	Not within expectation <small>See note, Graph 4</small>

Table 1: Performance

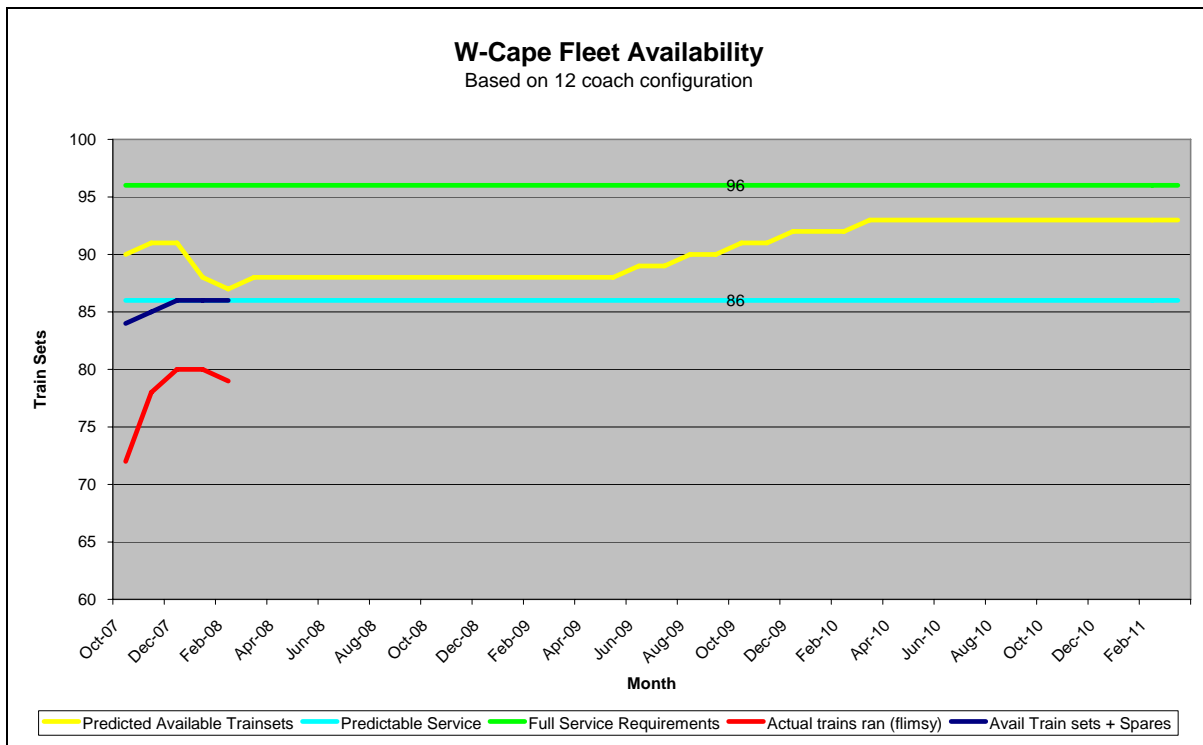
Graphs 1 to 4 predict the train set availability per region (Eastern Cape excluded). These graphs are influenced by the GO'- and Upgrade Programs.

The green line in the graphs represents the service requirements as per 2000/2001. The light-blue line represents the current service requirements to deliver a predictable service. The yellow line predicts the availability of train sets per month with the red line indicating the actual train sets ran (spare sets not included). The red line represent the number of train sets available excluding spare sets and the dark blue line represents the train sets including the spare sets.

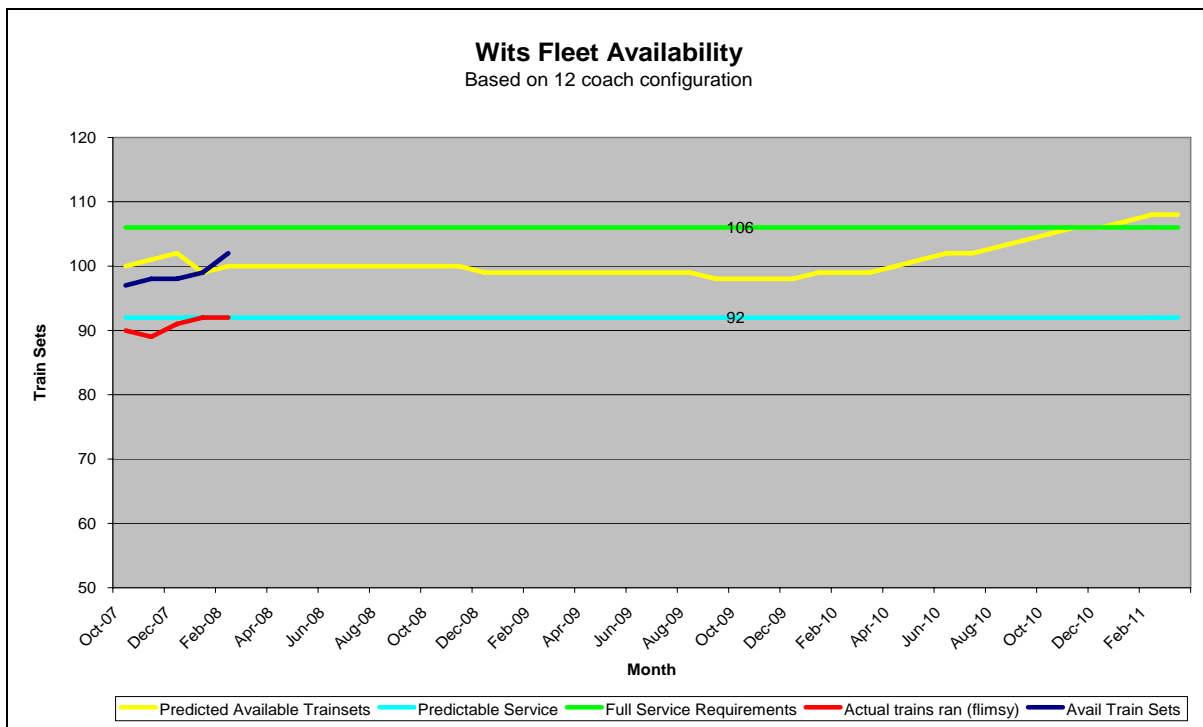
These graphs only consider the influence of the GO / Upgrade program to the availability of Operational train sets and excludes any additional Maintenance initiatives as planned (e.g. Preventive maintenance program)



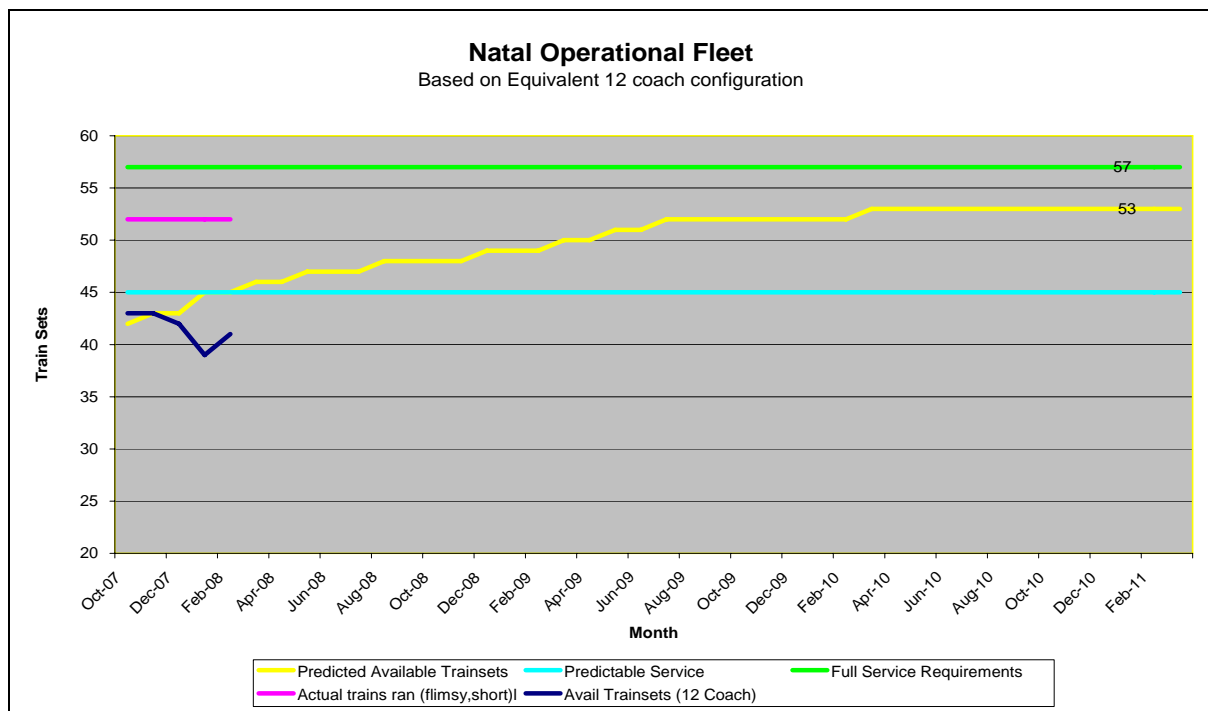
Graph 1



Graph 2



Graph 3



Graph 4

Note:

Although Kwa-Zulu Natal ran their full requirement of 52 train sets (pink line), a large portion of the sets ran were not configured with the full compliment of coaches per train set (i.e. 12 coaches) as expected. Instead, sets not conforming to the standard configuration were operated with only 6 to 8 coaches per set.

The status of available Rolling Stock in the Regions in the table below provide a Sets Comparison. The "Actual Level" is compared with the level as contracted in 2000/2001 (Agreement between SARCC and Metrorail, expired).

Region	Year 2000 Contracted level	Actual level (Jan 2008)
Natal	57	52 <small>See note, Graph 4</small>
Tshwane	52	50
Wits	106	102
Western Cape	96	86
Eastern Cape	12	12
TOTAL	323	302

Table 2: Sets Comparison

It is foreseen that the current plans for the accelerated General Overhaul and Upgrade programmes will affect these figures (Table 2) in the following way:

- The Increase from the current 500 coaches in 2007/08 to 700 coaches in 2008/09 will increase the pressure to release more coaches for the General Overhaul / Upgrade programmes (operational coaches to be removed from service).
- The Kwa-Zulu Natal & Tshwane regions still require certification of coaches to extend the serviceable life from 12 to 13 years. The the other two regions' backlog of coaches waiting for GO have been reduced to zero.
- The transition from 5M2A to the 10M version will increase the Production Period of coaches at the contractors and will therefore also substantially increase the number of Coaches with contractors. This will also influence the availability of serviceable coaches in the short term.

The following table provides the expected SARCC Production period as reflected in the General Overhaul and Upgrade contract.

	5M2A GO	10M Upgrade
Motor Coach	10 to 14 weeks	Max 24 weeks
Trailer Coach	8 to 10 weeks	Max 16 weeks

Table 3: Time frames

5.2.3 Major Risks:

An enterprise wide risk assessment was undertaken in 2007/08. The results indicated some areas of the business plan that have high risk exposure whilst most of the elements from the business plan fell in the medium risk area. The areas that are most exposed to risk are:

- Investment in skills and
- Ability to fund and resource the Preventive Maintenance Initiatives on Assets
- Accelerating the Rolling Stock Refurbishment Programme

Other risk exposure areas of note are:

- Financial Management of the rail commuter business
- Adequate and long term funding and
- Implementing the turnaround strategy.

The consequence of decades of under – investment in the passenger rail business did not only result in the deterioration of the general asset base, it also meant that there was no real investment in new rail skills and improving old rail skills and expertise over the period.

The major risks identified for the business are:

Reduced Rail-worthiness:

This risk is as a direct result of the under – investment in the passenger rail service in the last three decades, in terms of not maintaining and renewing the asset base, and as a consequence therefore not investing in the Human Capital in rail. Appropriate investment in rail skills is an essential component of rail service delivery

Retention of Current skills and the acquisition of new skills:

Retaining the current skills and acquiring new skills for the Corporation is a serious risk. It must be borne in mind that the skills shortage especially in the technical areas is a world wide phenomenon, and companies such as the SARCC will have to use creative ways to mitigate the risk posed the skills shortage.

Deterioration of Assets:

The continued deterioration of assets will continue should the Corporation fail to secure adequate funding for the turnaround strategy. Deteriorating assets have a negative impact on the delivery of the service, which in turn has a negative impact on the passenger numbers, the main source of fare revenue. This also leads to unsafe train operations due to reduced safety, which in turn poses litigation risks.

Business Risks:

The Corporation is faced with enterprise wide risks that could undermine the running of the organization, such as failed business processes due to the inability to integrate systems and

processes. This risk is mitigated largely through the ISO Quality Management system that documents processes and integration of processes and systems, strengthening control measures and strengthening corporate governance throughout the corporation.

Organizational Culture:

The possible inability to merge the cultures of the merging organizations poses a risk to the Corporation. The passenger rail entity has to create a single entity culture for three disparate entities. The establishment of a single Head Office in Jorrison Place, for most of the departments in the SARCC entity in Braamfontein, is one of the first steps taken to form a new culture. Roll-out of the change management programme will further address this risk.

5.2.4 Business Model

Our business strategy revolves around reframing SARCC’s corporate direction, renewing our people, reorganizing and revitalising the passenger rail business. The merging of asset owner and operator brought a new dimension into the organisation with the addition of long distance operator, Shosholoz Meyl in the new financial year a further dimension. It should be remembered that two very complicated and difficult processes are running concurrently, namely, a merger process and a turnaround process. We have adopted the 4R model framework to execute and achieve the business transformation. Operationalisation of the corporate and turnaround strategic objectives is graphically depicted as follows:



Figure 4: 4R Model

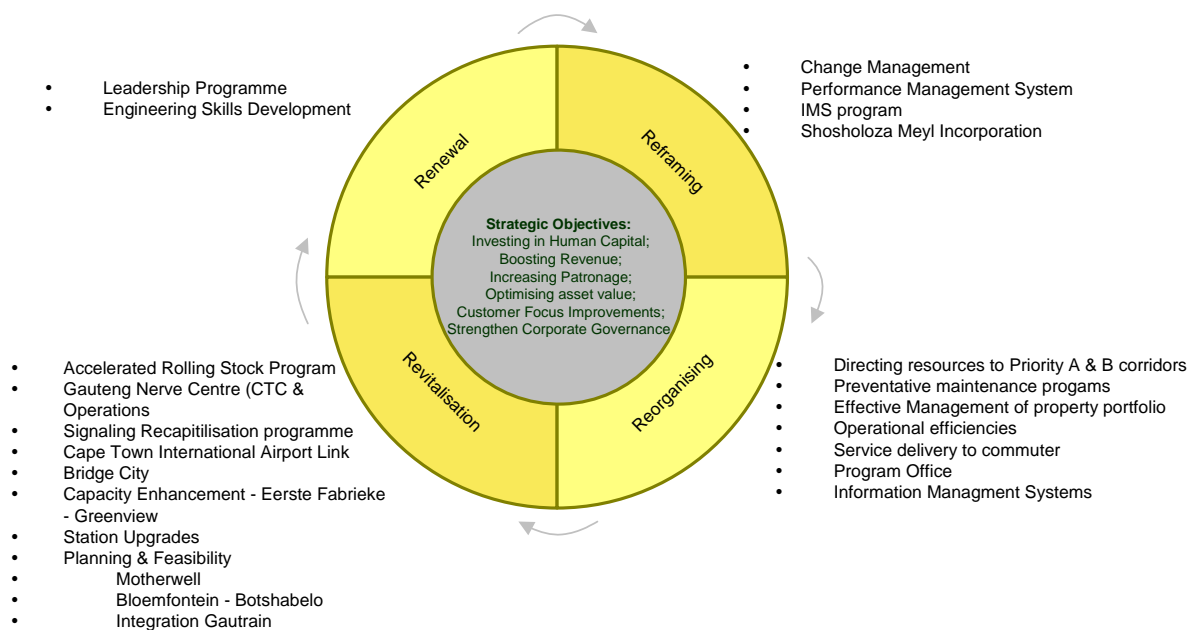


Figure 5: Priority Projects

5.2.5 Creation of a platform for future growth

The focus of the strategy in the short term will remain on service delivery improvements whilst at the same time creating the platform for future growth. Whilst the thrust of the strategy in the short term does not envisage major extensions to the current network, it is expected that the Corporation will continue to enhance the efficiency and the coverage of the current network through limited extensions, slip links and introduction of new services.

The SARCC will in the short term prioritise the implementation of other interventions critical to the long term growth of the service. Among the key cross cutting strategic programmes to be initiated, to reposition passenger rail during the 2008/09 – 2010/11 MTEF period are the following:

Improved Service Levels in Priority Rail Corridors

The National Passenger Rail Plan process yielded a prioritized list of existing and planned corridors. During 2008/09 and onwards, prioritization of the quantum service improvements required in priority A and B corridors as identified, will be addressed through focussing of resources on these corridors.

The service improvements requirements are :

- Improved loading capacity;
- Reliable rolling stock;
- Headways of 5 – 10 minutes depending on the time of day;

- Personal security;
- Compliance, safety and security of assets;
- Extended hours of operation;
- Cleanliness;
- Implementation of 2010 projects;
- Customer care and
- Modal integration

The Priority A Corridors identified are as follows:

Umlazi - Durban CBD - Kwa Mashu (including Isipingo)

Berlin to East London;

Johannesburg core central network incorporating New Canada – George Goch – Germiston;

Soweto (Naledi to New Canada);

Soweto (Midway – New Canada – Kwaggastroom (Sebokeng));

Kraaifontein – Bellville – Cape Town CBD (via Thornton and Monte Vista);

Daveyton to Germiston;

Olifantsfontein – Tembisa – Germiston;

Mabopane – Pretoria North – Pretoria CBD;

Mamelodi Gardens (Pienaarspoort) – Pretoria CBD;

Simonstown to Cape Town CBD (including Cape Flats (Retreat));

Khayelitsha – Cape Town (including Kapteinsklip – Phillipi).

The Priority B Corridors identified are as follows:

Olifantsfontein – Centurion – Pretoria CBD;

Kwesine / Kathlehong – Germiston;

Springs – Dunswart;

Moot Link (Hercules – Koedoespoort);

Saulsville / Atteridgeville – Pretoria CBD;

Strand - Bellville – Cape Town CBD;

Randfontein – Langlaagte;

Vereeniging – Kwaggastroom;

Bellville – Sarepta – Langa – Cape Town CBD (including Pinelands Link).

Fleet Recapitalisation

An analysis of the age profile of the current fleet indicates that the refurbishment and upgrading of the fleet could address the current problem of train set availability. As indicated in 2007/08, the refurbishment of coaches does not hold the future prospect for the company. The shortage of rolling stock is already undermining the delivery of efficient and reliable passenger services. The SARCC will therefore embark on the initiative to recapitalise its fleet in order to meet current and future demands. It is important that a long-term perspective is adopted which begin to address challenges on how the company will meet its obligations under the Legal Succession Act and adequately meet future passenger demands. Projections that take into account population growth, economic growth, government's transport policy objectives aimed at promoting public transport over private car use, the costs associated with congestion and emergence of new residential settlements as well as new demands for public transport and rail services indicate that future demands for rail services would increase significantly.

Technical and operational specifications for the new rolling stock fleet were finalised and a tender for the new fleet developed during the 2007/08 financial year. Procurement processes for the acquisition of new rolling stock fleet tend to be most intense and the Corporation will invite bidders early in the financial year to submit proposals for the manufacture and supply of new generation Rolling Stock. Whilst the SARCC, in consultation with the DOT, is finalising private finance options of rail infrastructure, the strategic nature of rail requires that Government plays the leading role in financing of Rolling Stock and rail infrastructure. The preferred bidder is expected to be announced during the 2008/09 financial year.

Ticketing System and Ticket Sales

The current ticketing systems are obsolete and have limited capacity for modal integration. The SARCC will spearhead the drive to integrated ticketing through the Automatic Fare Collection and Control (AFCC) project. The prices for a new ticketing system including access management have come down over the last few years and now provide the SARCC an opportunity to spearhead the Fare Collection and Access Management for rail. This project will strengthen the Corporation's strategy of being the basis for Mass Rapid Transport Networks in South Africa as the Corporation provides transport in all major metropolitan areas. The justification for this type of system is only possible on a national basis for South Africa, and by spearheading the project the SARCC will ensure standardisation, integration and interoperability, elements that are critical to the success of integrated ticketing systems.

The BRT's in the Gauteng Province are moving ahead with their projects and must give consideration to an integrated ticketing system with the rail sector. The SARCC will take the initiative to incorporate the Gauteng BRT teams, for all AFCC alignment, into the liaison with Gautrain. SARCC and Gautrain are already in discussion to align the technology for such a system utilising contact-less smart cards.

Information Management System (IMS)

An important initiative for the 2008/09 Financial Year is the development of a comprehensive information management system. This is important for effective decision-making within the company and critical to the efficiency of investment decision. The efficiency and effectiveness of investment decisions could not be ascertained in the absence of such a system, which serves as a tool for management decisions. A decision was made to standardise on a single ERP platform for future IT systems. Current IT systems will be included into the ERP platform should the functionality of the ERP platform not be suitable.

Skills Investment

The SARCC will intensify its strategy of investing in skills across the Corporation. The programme will amongst others be aimed at retaining the current skills, acquiring new skills and training and supporting young workers across the Corporation, focusing especially on technical, engineering and management capacity. Due the shortage of 'railway' skills it is necessary to concentrate those available skills as close as possible to the level of service delivery. This will also facilitate the process of translating higher-level strategy into effective service delivery.

New and Extension of Rail Services:

In addition to corridor prioritisation, the rail planning process has also identified and prioritised future rail corridors and services. These are in the form of new lines, extensions to existing lines, loops and slip links to improve the current network. The logic behind these is to respond to the urban sprawl that has characterised the development of South African cities over the past few decades. The spatial planning and densification initiatives that Metropolitan Authorities are embarking on is to support the concept of urban edges and must be supported by these identified extensions to ensure that passenger rail grows its share of the public transport market and positively respond to needs of the society.

Whilst the focus in the first phase is on stabilizing the business, it is essential that certain interventions are made at this early stage to strengthen the long term business of the SARCC. Slip links and other interventions will improve the efficiency of the rail network and reduce travel times for passengers quite significantly.

Increases in passenger numbers as a result of improvements in rail services will in the short-term be marginal. However, through the provision of passenger rail services, where infrastructure is in good condition, availability of rolling stock and drivers is adequate, there is no doubt that such new service extensions will contribute to increased passenger numbers and fare income in the short-term. To this end we will focus on the planning and implementation, subject to special funding arrangements of the following additions to services in 2008/09 - 2010/11:

- Cape Town International Airport Link
- Bridge City Rail Link in KwaZulu Natal
- Capacity enhancement Eerste Fabriek to Greenview in Tshwane

Cape Town International Airport Link:

A project to link the Cape Town International Airport with the Central Business District of Cape Town will be implemented in this current financial year after consultation with the National Department of Transport, City of Cape Town, Western Cape Provincial Government and Airports Company of South Africa (ACSA). The project entails building a train station at the Cape Town International Airport, and construction of a 4 kilometre double line rail link between the Airport and the existing SARCC line to the North, amongst others.

The volumes of passenger numbers arriving at the Cape Town International Airport have increased tremendously, estimated at 7 million passenger trips per annum. The SARCC would significantly increase on its passenger trips and generate huge income from the construction of the link and operation of such a rail service. As part of the project, a feasibility study with the relevant environmental assessment and other approvals has been undertaken during the 2007/08 Financial Year.

Bridge City Rail Link:

Bridge City is located in the Inanda, Ntuzuma, and Kwamashu area, situated in the northern region of the eThekweni Municipality and is home to over half a million people with high levels of unemployment. The Bridge City Development on the ± 60 hectare site comprises high density mixed-use development. The full development of the site equates to approximately 650 000m² building area and will include a regional hospital, magistrates court, retail, commercial and residential buildings and intermodal transport facilities. The project, a presidential lead project, is a joint venture (JV) between the eThekweni Municipality and Moreland. The Bridge City Development is expected to create over 25 000 permanent jobs on completion, and 27 500 temporary construction jobs.

Significant public transport interventions and road infrastructure improvements have been identified to cater for the trips generated and attracted by the development and surrounds. These include the:

- Provision of a new rail link with a terminal station at Bridge City.
- Provision of a bus / taxi intermodal facility at the station.
- New half-diamond interchange on the M25.
- The uBhejane Road extension (The construction of the extension is already underway).

It is estimated that the rail link and taxi / bus intermodal facility will transport approximately 14 000 passengers during peak hour and over 40 000 passengers per day. This project also completes the 'North South' corridor as agreed to between the SARCC and the City. The City has confirmed these transport plans in their ITP's and 2010 plans.

Capacity Enhancement: Eerste Fabrieke – Greenview:

The HM Pitjje stadium in Mamelodi has been identified as a Training Ground for one of the teams in participating in the 2010 FIFA World Cup, and the Solomon Mahlangu Park has been identified as the site of a FIFA 2010 World Cup Fan Park. The present rail line to the Mamelodi area cannot cope with the demand for rail transport, it is limited by the 5.5 km single line between Eerste Fabrieke and Greenview. In order to accommodate the increased demand for transport during the FIFA 2010 World Cup there is an urgent need to increase the railway lines capacity in this area by doubling the line between Eerste Fabrieke and Greenview.

The Mamelodi area is developing rapidly on the southern side of the single rail line between Eerste Fabrieke and Greenview. Residential housing schemes have been completed in these areas, which will soon be occupied by residents in this fast growing area. During the FIFA 2010 World Cup these areas will serve as station feeder areas to transport soccer fans to the main events and fan fare event stations. A year ago development was only happening on the northern side of the railway line between Eerste Fabrieke and Mamelodi. The southern side is now fully developed with residential areas. Services and access roads are in construction phase for easy access from the northern side of the railway line.

Presently the region is also experiencing continuous overcrowding on trains. Trains in the section are limited by the 5.5 km single rail line between Eerste Fabrieke station and Greenview. Should this line be doubled the number of trains serving these communities can be increased which is a critical requirement in order to comply to the required level of service, now and during the 2010 FIFA World Cup. It is also a requirement for the extension of the line at Greenview to add two new stations in the area. Plans to build two new stations in the Mamelodi Extension railway line (Pyramid South) are at an advanced design stage. The new stations are Tsamaya and Mahudi. The Mamelodi Gardens

station does not allow for access from the south, which will soon be a requirement. In order to fulfill its primary business objective to provide mass transport in this corridor the SARCC needs to increase its network capacity and connectivity to the communities in the Mamelodi area.

Integration with the Gautrain Rapid Rail Link

The need for integration between the Gautrain and Metrorail as well as other public transport modes such as buses and taxis remain an important aspect in the whole project development. During 2007/08 the SARCC signed a Third Party Agreement with the Bombela Concession Company. The signing of an Enabling Agreement with the Gauteng Provincial Government will be concluded during 2008/09 Financial Year subject to the agreement on various issues of integration such as legal conditions, detail and level of cooperation. The SARCC remains committed to these agreements and continue to give its full cooperation and unconditional support to the Gautrain Rapid Rail Project.

The following projects are listed in the Integration Report with the expectation that these will be implemented. These would be revisited in terms of their desirability and feasibility against the ITP's and Rail Plan priority corridors, as well as the new approach of locally managed Integration Public Transport Networks during 2008/09:

- Termination of Metrorail services from Pretoria to Centurion
- Feasibility of creating new rail links e.g:
 - Irene to Centurion
 - Olifantsfontein to Midrand
 - Mlanlankunzi to Nasrec
- Park and Ride at Marlboro.
- Metro bus and taxi as feeder to key stations.
- Alignment at Park station and revitalising commuter lines.
- Extension of Gautrain to Nasrec.

A process has commenced by the SARCC to negotiate access for Metrorail on the Gautrain network for the lower end of the market, through the Enabling Agreement with the Gauteng Provincial Government. It is the SARCC' intention to introduce 3 to 4 new Metrorail train sets on the Gautrain network, compatible with the Gautrain technology. The aim of this will be to improve mobility for all South Africans, to ensure effective use of public investment made in Gautrain and further promote integrated transport solutions.

Other areas of technology and service interface which are in progress:

- Immunisation of the signalling system
- Approval of Gautrain alignment and clearances near SARCC services

- New parking bays for Pretoria Station
- Other technical issues eg: drainage, stray currents etc.

The SARCC is conducting ongoing interface meetings with the Bombela and Gauteng Province teams to ensure alignment at both technical and operation levels.

The following projects are planned for the period after 2011/12:

Moloto Rail Corridor

The SARCC will play a major role in the implementation of this critical project. Most importantly, it will facilitate speedy and safer movement of passengers from the former KwaNdebele Areas into Tshwane, and possibly Johannesburg. Passengers currently rely on bus services, about 500 buses transport passengers daily between KwaMhlanga and other surrounding areas of the former KwaNdebele, at a huge cost to the road infrastructure and human life due to high road accidents. The direct subsidy cost is in the region of R300 million and has been growing. This huge cost does not include the costs to the economy due to road accidents and costs related to maintaining the road infrastructure. This is one example within the public transport system where modes are not operating to their strengths and complimenting other modes. The huge passenger volumes currently carried by bus should be moved by rail, whilst bus and taxi operators are limited to the role of feeder and distribution services to and from the rail network.

The detailed feasibility study's interim report in May 2007 indicated that

- The rail mode is superior to bus mode in all respects given the projected future volume and capacity demands;
- Estimated travel time savings of the simulated rail system is 35 minutes per direction or 1 hour 10 minutes saving per working day per commuter;
- Rail has an advantage over road based modes in terms of traffic safety.

The SARCC as the national passenger rail company will take responsibility for the construction of this rail project, which is more than 100 kilometres in length. It is expected that construction on this huge rail project will begin in the 2010/11 Financial Year.

Hammanskraal Commuter Rail Service

This project is linked to the Moloto rail corridor and the feasibility of phase 2 of the Moloto Rail Corridor. The lines from Pretoria to Hammanskraal pass through the Pretoria North area, designated in the Tshwane City Development Strategy as "Zone of Choice" for work opportunities for communities in the vicinity of Hammanskraal, westwards towards Temba, northwards towards Pienaarsrivier and north-east. The service was terminated in 1987 and bus services replaced rail as

buses at the time could provide more direct and quicker services. The SARCC has been petitioned a number of times to re-instate the service. A preliminary feasibility study concluded that the service is feasible subject to a detailed economic and financial analysis. The detailed feasibility study will be finalised by the SARCC and the City of Tshwane during the 2008/09 Financial Year.

Motherwell Commuter Line

Motherwell is about 20 km north of the Port Elizabeth CBD on the west side of the existing Port Elizabeth to Cradock main railway line which carries freight and long distance passenger services. Motherwell has expanded rapidly in a western and northern direction with Tjoksville established as a new suburb. At present Motherwell has a low residential density and the residents have a low to medium income level. The present population is about 150 000.

As Motherwell densifies and the Coega IDZ develops, especially given the confirmation of the Alcam smelter plant as an anchor tenant, the provision of the additional Coega rail loop through these areas has become a vital element in the mobility strategy for the metropolitan area.

The Regional Rail Plan for Nelson Mandela Metropolitan Municipality (NMMM) identifies the Motherwell Loop as a priority (category A) future rail corridor. The Plan further proposes the implementation of a spur as the first phase of the Motherwell Loop. Start of operations for the Motherwell Spur is envisaged by the Regional Rail Plan during the medium term (2012 to 2015). This was however before the smelter plant confirmation. Current demand forecasting shows that the Motherwell Spur will add 35 000 daily passengers to the commuter rail system by 2020.

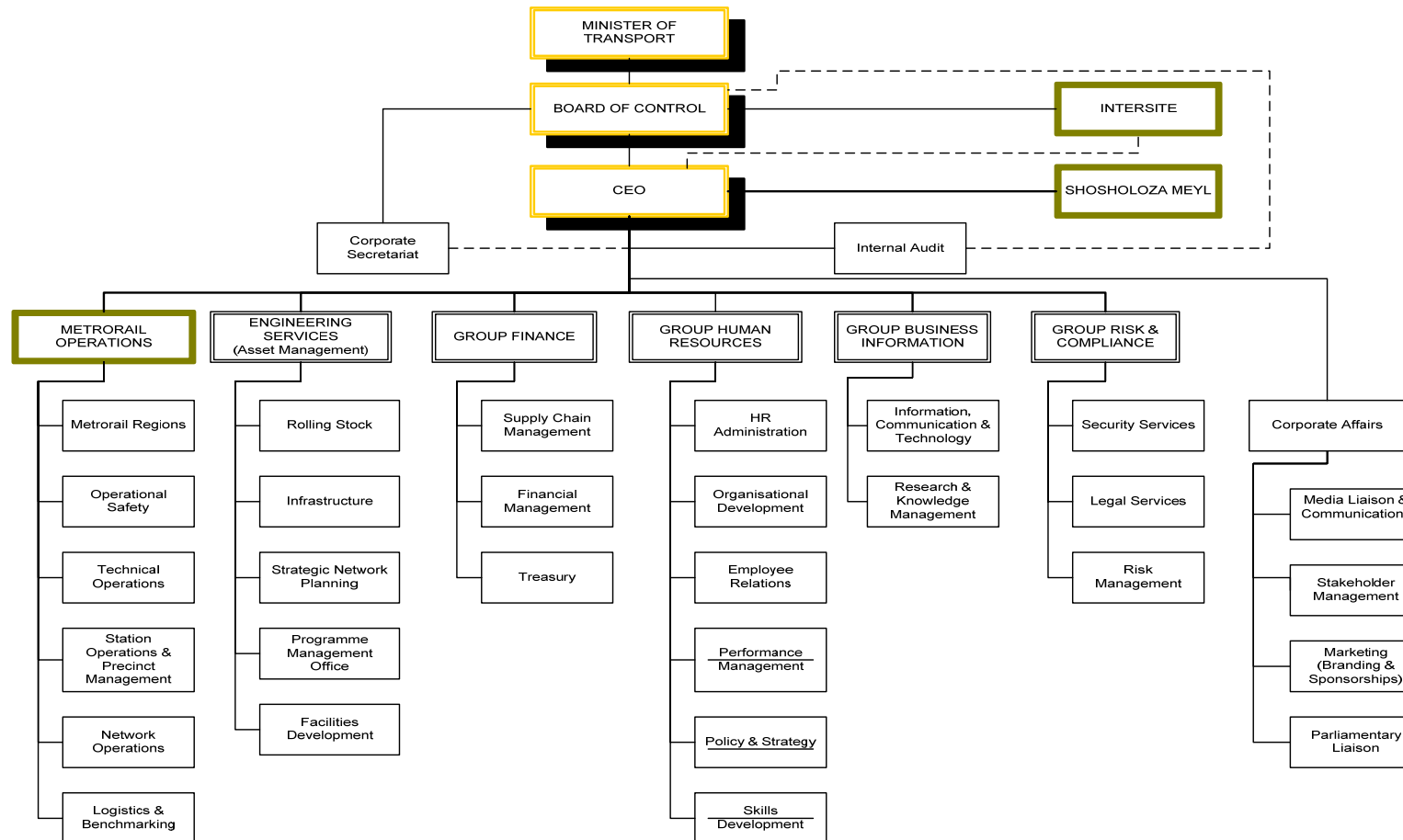
Passenger Services to Rustenburg and Sun City

Rustenburg features as one of the host cities for the 2010 FIFA World Cup. In terms of the Rail Plan process Rustenburg has been identified as one of the top 7 rural municipalities needing a transport connectivity response. During the 1980's some special tourist trains were operated to Sun City with a dedicated rail station built for this purpose.

The SARCC proposes to introduce an intercity passenger service between Gauteng and Rustenburg, and will investigate the re-introduction of passenger rail services to Sun City. This requires negotiating track access with Transnet Freight Rail as these lines are owned by Transnet, which uses the rail line as a main freight feeder for the mining industry. The condition, capacity and safety requirements for the re-introduction of passenger rail services on these lines will be improved for passenger rail.

5.3 Operating Structure

The operational structure has been adjusted as follow:



5.4 Role of SARCC as Rail Passenger Transport Entity

The SARCC is transforming into a strategic rail passenger business, with rail and property assets. The overall mandate of the SARCC is to contribute to Government's objective of developing an efficient transport system, through rail passenger transport demand management and provision, and investing and managing rail and property assets. The primary role of the SARCC is to plan, own, and develop rail infrastructure and to provide rail transport services. The SARCC as a key driver of Government's transport policy goals will drive rail infrastructure development in South Africa as well as partner with the African Rail Transport Authorities to develop rail infrastructure in Africa and models for delivering rail services within the SADC region and the African continent as a whole. With specific focus on the turnaround phase the roles of the SARCC are to:

- Manage the rail transport demand on behalf of government and to drive key transport objectives in terms of integrated seamless, affordable and safe transport.
- Manage assets through investment in rail infrastructure, rolling stock fleet and operations.
- Operate rail transport services.
- Provide integrated business systems (IT, Finance, HR, Risk Management etc.);
- Ensuring efficient operations and
- Play a key integration role in public transport.

5.5 Strategic Initiatives of SARCC Departments:

The role of the various SARCC departments is to achieve the vision and mission by focusing on key activities and outcomes that are in support of the strategic objectives outlined in the Business Plan. Therefore, departmental performance will be evaluated and measured in terms of deliverables contained in the Key Performance Indicators of the organisation.

5.5.1 Engineering Services

The primary focus of Engineering Services is the Total Life Cycle Management (LCM) of the SARCC asset base.. It is responsible for developing and to drive new investment projects in SARCC assets such as rolling stock and infrastructure to meet long-term requirements of the business in accordance with the Rail Plan. It's functions also include the LCM phases of Commissioning, Maintenance, Upgrading and Disposal. The Department consists of Strategic Network Planning, Rolling Stock, Infrastructure, Strategic Projects and Project Management Office.

5.5.1.1 Strategic Network Planning

The primary focus of the Strategic Network Planning Office is to improve, develop and extend the rail passenger network in South Africa, through positioning the role and application of rail with all levels of government in terms of demand and integrated public transport networks (ITPs).

The function of the national Network Planning Office includes maintaining GIS based planning information, network capacity analysis, ongoing planning of priority network expansion/improvement projects, planning related R&D and the implementation of flagship rail extension projects.

5.5.1.1.1 Priority projects planned for 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
Bridge City Extension – KZN (Partially Funded) o Planning o Design o Construction: o Station Box o Rail Link & Station	Increase network density and offer rail head to new development in KZN	Increase patronage	Apr 2008 May 2009 Oct 2008 Feb 2012
Cape Town Airport Rail Link (Partially Funded) o Planning incl EIA Scoping o Solicit Tenderer o Design o Operational	Provide rail link between CBD and Airport	Increase patronage	Apr 2008 Jul 2008 Jul 2009 Jul 2012
Detail design Moloto Rail Corridor (Not Funded)	Provide rail service to commuters on Moloto corridor	Increase patronage	Detail Design Dec 2009
Bloemfontein – Botshabello – Thaba Nchu Rail Service Feasibility	Determine feasibility for rail services	Increase patronage	Sep 2008
Limpopo Passenger Plan	Identify passenger rail opportunities in Limpopo	Increase patronage	Mar 2009
Planning Johannesburg – Isando – Midrand – Cor Delfos Link	Link eastern communities to Midrand and Gautrain	Increase patronage	Aug 2009
NATMAP Standard Gauge Feasibility	Determine implications of policy decision on standard gauge	Optimise Asset Value	Mar 2009
Wolverdam – Oberholzer (Khutsong Station)	Feasibility and alternatives	Increase patronage	Sep 2009
Tshwane network operational capacity assessment	Determine capacity constraints and interventions	Optimise Asset Value	Dec 2009

5.5.1.2 Rolling Stock

The primary role of the rolling stock department in the context of the turnaround strategy is to ensure improved availability and reliability of the fleet in support of the stabilisation strategies. Rolling stock is the driver of the Accelerated Rolling Stock Investment Programme whilst at the same time being the custodian of the philosophy and approach of preventative maintenance. To this end, this department will be the owner of the project to upgrade the equipment, skills and facilities in the rolling stock depots of Metrorail. The rolling stock department should also develop the necessary systems that shall promote continuous improvements in the performance, quality, availability and reliability of rolling stock. It is the intention that the skills and experience at rolling stock should be equally distributed between regions and head office to ensure optimal deployment of human skills and expertise.

5.5.1.2.1 Priority projects planned for 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
Rolling Stock Refurbishment	Improve the reliability, availability and safety of the national rolling stock fleet and train service performance	Customer Focussed Improvements, Optimising Asset value Increase patronage	Mar 2009
Acquisition of New Rolling Stock	Increase capacity through the acquisition of new rolling stock to meet future demands	Optimise Asset Value, Increase patronage	Qrt 1 2008/09 (Award of tender)
Upgrade of skills, equipment and Facilities	Increase the capacity of rolling stock depots to improve reliability and availability.	Customer Focussed Improvements, Optimising Asset value Investing in Human Capital	Mar 2009
Revitalise Preventive maintenance	Improve Rolling Stock performance through implementing preventative maintenance initiatives.	Customer Focussed Improvements, Optimising Asset Value	Mar 2009

5.5.1.3 Infrastructure

The key focus of the Infrastructure Department for the Turnaround and Recovery phases of the business is to enhance the delivery of the Rail Plan through improved infrastructure asset performance through sound asset management practices. To this end, a number of new and reviewed strategies will be finalised in the year. These include, among others, traction transformer replacement, holistic signal upgrade, fencing, automatic train protection, level crossing and Special Needs Passenger strategies. Many of the actions that have commenced in the previous year will be consolidated in 2008/09.

5.5.1.3.1 Priority projects for 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
Khayelitsha Rail Extension	Completion of the Khayelitsha Rail extension project in Western Cape	Increase patronage	Oct 2008
Gauteng CTC and Signalling	To enhance operational and maintenance efficiencies and improved customer service	Customer Focussed Improvements Optimise Asset Value	Mar 2011
Footbridges in all Priority A corridors	Improve the safety of the rail system in Priority A corridors	Customer Focussed Improvements	Mar 2009
Workplace Improvement Project	Improve the facilities in the workplace that do not meet basic standards	Invest in Human Capital Optimise Asset Value	Mar 2009
Durban – KwaMashu	Conceptual study to improve the train service due to infrastructural changes	Customer Focussed Improvements	Jun 2008
Automatic Train Protection Project	Conceptual study and pilot project to prevent accidents in the rail system through automatic train protection	Customer Focussed Improvements	Jan 2009

5.5.1.4 PMO: SARCC Programme Management Office

The Programme Office of the SARCC is a section within the Engineering Services Department, and focuses on the management of capital projects. The PMO's primary objective is to ensure project alignment throughout all the phases, coordination and enhancement of project delivery throughout the SARCC, following the PMBOK (Project Management Body of Knowledge) guidelines. Furthermore it provides the corporate "facility" for multi-disciplined mega-project delivery, alignment of project deliverables within individual project portfolios and the provision of all the Logistics to ensure effective project management and on-time delivery of mega projects.

The PMO is the custodian of the SARCC's project governance, project policies, procedures, standards & guidelines (PPSG) and capital project execution performance. The more than 400 Capital Investment Projects at the SARCC are grouped into five (5) major project **portfolios**. The project portfolios are identified in terms of its unique project management stages, project resourcing and specific project deliverables.

5.5.1.4.1 Priority projects for 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
Multiple Project Structure within Infrastructure & Strategic Network Divisions	Computerised Asset Management for SARCC Workflow and Documentation Management	Optimising Asset Value Strengthening Corporate Governance	Mar 2009
Project Performance Management and Capital Tracking	Project and Programme Management Workflow, Standardisation and Performance Management	Strengthening Corporate Governance Optimising Asset Value	Mar 2008

5.5.1.5 Facilities Development:

The primary focus of Facilities Development is to ensure the improvement of station facilities to improve the passenger experience on stations as well as employee safety in depots.

Project	Objective of Project	Strategic Objective Supported	Completion Date
Station Upgrades	Improve the station environment in Priority A corridors	Customer Focussed Improvements	Mar 2009
Workplace Improvement Project	Improve the facilities in the workplace that do not meet basic standards	Invest in Human Capital Optimise Asset Value	Mar 2009

5.5.2 Office of Chief Financial Officer

The main objective of the Finance department is to manage the financial and other resources of the Corporation in a sound and prudent manner. As a State entity, this management is done within, among others, the framework of the PFM Act and Treasury regulations. In addition, these resources are managed in accordance with other best business practices and principles.

Within these frameworks, the Finance department's other key role is to ensure that the financial resources are applied and allocated in accordance with the Corporation's Strategy. Part of this short term strategy is to stabilize and Turn-around the business from a commuter to passenger rail business.

To achieve this strategy, Government has substantially increased the MTEF allocation to the Corporation. Despite this increase though, the Corporation's funding capital and operational expenditure requirements still exceed the available resources. The most critical challenge for the finance team within the SARCC is to lead the Corporation in the implementation of a strategic investment strategy which seeks to meet the funding investment requirements of the business. This strategy includes, among others, the development of private financing for the rail passenger sector. The options being considered are:

- Public Private Partnerships;
- Co-Funding by the Provincial governments;
- Maximising the Revenue streams from the Property portfolio;
- Long term Leases;
- Efficiencies from Supply Chain Management strategic sourcing and
- Borrowings.

It is important to note that while the SARCC depend significantly on the operational and capital subsidies from the Government, the Corporation has own sources of funding that are used to reduce the overall subsidy requirement from the state. For the SARCC, these include revenue sources such as property development, advertising and access charges from Transnet Freight Rail for use and rental of commuter rail facilities. The major source of revenue after the subsidy is fare revenue.

The budgeting process requires SARCC to prepare detailed separate operating and capital budgets on an annual basis. The budgets are submitted annually to the DoT, where they are evaluated. Based on overall government budgetary constraints, the annual operating and capital grant subsidies are then finalised and approved by National Government. The money flow then occurs as per budget allocation. It is important to note that the subsidy paid to SARCC is 'supply' budgets, not 'demand' budgets, i.e. they are based on what is affordable to National Government, not what is required to optimally plan, manage and provide rail services. This is an important distinction, and explains to some extent the reason for the under-funding of commuter rail operations in South Africa. It is important to note that rail passenger transport is subsidized everywhere across the world with few exceptions and this strategic outlook should not be abandoned in efforts to find private sector participation in this sector.

While improved financial and structural efficiency is always possible, the more appropriate response to the position that rail passenger transport frequently finds itself in may be for rail

passenger transport to discover the circumstances in which it can still operate relatively efficiently, and concentrate business attention in those areas. This review of passenger rail funding should be viewed against this broad background. The Passenger Rail Finance Strategy Project will represent the SARCC's commitment to set a future direction of passenger rail that address these concerns.

South Africa is not unique in experiencing a funding crisis in its rail industry. While there is almost always a degree of managerial and structural inefficiency in public utility services, the funding crisis in the railway industry worldwide is partly a result of its technological complexity compared to the more flexible road-based public transport modes. Rail transport can play a major economic role through contributing a more efficient transport system that supports growth and development, socio-economic development through providing accessibility to work, employment creation in the sector through service delivery and infrastructure development and black economic empowerment. Whilst offering high quality transport services for all income groups in South Africa, rail passenger transport must remain as the transport mode of last resort for lower income population groups as well as those without access to better, reliable and affordable transport. This needs to be considered in any assessment of the value of rail.

It is nevertheless a simple public financing reality that road transport generally realises more than sufficient tax revenues to Governments to cover the cost of its infrastructure. Rail passenger transport systems rarely if ever generate tax revenues and their operating revenues are often insufficient to cover as much as half of their operating costs let alone major maintenance and development cost. While this fact cannot constitute an excuse for inefficiencies in rail, it is an important element in any attempt to understand what an endemic funding problem in the rail industry is worldwide. However, the significant role of rail passenger transport is of far greater economic and social value rather than a narrow financial definition.

Private Sector involvement

Private sector involvement in urban transport has been widely used in an international context to enhance the quality of service and the efficiency by which it is provided. The National Treasury has consistently made a strong case for greater levels of private sector involvement in many parts of the transport sector and specifically in commuter rail. Whilst the National Treasury did not specify exactly what the institutional arrangement for this, the role of Government in facilitating and overseeing private sector involvement has been acknowledged.

The SARCC will be appointing qualified companies to advise the SARCC on formulating a Passenger Rail Finance Plan. This Passenger Rail Finance Plan will neither be a study nor an analysis, but rather a combination of a business case and a funding term sheet.

5.5.2.1.1 Priority project 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
Passenger Rail Finance Strategy Project	To provide an overview of the funding arrangements of SARCC and to enable both the SARCC and Government on management of private sector participation and its financing of certain rail passenger transport infrastructure	Optimise Asset Value Customer Focused Improvement	Jun 2008
Financial reporting in compliance with SA GAAP	Legislative complaint system; timely reliable management information and to ensure business continuity.	Strengthen Corporate Governance	Mar 2009
Funding alternatives: CCTV surveillance & Management system New Rolling Stock Signalling projects Gauteng CTC (Signals)	To find alternative funding through off balance sheet financing in line with government policies and guidelines and in conjunction with the relevant departments.	Optimise Asset Value	Oct 2008
Integration of Shosholoza Meyl in the Financial Statements of the SARCC.	To create S. Meyl as a ring fenced division of the SARCC.	Strengthen Corporate Governance	Feb 2009

5.5.2.2 Supply Chain Management

The three main objectives of Supply Chain Management are :

1. Procurement of goods and services are procured efficiently, effectively at the optimum value available to the Corporation through strategic sourcing. Included in the definition of goods and services are purchases of products, services (tangible and intangible), acquisition of fixed/ movable assets via Capital / Operational expenditure, appointment of Consultants and the disposal of assets.
2. Implementation of efficient and effective maintenance program by adoption of

innovative inventory management program and

3. The SCM department seeks to improve collaboration and build relations with end-user departments through Service Level Agreements (SLA) to champion goals of achieving savings and to support the organisation's turnaround strategy.

In support of the above objectives the SCM department is expected to procure goods and services within the legislative framework requirement of the Acts (PFMA, PPPFA and BBBEE) and the National Treasury Regulations.

5.5.2.2.1 Priority projects for 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
Materials Management	Optimal management of materials through proper demand management	Strengthen Corporate Governance and Optimise Asset Value	Apr 2008 (Monitoring thereafter)
Roll-out and Implementation of Supply Chain Management Policy	Communication and understanding of the Supply Chain Management Policy	Strengthen Corporate Governance	Sep 2008

5.5.3 Group Human Resources

The primary focus Human Resources department is to support the Human Capital of the organisation through skills development, organisation efficiency, employee relations, employee assistance and recruitment and selection. The consolidation process of SARCC has been a complex task and yet presented opportunities to refocus the business. Human resources have remained vitally important for the success of the turnaround strategy. The consolidation process provided Human Resources with an opportunity to overhaul policies, practices, processes, organizational structure, and inconsistencies in labour agreements as well as conditions of service. These issues will be continued in 2008 with the incorporation of Shosholozza Meyl to derive a more efficient organisation.

5.5.3.1 Priority projects 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
Performance Management	Introduction of Performance Management to management and junior levels	Invest in Human Capital	Sep 2008
Training and Development	Create capacity in the corporation as well as retention of skills.	Invest in Human Capital	Dec 2008
Salary Parity	Retention of staff	Invest in Human Capital	Jun 2008 (Phase 3)
Change Management	To assist the corporation to cope with change	Invest in Human Capital	Apr 2008
Consolidation project:			
Integration of Policies	Integrate policies of SARCC, Metrorail and Shosholoza Meyl	Strengthen Corporate Governance	Apr 2009
Benefits harmonisation	To ensure uniform conditions of service in SARCC	Strengthen Corporate Governance	Mar 2009
Conditions of service	Aligned conditions of service	Strengthen Corporate Governance	Dec 2008

5.5.4 Risk and Legal Services

The primary focus of Risk and Legal Service department is to ensure the effective and proactive provision of general and specialized Legal advisory services to the entire corporation, including but not limited to legal opinions, litigation as well as legal support and advice to the Chief Executive officer, the Board and its Committees. The department will assist the corporation in complying with applicable statutory, regulatory requirements and coordinating the overall Enterprise Wide Risk Management. In particular and more importantly the department will ensure that it proactively plays a strategic role in both the negotiations and drafting of material 2010 Capital projects contracts, as well as other strategic projects, agreements and contracts undertaken by the corporation through Supply Chain Management and Procurement, to ensure compliance and prudent management of risk. The department will be focused in developing a legal framework and platform for engaging and entering into alliance agreements with other public transport entities, in support of the corporations' vision of providing integrated public transport solutions.

5.5.4.1 Priority projects for 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
Integration of Shosholoza Meyl Claims into SARCC insurance claims system	To ensure proper claims management	Customer Focused Improvements	As per project plan
Renewal of insurance policies	To ensure the insurance of insurable risks to reduce SARCC's financial exposure	Strengthen Corporate Governance	May 2008
Enterprise Wide Risk Management	Roll-out of the enterprise wide risk management system incorporating fraud prevention	Strengthen corporate governance	Mar 2009
Develop, implement and monitor Legal framework compliance	To ensure Legal compliance and raise awareness on the impact of non-compliance of impact and provide alternatives.	Strengthen Corporate governance	Mar 2009

Project	Objective of Project	Strategic Objective Supported	Completion Date
Develop a framework for Alliance agreements	To ensure alignment of policies, procedures and uniform norms and standards for provision of integrated transport solutions	Customer focused improvements	Mar 2009
Corporate Security Policy	Building integrity of company, management and employees	Strengthen Corporate Governance	May 2008
SARCC Security Plan	To review and implement the revised Security Plan SARCC to ensure compliance as above, 2010 World Cup Soccer Security Requirements and implementation of Security Learnership Programmes as an in-sourcing strategy to improve the level of security we provide the organisation.	Investing in Human Capital Customer Focussed Improvements	Apr 2008 in place
Railway Police Integration and Coordination	To improve the levels of coordination between SAPS and SARCC in order to ensure most effective deployment of the Railway Police.	Customer Focused Improvements	Apr 2008 – Mar 2009

5.5.5 CIO's Office

The primary objective of the CIO's office is to support the Rail Passenger Entity through provision of efficient and reliable information systems and communication, enhance knowledge management and provide research and driving internal operational efficiencies. The consolidation of rail passenger services has brought with it both challenges and exciting prospects for ICT. Critical systems that were to be consolidated were E-mail, HR (Payroll) and the underlying Networking and Data Centre Infrastructure. All of these were achieved and have provided important lessons for the incorporation of Shosholozza Meyl. The exciting prospects were opportunities for ICT to transform from the current Shared Services Centre (SSC) model to a thoroughbred ICT organization. The current IT organization has to and is transforming at departmental level to reflect three clusters namely Service Operations, Service Control and Service Planning.

Service Operations is geared to look at day-to-day end user support backed by a strong Technical support team for the Back End. *Service Control* plays a governance role by looking at establishing a basic policy landscape at ICT enterprise level. Finally, *Service Planning* would be looking at IT Strategy, Service Costing, High value sourcing and Applications Development.

5.5.5.1 Priority projects for 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
Enterprise System (ERP) standardisation	To drive integration of all Functional Support e.g. Finance HR, Supply Chain, etc.	Optimising asset value	HR / Finance: Mar 2009 OHS & SCM: Mar 2010 Train Ops: Mar 2011
Network	To provide the Enterprise with a solid network infrastructure that would allow a myriad of service layers including data, video and voice with quality of service	Optimising asset value	Cape Town: Sep 2008 Durban: Dec 2008 Gauteng: Mar 2009
Architecture & Governance	To ensure delivery is achieved on best practice frameworks and complies with applicable legislation and policies.	Strengthen Corporate Governance	Mar 2009

5.5.6 Corporate Affairs:

The primary objective for Public Affairs is to facilitate the positioning of the Rail Passenger Entity as basis for Mass Rapid Public Transport. The focus of the department during the year under review was to put the consolidated entity on the media map. The activities of the department focussed on media networking sessions, stakeholder sessions, national youth service program, national safety campaign, launches and exhibitions. These activities will continue in 2008/09 to continue the repositioning of rail passenger transport as the central point for public transport.

5.5.6.1 Priority projects for 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
Brand Strategy implementation	<p>“Our Trains” brand positioning</p> <p>“Our public trust” – maximising asset utilisation and internal economy</p> <p>“Our Future” – marketing</p> <p>“Our Strength” – Human Capital Development</p>	<p>Boost revenue</p> <p>Increase patronage</p> <p>Invest in Human Capital</p>	Mar 2009
Building Organisational Capacity of Commuter Forums	Consolidate the fragmented Commuter Forums	Customer Focussed Improvements	Apr 2008
Stakeholder & Image Survey	To assess the impact of stakeholder relations	Customer Focussed Improvements	

6 Metrorail Operations

6.1 Introduction

The Metrorail Operations Division is sub divided into five Metrorail Regions with several governance and support functions to facilitate compliance to regulatory and operational safety requirements, to manage trains, station and network operations as well as the related logistics and benchmarking of services. The Metrorail rail network covers more than 15% of South Africa's Rail Network and operates more than 470 stations. Metrorail runs more than 2.2 million passenger trips every weekday.

The regions are currently divided into the Southern Gauteng (Wits), Northern Gauteng (Tshwane), Durban, Eastern Cape and Western Cape Regions. The plan is to integrate the Southern Gauteng and Northern Gauteng Regions into one Region and for the Western Cape Region to parent the Eastern Cape Region in terms of technical services.

The Office of the Chief Operating Officer has been allocated the specific responsibility and authority to run Metrorail's operations and maintenance functions. It is expected that this Office will setup the necessary structures to develop and support the Divisional Business Plans and Financial Plans and to be the custodian for the Regions with a focus on Train Operations, Customer Operations and Station Operations. From this Office, the resources and skills required to operate, schedule, manage and maintain assets will be defined in lieu of the necessary HR policies. All assets and stock to be maintained, refurbished (designed), GO-ed, extended or replaced will be recommended and facilitated. The detailed designs and functional specifications for the building or refurbishment of assets / rail networks will be approved by the COO. The shorter term planning, operating and scheduling of trains in the Metropolitan Areas to match commuter travel demands is the responsibility of the COO's office. All Revenue Collection, Ticketing, Access Control and Protection Services as well as the interfacing and management of key Stakeholders such as the Railway Safety Regulator is critical for the survival of the Business and is managed by this office.

The Business Plan for Metrorail therefore focuses on stabilisation and improvement objectives with specific focus on;

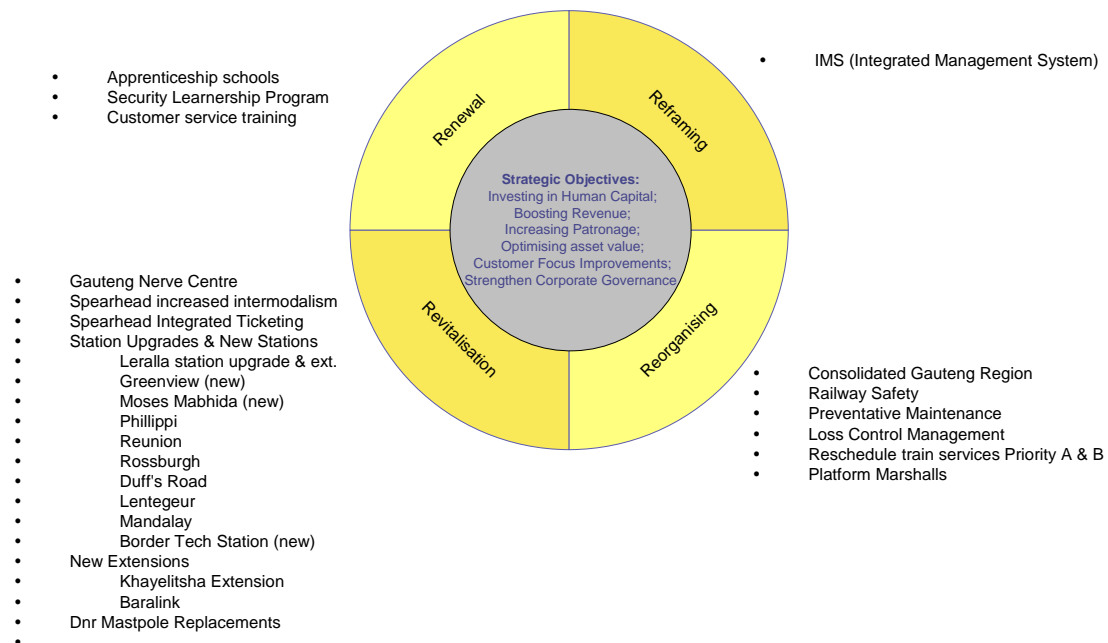
- A centralised CTC for Gauteng (This programme includes signalling, CTC and will be a vehicle for the integration of the Centralised Traffic Control Centres of the Gauteng Regions);
- Consolidation of the Gauteng Region;
- Move ISO 9000 into the next stage by focusing on improving service delivery to address predictability and punctuality issues of the train service;
- Total station management, including the areas previously managed by Intersite;

- Logistics and benchmarking to develop drive key operational efficiency measures;
- The integration of train operations and rolling stock under the technical operations manager;
- Improve protection services by addressing prioritization and sequencing of areas that will lead to improvement of service delivery;
- Focus on priority corridors in terms of the resourcing and implementation of the National Rail Plan where the spreading of resources needs special focus to ensure passenger rail is stabilized and improved;
- Effective management of interfaces with Transnet Freight Rail;
- Effective Revenue Management
- Design and initiate the preventative maintenance programme for rolling stock to stabilize the reliability of the trains and predictability of the train service

The accelerated turnaround strategy of the business is about arresting the decline in services. The above mentioned initiatives and programmes plans to improve the following targets at the end of the stabilization phase:

- Train availability at 96%
- 50 stations upgraded
- Predictable service at 90%
- Technical and engineering posts filled at 95%
- Customer satisfaction level at 75%
- Organic fare revenue increase by 5%
- Safety level improvement of 30%
- Crime levels reduced by 15%
- Integrated management system in place
- Unqualified ISO audits.

6.1.1 Focus of Projects



6.2 Reliability through Preventative Maintenance

The National Rolling Stock Maintenance Strategy and related Programme Initiatives seek to achieve and meet the requirement of the Operational Strategy determined by the internal and external company's stakeholders and regulatory authorities. It aims to align with the National and Regional Rail Plans with a focus on initiatives that boosts revenue, increase patronage and to improve the service to our customers.

This strategy aims to;

- Eliminate inefficiencies and to bring about the cost savings and business benefits through a focus on a Preventative Maintenance Programme that covers the maintenance of Rolling Stock in the five main Regions of Metrorail. The regions covered are; Durban, Western Cape and Gauteng North, West and East.
- This Preventative Maintenance Programme includes the requirements for the 2010 World Cup to ensure that the current and future Rolling Stock is always maintained and kept at an operational level to sustain the demands for rail transport service delivery.
- The Programme aims to leave a legacy where the Rolling Stock fleet remains at the operational levels required for increased public transport demands after 2010.

Rolling Stock Capital investments are funded from the MTEF funds and will be executed as per the current schedules against the rail plan, already distributed amongst the main regions.

6.2.1 Preventative Maintenance Programme

NRSPM	National Rolling Stock Preventative Maintenance Programme		
Description of programme.	To establish a maintenance programme at Durban, Cape Town and Gauteng that ensures a fleet of Rolling Stock that is always in an operational condition to service the transport demands.		
Objective of the programme.	<p>This programme will ensure the implementation of the Preventative Maintenance Strategy by</p> <ol style="list-style-type: none"> 1. Review of Depot capacity and condition of facilities and equipment to determine upgrade requirements 2. Review skills and resources required to run the revived preventative programme at depots 3. Review Asset Condition of Rolling Stock fleet as a basis for a revised maintenance strategy. 4. Feasibility for upgrading of seven maintenance depots (Durban, Cape Town, Gauteng North, West and East as well as Port Elizabeth and East London) 5. Full implementation of Electronic Maintenance System (eg. FMMS etc) and all related support processes. 6. Implementation of an Intermediate Overhaul Program at Depots 7. Upgrading and Improvements of Depots maintenance facilities. 8. Recruitments and Training of the required staff at these maintenance depots 9. Review and/or establish a improved quality maintenance management programme at depots 		
Main deliverable of the project:	Upgraded depots in the seven main regions, specialised and excellent resources with a electronic system that support excellent performance from such staff, Rolling Stock that is maintained and commissioned to the operational requirements of Metrorail		
Estimated costs:	<p>Total R300m</p> <p>Year 1: R50m for evaluations, feasibilities, tooling, recruitment and skills</p> <p>Year 2: R100m for depot facility and equipment upgrades, Preventive Maintenance and Program Rollout.</p> <p>Year 3: R150m for further depot upgrades and Preventative Maintenance Programme Rollout</p>		
Milestones:	<i>Feasibilities in all five Regions, tooling, recruitment and skilling</i>	<i>Depot maintenance facility upgrades</i>	<i>Depot commissioning and facility upgrades</i>
Timeframe milestones for	<i>2008/2009</i>	<i>2009/2010</i>	<i>2010/2011</i>

6.3 Metrorail priority projects for 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date	Responsible Section
Railway Safety	To retain/renew the SARCC Operating License for Metrorail and ensure that the SARCC obtains an Operating License to operate Shosholozha Meyl.	Customer Focussed Improvements	Jun 2008	Compliance & Operational Safety
Integrated Management System	To ensure that an effective and efficient management system is in place to ensure process optimisation, removal of "silos", duplication, bureaucracy and bringing about effectiveness, efficiency, rapid response and adaptability	Customer Improvements Focus Strengthen Corporate Governance	Nov 2009	Compliance & Operational Safety and Station Operations
Loss Control Management	To reduce Company losses by 25% of total income by March 2009	Optimising Asset Value Strengthen Corporate Governance	Jul 2008 implemented	Compliance & Operational Safety
Operational Efficiencies and Benchmarking	To improve efficiencies in the commuter rail operations and improving service levels	Customer Focused improvements	Dec 2008	Logistics and Benchmarking
Preventative Maintenance: Improve Maintenance Strategy through Intermediate Overhauls Replacement of Unreliable Components Refurbishment of Unreliable Components	Improve rolling stock reliability and availability through undertaking intermediate overhauls on bogies, auxiliary rotating machines, resistance grids, doors systems and painting Improve reliability and availability of the rolling stock Improve reliability, availability and safety of the rolling stock	Customer Focused Improvements Optimise Asset Value	Apr 2009 Aug 2008 Apr 2009	Regions
Consolidated Gauteng region	To streamline commuter rail service delivery for Gauteng. To eliminate duplication and save costs	Customer Focused Improvements	Dec 2008	Operations
Reschedule train services in all regions concentrating	To improve reliability and service delivery and align with Rail Plan	Customer Focused Improvements	Oct 2008	Train Operations

Project	Objective of Project	Strategic Objective Supported	Completion Date	Responsible Section
on A & B corridors as per Rail Plan				
Railway Safety Regulator	Maintain the Operating Licence Minimise number of station related incidents Compliance with Safety Plan and Integrated Security Plan Adherence to Standards and Legislation	Increase Patronage Customer Focussed Improvements	Jul 2008	Station Operations
Platform Marshalls	Improve safety at train arrival and departures from stations	Customer Focussed improvements	Jun 2008	Station Operations
Automatic Access Management and Fare Collection System	Access Management during Peak times, Automated Fare Management	Boosting Revenue Customer Focused Improvement Optimising Asset Value	KZN corridor: Dec 2009	Station Operations

6.3.1 Gauteng Region

The Gauteng Region is currently sub divided into two Regions, namely Tshwane and Wits. The future vision for the Gauteng Region will be to consolidate these two regions in to one region with three service delivery areas namely; Northern Gauteng, Western Gauteng and Eastern Gauteng. The Northern Gauteng area consists of a rail network that covers 257 kilometers rail tracks and 47 kilometers of yard railway with 24 signal relay rooms controlled from the Centralized Traffic Control Centre (CTC). There are 36 stations with 23 halts located on six corridors. The region conveys around 142 000 commuters on weekdays and runs 371 trains a day.

The Eastern Gauteng and Western Gauteng areas (currently called the Southern Gauteng Region or Wits) is connected by 1200 km of track, 93 train sets consisting of 1116 carriages and 154 stations, The Gauteng rail planning shows that approximately 1,4 million passengers use the commuter rail network in the Southern Gauteng Region with 156 stations operational in the western and eastern sides each working day. Johannesburg (Park) and Germiston Stations are the two busiest stations with 16% of all rail passengers in this area that are currently still known as the Wits Metrorail Region.

According to the Regional Rail Plan, 73% of all public transport trips in Gauteng are made within the Wits Metrorail area (Southern Gauteng), with the rest of the passenger trips from the Northern Gauteng Area (currently called the Tshwane Region). Forty three percent (43%) of the 3,3 million passenger trips are made by rail transport according to the Gauteng Provincial Land Transport Framework (PLTF), 2003 – 2008.

The Southern Gauteng Region is a relatively complex area, as it covers three Metropolitan municipality areas (City of Johannesburg, Ekurhuleni and City of Tshwane), and two District municipality areas. The latter includes six local municipality areas. The complexity is illustrated by fact that most of the rail corridors cross municipal boundaries.

6.3.1.1 Priority projects for 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
Gauteng Metrorail Nerve Centre	Establish a fully integrated, central Operational Control Centre for Wits and Tshwane. Include re-signalling (bi-directional signalling), ATR, ATP, ATA.	Customer Focussed Improvements	2010/11
Preventative Maintenance	Improving the reliability of rolling stock	Customer Focussed Improvements and Optimise Asset Value	Mar 2009
Kwesine Line Intermodalism Project	Pilot Inter-modalism in the Wits Region through integration with buses and integrated ticketing.	Increase patronage	Apr 2008
Leralla Station Upgrade and Line Extension	Close the loop” between Isando and Leralla (Midrand), including slip link Germiston – Daveyton line	Customer Focussed Improvements Optimise Asset Value	2010
Baralink detailed design	Linking Nancefield with Johannesburg via Nasrec	Increase patronage	Feb 2009
Doubling of rail line Eerste Fabrieke - Greenview	Increase line capacity to be able to meet the demand	Customer Focused Improvements	2010
Build Greenview station	Provide additional station between Mamelodi gardens and Piensaarspoort	Customer Focused Improvements	2010
Human Capital Projects:			
<ul style="list-style-type: none"> • Upgrade mess facilities for Train Operations - CAPEX • Adult training capacity at Wolmerton • Apprenticeship school • Placement of electrical fitters trained at Transwerk • Business Process Engineering 	Improve employee facilities (Health and Safety) Improve technical competency of all technical staff Development of apprenticeship school to train technical staff		Dec 2008 Apr 2009 Nov 2009 Apr 2008 Mar 2009

6.3.1.2 Major Volumes

Volumes	Budget	Forecast	Projections		
	2007/08		2008/09	2009/10	2010/11
Passenger trips (millions)	274.1m	285.9m	328.7m	465.1m	611.5m
Trains scheduled per weekday					
A Corridors					
JHB Core			352	362	372
Naledi/New Canada			114	114	114
Mabopane - Pretoria	97	106	106	110	115
Piensaarspoort - Pretoria	76	82	82	87	93
Kwaggastroom/New Canada - Midway			56	56	56
Olifantsfontein/Tembisa – Germiston			52	62	72
Daveyton - Germiston			33	33	33
B Corridors					
Pretoria - Olifantsfontein	80	80	80	85	90
Saulsville - Pretoria	57	53	53	58	63
Hercules - Koedoespoort	28	41	41	45	49
Randfontein - Langlaagte			35	35	35
Kwesine/Katlehong – Germiston			30	30	30
Springs - Dunswart			11	11	11
C Corridors:					
Vereeniging - Kwaggastroom			56	56	56
Vereeniging /Kliprivier - Germiston			39	39	39
Germiston / India - Kaserne West			15	15	15

Volumes	Budget	Forecast	Projections		
	2007/08		2008/09	2009/10	2010/11
Nigel - Springs			11	11	11
Oberholzer - Johannesburg			7	7	7
De Wildt - Pretoria	42	46	46	50	53
Train Sets					
East 'A'			25	26	27
East 'B'			14	14	14
West 'A'			29	30	31
West 'B'			10	10	10
Tshwane			45	49	52
Other Corridors			15	15	15

6.3.2 Western Cape Region:

The rail network covers 370 km of rail track, 118 stations (85 owned by SARCC and 33 by Transnet) six halts with 92% of the signal installations controlled by a Centralised Train Control (CTC) system.

Project	Objective of Project	Strategic Objective Supported	Completion Date
Operationalisation of new and upgraded infrastructure provision <ul style="list-style-type: none"> • Khayelitsha Extension • Philippi Node (Station upgrade, Driver's Mess, Staging Yard) • Lentegeur and Mandalay Stations for Special Needs Passengers • 2010 station enhancements (Heideveld, Langa, Athlone, Cape Town, Windemere) • Park & Ride facilities at key stations (PTIS Funding) 	Improved service reliability, increased revenue and improved public perception	Optimising Asset Value, Customer Focussed Improvements	Nov 2008 Feb 2010 Oct 2008 Dec 2009 Oct 2009
Customer Service Projects: <ul style="list-style-type: none"> • Safety and security plan, with an emphasis on the priority corridors • Secure coaches in off-peak periods ("Blue Light") • Additional Public Prosecutors 	Creating order and discipline within the system; Improve the public image of the organisation	Customer Focussed Improvements	Oct 2009 Oct 2008 Mar 2009

Project	Objective of Project	Strategic Objective Supported	Completion Date
<ul style="list-style-type: none"> Uniform dress code Customer Information Centers of Excellence, Improved communications at key stations Enhanced regional website 	Providing improved access to organisational and service information		Jun 2009 Mar 2009 Feb 2010 Mar 2009
Improve staff competency: <ul style="list-style-type: none"> Graduate programs in transport studies Apprenticeship school programs Security Learnership program (phase 2 – recruitment) Enhanced Customer service training programs (2010 – Funding PTIS / SETA) Disability: Awareness, Sensivity & Assistance Training 	Creating opportunities to enhance the development of a range of specialist and general skills, expertise and knowledge required by the organisation	Investing in Human Capital	Apr 2008 Apr 2008 Nov 2008 Dec 2008 Aug 2008
Support systems: <ul style="list-style-type: none"> IT Infrastructure upgrade 	To improve and manage corporate governance compliant systems, processes and procedures.	Enhance Corporate Governance	Dec 2008

6.3.2.1 Major Volumes

Volumes	Budget	Forecast	Projections		
	2007/08		2008/09	2009/10	2010/11
Passenger trips (millions)	178.4	158.3	181.8	185.19	188.64
Trains scheduled per weekday					
“A” Corridor –South					
CWN – Simon’s Town	130	115	137	140	
CWN – Retreat	79	70	83	85	
“A” Corridor – North					
CWN – Strand	69	61	72	74	
CWN -Kraaifontein	55	49	58	59	
CWN – Monte Vista	43	38	45	46	

Volumes	Budget	Forecast	Projections		
	2007/08		2008/09	2009/10	2010/11
“A” Corridor – Central					
CWN – Khayelitsha	76	67	80	82	
CWN – Bonteheuwel	48	43	50	52	
CWN - Kapteinsklip	89	79	94	96	
“C” Corridors					
CWN – Wellington	42	37	44	44	
CWN - Muldersvlei	29	26	30	31	
CWN – Malmesbury & Worcester	4	4	4	4	
Train sets - Total	79	77	83	85	
Central	30	27	32	34	
South	21	20	22	22	
North	28	24	29	29	

6.3.3 Durban Region:

The rail system in KwaZulu Natal comprises a network with a total coverage of 605 route kilometres, with 100 stations and halts (55 owned by the SARCC, 45 by Transnet). The Centralized Train Control (CTC) system is operated under the auspices of Transnet Freight Rail and controls about 70% of the signal installations.

6.3.3.1 Priority projects for 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
N/ S Corridor De-bottleneck <ul style="list-style-type: none"> Umgeni – Duffs Road Re-signalling 	Upgrade of Electrical, Perway and Signalling on the line to be able to achieve a peak 5 minute headway	Optimise Asset Value	Dec 2010
Upgrade of Stations <ul style="list-style-type: none"> Reunion, Rossburgh & Duffs Road 	Improvement of station aesthetics, access control and facilities	Customer Focused Improvements	Jan 2009
Construction of New Train Station – Moses Mabhida	Improvement of access to 2010 World Cup Stadium	Customer Focused Improvements Increase patronage	Dec 2009
Mastpole replacement: <ul style="list-style-type: none"> Umgeni-Duffs Road Pinetown 	To improve safety of assets	Optimise asset value	Dec 2008
Station PA ICS rollout	To improve customer communication in areas not currently covered	Customer focussed improvements	March 2009

6.3.3.2 Major Volumes

Volumes	Budget	Forecast	Projections		
	2007/08		2008/09	2009/10	2010/11
Passenger trips million	64,3m	69,6m	73,8m	79,7m	87,7m
Trains scheduled per weekday	445	445	472	510	560
A Corridors:					
Umlazi	117		140	146	
KwaMashu	116		123	130	
C Corridors:					
Pinetown	30		30	33	
South Coast	64		64	67	
Cato Ridge	29		29	37	

Volumes	Budget	Forecast	Projections		
	2007/08		2008/09	2009/10	2010/11
North Coast	36		36	44	
Crossmoor	30		30	32	
West	21		20	20	
Train sets	52	45	54	59	68

6.3.4 Eastern Cape Region:

Other than being the smallest of the regions within the SARCC stable, the Eastern Cape boasts some very unique characteristics, which set it further apart from the rest of the provinces. The region operates in two separate metropolitan areas some 300 km apart from each other, namely the Nelson Mandela Metropolitan Municipality and the Buffalo City Municipality. Whilst both areas only run trains in the morning and afternoon peak hours (transporting mostly workers, students and scholars) its services have developed very differently over the last few years. Track kilometers for East London area is 42km and 18 stations. Port Elizabeth is 34km with 11 stations.

Unlike the other regions of SARCC, the Eastern Cape, due to its size and lack of capacity, is heavily reliant on external support for the execution of its service delivery. In terms of the Mutual Hire Agreement with Transnet Freight Rail, the latter provides the Eastern Cape with diesel locomotives, fuel and train personnel to operate its train service, whilst Siyakha Alstom is responsible for the maintenance of our train coaches.

6.3.4.1 Priority projects for 2008/09:

Project	Objective of Project	Strategic Objective Supported	Completion Date
Upgrade from PTimms to Timm machines	To replace outdated equipment	Enhance corporate governance Customer Focused Improvements	Oct 2008
Border Tech Station (Walter Sisulu University)	Accommodate students from Technikon and surrounding	Increase patronage	Dec 2008 (Prelim Designs)

Project	Objective of Project	Strategic Objective Supported	Completion Date
	community		
Platform re-alignment and construction (Vincent / Cuyler Manor)	To address safety issues	Customer Focused Improvements	Oct 2008

6.3.4.2 Major Volumes

Volumes	Budget	Forecast	Projections		
	2007/08		2008/09	2009/10	2010/11
Passenger trips million		54 754	60 000	63 000	66 000
Trains scheduled per weekday					
A Corridors:					
East London					
Port Elizabeth	25	25	27	33	
Provincial Projects	12	12	12	16	
Kei Rail					
King Williams Town			4	8	
Alice			4	6	
Train sets					
East London	12	14	14	16	18
Port Elizabeth	4	4	6	6	8

7 Shosholoza Meyl:

The envisaged take over of Shosholoza Meyl will broaden the mandate of SARCC from being an urban based commuter rail service to a fully fledged passenger rail entity. Shosholoza Meyl presents both the SARCC and government with possibilities for enhanced mobility for the South Africa public. This involves the provision of transport within and between provinces which includes regional passenger movement and tourism.

7.1 *Business Context:*

Shosholoza Meyl is currently serving as provider of basic long distance intercity passenger transport, which is regarded as “last-resort” transport during high peak periods and requires a significant operational subsidy and operates within the borders of South Africa, with 14 customer services centres.

Shosholoza Meyl is currently transporting approximately 3.142m passengers per annum; of which the sitter or economy class travellers contributes 85% of the passenger revenue. In addition to this core basic service, Shosholoza Meyl also provides Premier Class trains, Tourist Class trains, Peak and Special trains (including contract trains) and baggage and car transportation. The services provided by Shosholoza Meyl covers 20 scheduled services; charter trains and peak trains that include weekend and month end special services.

The total number of employees is 796, distributed countrywide. Of these, 73% is Black, 15% female and 2% disabled.

The business uses a total of 109 stations of which the major ones are SARCC stations and the smaller stations are owned by the Transnet Group.

The coach fleet owned by Shosholoza Meyl currently stands at 1 223 active coaches. These include sleeper accommodation (2/3/4/6); sitter coaches; catering vehicles; baggage vans; car transport wagons and steam heat vehicles. The fleet is aging and 33,6% of the coaches are older than 30 years, while all coaches in service are older than 20 years.

The business has been recording increasing losses for the past six years and has been funded by the Transnet Group. The passenger revenue has been flat mainly as a result of limited growth in the customer base. Operating costs has been volatile mainly as a result of

the ringfencing of costs within Transnet Freight Rail to reflect market related costs for services rendered to Shosholoza Meyl. The increasing operating loss has been as a result of

- The failure to grow passenger numbers and revenue
- The non-sustainability of smaller components of revenue namely contract trains and intra group revenue.
- Annual inflationary increases in operational expenditure
- The systematic step up of inter group charges from Transnet Group such as Haulage charges from Transnet Freight Rail to reflect market related charges.

7.1.1 Challenges facing Shosholoza Meyl:

The challenges faced by Shosholoza Meyl are impeding growth. The main challenges faced by the business are:

- A highly competitive transport market which includes buses, taxis, low cost airlines and private cars.
- Low occupancy rates of historically between 50 – 60% due to significant cyclical trends that result in excess coaches for most months during the year.
- Train travel is slower than competitors and is exacerbated by frequent train delays. The actual arrival times are far below the targeted 65% on time and are as low as 30% in peak times.
- Personal safety of passengers is a major requirement by passengers and crime has had a negative impact on passenger numbers.
- The aged coach fleet is as a result of lack of capital funding in Shosholoza Meyl. The coaches require heavy maintenance as well as refurbishment and some require replacement.
- Dependency of Transnet Freight Rail services for reliable and powerful locomotives as well as access to the network, maintenance of coaches as well as drivers and train assistants.

7.2 Turnaround plan

The key focus of Shosholoza Meyl will be to enhance its tourism market to facilitate a better service for the sitter or economy class. A more focused approach per route and product will be done to ensure a tailored service for each market.

The following will be key focus areas for Shosholoza Meyl to regain market share and increase travel requirements:

- Enhance its product offering for tourism on profit basis through:
 - Special overnight / day sitter train service between Johannesburg and Durban;
 - Premier Service on more routes.
- Determine the feasibility and implement regional services in the medium term such as Johannesburg to Maputo and Johannesburg to Rustenburg.
- Implement regional services such as East London to Umtata. (Kei Rail).
- Reduce dependencies from Transnet Freight Rail;
- Significant reduction in tariff, haulage charges from Transnet Freight Rail;
- Transfer of key assets from Transnet such as locomotives, workshops and stations to the new merged entity including Shosholoza Meyl,
- Drive efficiencies in contract management and Rolling Stock maintenance and exploring synergies with Metrorail to reduce costs in areas such as Cash in Transit Contracts and Security services.
- Improved network access and
- Improved infrastructure and operations.

The detail of the Shosholoza Meyl Business Plan is attached as Annexure 1 to this business plan.

8 Intersite Property Management Services:

This is a wholly owned subsidiary of SARCC which manages the property portfolio and was established in 1992. Intersite is responsible for the execution of the secondary mandate of the SARCC. Intersite's function includes the management and upgrade of more than 470 stations and the building of new stations.

The current business model for Intersite does not give the SARCC value for money. Almost 70% of current stations do not generate the necessary resources expected from them. Intersite is unable to invest in the development of stations. This model is against a background of underinvestment which has resulted in service deterioration.

The strategy of the SARCC moving forward with regard to Intersite Property Management Services is to:

- Focus the subsidiary on mixed property development that will optimize rail use that will increase patronage;
- Exploit rail property portfolio in order to generate funding for rail investment and operations.
- Upgrade stations to provide immediate visible changes in the passenger experience for the turnaround.

Intersite's main focus is to ensure that it delivers shareholder value. Part of the development of the existing and new stations would be directed at ensuring that these stations operate in an efficient manner. In the short term, operational efficiency and ability to breakeven are fundamental. The turnaround for Intersite remains a combination of a number of strategic interventions:

- Recapitalisation of the portfolio;
- Development of key stations and
- Increased revenue.

However the necessity to facilitate and enhance commuter experience in the rail environment as a whole has become a major challenge. To this end the removal of duplications between Metrorail and Intersite and ensuring efficiency in the entire station precinct will be pursued

during the financial year. Metrorail will therefore perform total station management whilst Intersite will focus on station and property development.

As part of the strategy and business plan of SARCC, Intersite Property Management Services will in the short term implement a programme of station improvements and upgrades. The following priority projects are highlighted:

Station	Key Phases / Description	Completion date
Mabopane Urban Core	Pedestrian Bridge	May 2009
	Traders Market / Fan Park	Mar 2009
	Air Rights Slab	Feb 2009
	Commercial Offices	Oct 2009
	Retail Development	Oct 2009
Pretoria Station (Gateway to Tshwane)	Deck, Bridge, Station Forecourt, Covered Parking, Retail and Office Blocks	Dec 2010
Park Station	Office building and Parking Deck	Dec 2009
	Retail Shopping Centre and Taxi Rank	Dec 2009
Berea Road Station (Warwick Mall)	At feasibility stage. Development includes shopping centre with intermodal transport facility.	Jul 2009
Umgeni Business Park	Business park development, similar to Phase1.	Sep 2011
Scottburg Residential Development	At final feasibility stage. Lucrative densified residential and commercial development project.	Oct 2008
Cape Town Station	World Cup 2010	Apr 2010
	Strand on Adderley	Mar 2010
	Railway tracks sinking and alignment	Feb 2021
	Commercial and Residential Development	Dec 2012

9 Financial Plan

9.1 Key assumptions for budgeting and projections

- Increased funding by 10% per annum been used in line with the year on year MTEF allocation.
- The National Treasury Inflation outlook for 2008/09 is 5.5%.
- Improved reliability through planned and preventative maintenance.
- The National Treasury guideline for 2008/9 on salary increases is 6.5% (i.e. including salary notches).
- Training and Development budgeted at 2.5% of total personnel cost.
- Fare Revenue budget includes a price increase of 5% (from September 2008 to March 2009) and volume increase of 3% (for twelve months). The commuter consultation process leading to Ministerial approval for the price increases has commenced.
- Increased traction energy in line with expected energy increases is included.
- Shosholoza Meyl will be ring-fenced and funded in accordance with MTEF allocations.

9.2 MTEF Allocation

R'000	2007/08	2008/09	2009/10	2010/11	Total
	1	2	3	4	(2,3,4)
Operational Subsidy	2,259,119	2,485,031	2,683,650	2,844,669	10,272,469
Inflation Adjustment - SARCC		18,559	30,307	36,096	84,962
Additional for Smeyl		400,000	370,000	320,000	1,090,000
Capital Grant	1,696,078	2,267,686	3,484,144	3,693,193	11,141,101
Additional for SARCC		100,000	200,000	700,000	1,000,000
Additional for Smeyl		100,000	80,000	80,000	260,000
TOTAL	3,955,197	5,371,276	6,848,101	7,673,958	23,848,532
PTIS	476,000	210,000	450,000	0	1,136,000
TOTAL	4,431,197	5,581,276	7,298,101	7,673,958	24,984,532

9.3 Budget

TOTAL SARCC (Incl. Shosholoza Meyl)	2007/08	2007/08	2008/09		
	APPROVED	FORECAST	BUDGET		
	BUDGET			% VAR	% VAR
Rm	3	4	5	11	12
				4 VS 5	3 VS 5
FARE INCOME	1,438	1,524	1,578	3.5%	9.7%
THIRD PARTY INCOME	66	43	65	51.2%	-1.5%
MANAGEMENT FEE	58	56	73	30.4%	25.9%
OPERATING LEASES	177	185	209	13.0%	6.2%
SUBSIDY	2,259	2,259	2,904	28.6%	28.6%
RENTAL INCOME	60	60	66	10.0%	10.0%
INTEREST	10	140	104	-25.7%	940.0%
OTHER INCOME	88	69	74	7.2%	-15.9%
TOTAL INCOME	4,156	4,336	5,073	17.0%	22.1%
PERSONNEL	1,843	2,070	2,097	1.3%	13.8%
MATERIAL	169	195	187	-4.1%	10.7%
ENERGY	293	326	338	3.7%	15.4%
RENTAL & LEASES	696	727	507	-30.3%	-27.2%
MAINTENANCE	652	625	707	13.1%	8.4%
VEHICLES	20	22	21	-4.5%	5.0%
COMMUNICATIONS	98	96	99	3.1%	1.0%
INSURANCE	165	150	155	3.3%	-6.1%
PROFESSIONAL SERVICES	158	147	186	26.5%	17.7%
COMPUTER EXPENSES	63	62	75	21.0%	19.0%
SECURITY	315	367	391	6.5%	24.1%
HEALTH & RISK	88	71	69	-2.8%	-21.6%
TRAVEL & ACCOMMODATION	30	35	32	-8.6%	6.7%
AUXILIARY TRANSPORT	7	9	8	-11.1%	14.3%
BANK CHARGES, PENALTIES AND LEVIES	41	45	44	-2.2%	7.3%
OFFICE EXPENDITURE	20	17	23	35.3%	15.0%
PUBLICATIONS, PRINTING & MARKETING	43	40	60	50.0%	39.5%
INTERSITE MANAGEMENT FEE	53	50	51	2.0%	-3.8%
OTHER OPERATING EXPENSES	38	23	23	0.0%	-39.5%
TOTAL OPERATIONAL EXPENDITURE	4,792	5,077	5,073	-0.1%	5.9%
OPERATING SURPLUS OR (SHORTFALL)	(636)	(741)	0	-100.0%	0.0%

9.4 Income Statement

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED					
GROUP INCOME STATEMENT EXCL SMEL INCLUDING SHOSHOLOZA MEYL					
	R '000 Year 2007 Act (ex SM)	R '000 Year 2008 Bud(ex SM)	R '000 Year 2009 Projection	R '000 Year 2010 Projection	R '000 Year 2011 Projection
Total Income	4,604,117	3,992,043	5,839,569	6,449,139	7,005,790
Fare revenue	1,060,377	1,085,014	1,578,249	1,689,301	1,835,000
Third Party Income	21,835	65,815	64,657	55,804	59,419
Management Fee	40,245	57,528	72,976	73,581	78,735
Operating Leases	183,406	177,346	208,836	221,784	281,365
Subsidy	2,751,274	2,259,119	2,903,590	3,083,957	3,200,765
Rental Income	60,000	60,000	66,000	68,694	73,502
Capital subsidy amortised	191,835	190,000	767,000	1,068,450	1,318,450
Interest	102,908	9,724	104,823	130,651	98,214
Other Income	192,237	87,497	73,438	56,917	60,340
Total Expenditure	3,681,853	3,802,043	5,072,569	5,380,689	5,687,340
Personnel costs	1,620,381	1,724,078	2,096,762	2,281,496	2,461,182
Material	137,163	165,236	187,000	187,124	202,322
Energy	202,583	281,273	338,000	365,589	393,004
Rental & leases	105,906	163,779	506,962	498,141	467,062
Maintenance	463,486	435,167	706,740	754,656	781,116
Vehicles	62,732	19,999	21,470	23,779	25,511
Communication	66,513	73,248	98,415	105,070	113,249
Insurance	195,038	165,047	154,744	165,576	177,166
Professional services	127,803	157,908	185,735	199,986	212,484
Computer Expenses	54,330	63,146	74,888	79,482	85,345
Security	261,695	281,895	390,826	392,933	417,743
Health & risk	44,835	62,189	69,069	76,395	82,110
Travel & accommodation	18,073	24,358	32,000	34,351	36,489
Auxiliary Transport	8,639	7,351	8,485	9,045	9,732
Bank Charges, Penalties, Levies and Interest	44,461	40,318	44,280	35,299	37,062
Office Expenditure	145,446	20,265	23,000	21,600	23,409
Publication, Printing and Marketing	28,575	38,330	60,071	65,105	70,238
Intersite Management Fee	40,245	53,224	51,031	60,938	66,788
Other Operating Costs	53,949	25,232	23,091	24,124	25,328
Operating (Shortfall) / Surplus	922,264	190,000	767,000	1,068,450	1,318,450
Depreciation/loss/impairment	658,651	679,279	877,560	1,119,103	1,439,103
Accounting (Shortfall)/Surplus for the year	263,613	-489,279	-110,560	-50,653	-120,653

9.5 Balance Sheet

<i>CONFIDENTIAL</i>					
SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED					
GROUP BALANCE SHEET					
INCLUDING SHOSHOLOZA MEYL					
	R '000 Year 2007 Act (ex SM)	R '000 Year 2008 Bud (ex SM)	R '000 Year 2009 Projection	R '000 Year 2010 Projection	R '000 Year 2011 Projection
ASSETS					
NON CURRENT ASSETS					
FIXED ASSETS	7,082,292	8,575,091	10,375,217	13,470,258	16,504,348
INVESTMENT IN SUBSIDIARIES	-	-	-	-	-
INTER LOAN ACCOUNTS	-	-	-	-	-
	7,082,292	8,575,091	10,375,217	13,470,258	16,504,348
CURRENT ASSETS					
CASH AT BANK AND ON CALL	1,870,750	1,633,704	1,624,705	1,190,255	764,254
INVENTORIES	56,420	63,000	75,000	80,000	78,000
ACCOUNTS RECEIVABLE	360,182	464,298	1,511,824	1,849,394	2,134,045
	2,287,352	2,161,002	3,211,529	3,119,649	2,976,299
TOTAL ASSETS	9,369,644	10,736,093	13,586,746	16,589,907	19,480,647
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES					
SHARE CAPITAL	4,248,258	4,248,258	4,248,258	4,248,258	4,248,258
DISTRIBUTABLE RESERVES (DEFICIT)	(944,384)	(1,433,663)	(1,544,223)	(1,594,876)	(1,715,529)
	3,303,874	2,814,595	2,704,035	2,653,382	2,532,729
NON CURRENT LIABILITIES					
OTHER LONG TERM LIABILITIES	351,217	371,217	366,217	364,217	362,217
CAPITAL SUBSIDY	4,538,848	6,520,926	8,531,612	11,747,306	14,922,049
	4,890,065	6,892,143	8,897,829	12,111,523	15,284,266
CURRENT LIABILITIES					
TRADE AND OTHER PAYABLES	1,175,705	1,029,355	1,984,882	1,825,002	1,663,652
TOTAL EQUITIES AND LIABILITIES	9,369,644	10,736,093	13,586,746	16,589,907	19,480,647

9.6 Cash Flow Statement

<i>CONFIDENTIAL</i>					
SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED					
GROUP CASH FLOW STATEMENT INCLUDING SHOSHOLOZA MEYL					
	R '000 Year 2007 Act (ex SM)	R '000 Year 2008 Bud (ex SM)	R '000 Year 2009 Projection	R '000 Year 2010 Projection	R '000 Year 2011 Projection
Cash flow from operating activities					
Net loss	263,613	-489,279	-110,560	-50,653	-120,653
Adjusted for:					
Depreciation	658,651	679,279	877,560	1,119,103	1,439,103
Amortisation of capital subsidy received	-191,835	-190,000	-767,000	-1,068,450	-1,318,450
Operating cash flows before working capital changes	730,429	0	0	0	0
Decrease/(increase) in trade and other receivables	-547	-104,116	-1,047,526	-337,570	-284,651
Decrease/(increase) in inventories	-14,157	-6,580	-12,000	-5,000	2,000
(Decrease)/increase in trade and other payables	-12,218	-146,350	955,527	-159,880	-161,350
Changes in working capital	-26,922	-257,046	-103,999	-502,450	-444,001
Net cash from/(used in) operating activities	703,507	-257,046	-103,999	-502,450	-444,001
Cash flow from investing activities					
Acquisition of property, plant and equipment	-1,104,148	-2,172,078	-2,677,686	-4,214,144	-4,473,193
Net cash from/(used in) investing activities	-1,104,148	-2,172,078	-2,677,686	-4,214,144	-4,473,193
Cash flow from financing activities					
Proceeds/(repayment) of other long term liabilities	-6,674	20,000	-5,000	-2,000	-2,000
Proceeds on capital subsidy	1,208,598	2,172,078	2,777,686	4,284,144	4,493,193
Net cash from/(used in) financing activities	1,201,924	2,192,078	2,772,686	4,282,144	4,491,193
Net increase in cash and cash equivalents	801,283	-237,046	-8,999	-434,450	-426,001
Cash and cash equivalents at beginning of year	1,069,467	1,870,750	1,633,704	1,624,705	1,190,255
Cash and cash equivalents at end of year	1,870,750	1,633,704	1,624,705	1,190,255	764,254

9.7 Capital Expenditure Requirement 2008/09 – 2010/11:

Requested MTEF allocation 2008/09 - 2010/11 : CAPITAL

		Estimate	Medium Term Estimate		
		2007/08	2008/09	2009/10	2010/11
R'000					
Allocation as per MTEF 2007/08		1,696,078	2,267,686	3,484,144	
Changes to baseline capital allocation	RS GO & Upgrade program		1,276,851	1,195,485	4,158,000
	New RS		350,000		1,575,000
	Depot upgrades for new rolling stock			100,000	100,000
	RS Facilities		80,000	75,000	
	Infrastructure as per Rail Plan		529,518	89,111	1,966,110
Amended allocation as requested		1,696,078	4,504,055	4,943,740	7,799,110
<u>Specifically & exclusively appropriated capital allocations:</u>					
PTIS funds		476,000	210,000	450,000	
Mega Projects for Extensions (Moloto corridor, Bridge City, Cape Town International Airport Link, Hammanskraal, Motherwell Rail extension, Mamelodi Capacity Enhancements, Gauteng - Rustenburg - Sun City)			881,000	2,222,400	2,651,000
Total Funding requested (Capital, PTIF)		2,172,078	5,385,055	7,166,140	10,450,110

9.7.1 Capital Programme Requirement:

Programme	Region	Project	Total project cost	Short Term Rm	Medium Term Rm	Long Term Rm	2008/09 Rm	2009/10 Rm	2010/11 Rm
Rolling Stock	HQ	Recapitalisation of the fleet	70,000.0	3,500.0	12,600.0	58,275.0	350.0		1,575.0
	HQ	GO's and Upgrades	17,352.7	10,707.0			3,091.0	3,458.0	4,158.0
		Rolling Stock Depots and facilities upgrades	315.0	315.0			80.0	175.0	100.0
National System Interventions	HQ (All regions)	Access Control & Ticketing Systems	762.0	412.0	200.0	150.0	103.0	144.2	164.8
	HQ	Corporate IT	678.0	212.0	235.0	231.0	53.0	74.2	84.8
	HQ (All regions)	Communications networks and systems (ICS)	150.0	70.0	50.0	30.0	17.5	24.5	28.0
	HQ (All regions)	CCTV	816.0	400.0	316.0	100.0	100.0	140.0	160.0
	HQ	Rail Extensions and Technology Pilot (R&D) Programs	600.0	250.0	100.0	250.0	62.5	87.5	100.0
Infrastructure Upgrades: Corridor A	Western Cape	-Kraaifontein - Cape Town	683.00	152.00	235.30	295.70	38.0	53.2	60.8
		-Airport Link	410.00	-	410.00	-	-	-	-
		-Simonstown - Cape Town	317.00	102.30	116.00	98.70	25.6	35.8	40.9
		-Khayelitsha - Cape Town	524.60	327.60	108.70	88.30	81.9	114.7	131.0
	Wits	-Core CBD	3,387.15	669.65	717.50	2,000.00	167.4	234.4	267.9
		-Naledi - New Canada	607.00	163.00	278.50	165.50	40.8	57.1	65.2
		-Kwaggastroom - New Canada	1,260.10	332.10	317.00	611.00	83.0	116.2	132.8
		-Olifantsfontein - Germiston	864.10	230.10	534.00	100.00	57.5	80.5	92.0
		-Daveyton - Germiston	730.10	271.70	344.80	113.60	67.9	95.1	108.7
	Tshwane	-Mabopane - Pretoria	756.60	297.40	200.20	259.00	74.4	104.1	119.0
		-Mamelodi - Pretoria	742.50	201.50	180.00	361.00	50.4	70.5	80.6
	Durban	-North-South (Umlazi - KwaMashu)	1,959.20	900.20	681.00	378.00	225.1	315.1	360.1
Eastern Cape	-BCM: East London - Berlin	152.60	96.70	32.90	23.00	24.2	33.8	38.7	
	-NMMM: Port Elizabeth - Uitenhage	207.10	112.80	74.00	20.30	28.2	39.5	45.1	
	-NMMM: Port Elizabeth - Motherwell	197.10	-	197.10	-	-	-	-	
Infrastructure Upgrades: Corridor B	Western Cape	-Strand - Bellville	385.50	67.90	110.30	207.30	17.0	23.8	27.2
		-Bellville - Cape Town	178.40	41.40	93.20	43.80	10.4	14.5	16.6
		-Worcester - Kraaifontein	144.70	38.70	51.00	55.00	9.7	13.5	15.5
	Wits	-Springs - Dunswart	388.90	180.90	119.00	89.00	45.2	63.3	72.4
		-Kwesine - Kathlehong	541.00	178.00	282.00	81.00	44.5	62.3	71.2
		-Randfontein - Langlaagte	440.30	63.30	241.00	136.00	15.8	22.2	25.3
	Tshwane	-Pretoria - Olifantsfontein	98.10	68.10	25.00	5.00	17.0	23.8	27.2
		-Pretoria - Atteridgeville	46.00	26.00	15.00	5.00	6.5	9.1	10.4
		-Mootlink	98.10	37.30	32.80	28.00	9.3	13.1	14.9
	Durban	-Crossmoor - Moberi	753.30	-	-	-	-	-	-
		-Isipingo - Kelso	-	243.30	290.00	220.00	60.8	85.2	97.3
		-Duff's Road - Stanger	-	-	-	-	-	-	-
Infrastructure Upgrades	Western Cape	C CORRIDORS	61.30	7.80	25.50	28.00	2.0	2.7	3.1
		NETWORK AND SYSTEM INTERVENTIONS	1,090.20	224.90	537.10	328.20	56.2	78.7	90.0
	Wits	C CORRIDORS	50.00	20.00	30.00		5.0	7.0	8.0
	Tshwane	C CORRIDOR - De Wild	21.10	7.60	13.00	0.50	1.9	2.7	3.0
		NETWORK/SYSTEMS INTERVENTIONS	131.50	76.50	47.00	8.00	19.1	26.8	30.6
	Durban	C CORRIDORS	-	-	-	-	-	-	-
	-Rossburg - Cato Ridge	103.90	70.90	21.00	12.00	17.7	24.8	28.4	
	-Rossburgh - Pinetown								
	-Clairwood - Wests								
				21,075.65	19,860.90	64,796.90	5,159.4	5,926.8	8,454.5

9.7.2 2010 PROJECTS

The 2010 project structures have been rationalized to ensure project delivery. Projects are fully funded from PTIS. Special attention is given to projects in Gauteng and Eastern Cape for completion for the Confederation Cup.

PTIS APPROVED PROJECTS		TOTAL	COMPLETION DATE
1	Upgrading of Langlaagte, New Canada and Nasrec stations.	R47m	Mar 2009
2	Ellis park and Doornfontein Upgrade Development.	R77m	Mar 2009
3	Infrastructure – Correct interface between platform and trains at Park station.	R5m	Mar 2009
4	Nasrec Rail Service interventions to serve Ellis Park and Soccer City.	R137.08m	Mar 2009
5	New Rhodesfield station to integrate with Gautrain Rhodesfield station.	R66m	Mar 2009
6	Service improvements at key stations – Enhanced station operational appearance and service elements. Loftus and Belle Ombre stations.	R20m	Mar 2009
7	Upgrade of Reunion station.	R6m	Mar 2009
8	Upgrading of Durban KwaMyandu and KwaMashu stations.	R50m	Mar 2009
9	New Moses Mabhida station (Kings Park). - Signaling interventions.	R70m	Mar 2009
10	Upgrading of Athlone, Heideveld, Langa stations and build Windermere stations.	R60m	Mar 2009
11	Upgrading of Cape Town station.	R110m	Mar 2009
12	Cross-over bridges, access improvements and correct platform heights countrywide.	R150.23m	Mar 2009
13	Passenger communications and information improvements at key stations.	R140.23m	Mar 2009
14	Establish railway police facilities countrywide (Phases 1 and 2)	R160.46m	Mar 2009
15	Upgrade North End station (Nelson Mandela)	R5m	Mar 2009
16	Upgrades/Operational improvements, incl. crowd control, lighting, platform facilities, park and ride facilities at stations for training venues, fan festival parks and big screen viewing sites countrywide.	R212m	Mar 2009
TOTAL		R1 316m	

9.7.3 Capital Allocation: 2008/09 – 2010/11

The SARCC has reviewed and revised the capital investment plan to be in line with the turnaround plan. This entailed redirecting of capital resources to support the implementation of short term stabilization measures as identified through the National Passenger Rail Plan. The SARCC capital expenditure program has been oversubscribed for the last 10 years by R1,2bn annually. Up to 2007/08 most funding, and additional funding obtained were channeled towards the rolling stock upgrade program on a 80 – 20 allocation split, leaving many supporting infrastructure projects to be rolled over, postponed or extended on an annual basis, resulting in a safety risk that will be in contravention of Rail Safety regulations. As from 2008/09 additional funding will be applied to start revitalizing the infrastructure of the SARCC.

CAPITAL EXPENDITURE: 2008/09 - 2010/11

		Rm	2008/09	2009/10	2010/11	TOTAL
MTEF ALLOCATION			2,468	3,834	4,473	10,705
						-
Capital Projects	Rolling Stock		1,456	2,274	2,139	5,869
	Gauteng CTC / Signalling		70	100	350	520
	Other Signaling Projects (Dbn, Ctown)		30	100	350	480
	Intersite / Station Upgrades		118	180	274	572
	Intersite / Station additional allocation		100	150	-	250
	Bridge City		81	120	203	404
	Cape Town International		50	300	450	800
	Greenview - Pienaarspoort Project		20	90	120	230
	Mabopane Station Upgrade		65	-	-	65
	Enterprise Resources Planning (ERP)		50	80	120	250
	Rolling Stock Facilities Upgrade		50	100	150	300
	Other 2010 Station Upgrades (Nasrec. Orlando, Windermere, SAPS)		148	-	-	148
	Shosholoza Meyl - Coach Upgrades		80	80	80	240
	Shosholoza Meyl - IT System		20			20
	Other Infrastructure projects		130	190	237	557
Total Capex Projects			2,468	3,764	4,473	10,705

10 Risk management and fraud prevention plan

A consolidated Risk management and Fraud prevention plan was approved by the Board of Control in 2007. The major elements of the roll-out of this plan for 2008/09 are as follow:

- The development of the ERM strategy and related policies. This process entails aligning SARCC and previous Metrorail ERM processes into one new strategy and policies taking into consideration International Best Practices where applicable.
- HO Risk is now finalising the process of risk identification, evaluation, and compilation of the risk register for SARCC.
- All risk information will be captured in the Infinity ERP Software as part of the process and access granted to all risk owners with access to the Executive Risk Dashboard for all BOC Members, Executives/Regional Managers, GMs and Risk Managers.
- Risk Owners will be assisted to develop and document action programmes to prevent, and reduce risk to levels which are as low as reasonably practicable. These plans will also be aligned with the Railway Safety Implementation plan.
- HO Risk will facilitate and assist with the establishment of Risk Committees as mandated by the BOC in the Risk Framework and a process implemented to monitor the efficacy of the Committees and action plans to address the risks, whilst at the same time ensuring that all relevant information required by the BOC and EXCO/REXCO is available electronically.
- The Internal Audit Plan will be drawn up using the identified risks as basis for determining priority focus areas.
- Several SARCC ERM policies/plans need to be reviewed/developed and implemented as part of the process to ensure that an Enterprise Risk Culture is embedded in the organisation as determined by the BOC. This includes for example the Fraud Prevention Policy and Plan and will also include the signing of a code of conduct by Management regarding financial controls and code of conduct.
- The Infinity Software to manage risks will be rolled out and management trained in the use of the system giving priority to the Risk Owners and Risk Committee Members. This will empower the various Risk Committees to review and update the risks identified and document actions to deal with the risks. It will also at the same time allow HO to track progress and efficacy on action plans introduced. The system will further allow the tracking of insurance related matters, claims and cost of risk. The most important element of the roll out is to ensure that key risks are identified, assessed, mitigated and monitored across the business and that the risk management process is accurately aligned to the strategy and performance objectives of the SARCC. It will also ensure that risk exposures and breaches are reported to the appropriate governance structures.
- As soon as the Regional Risk Committees has been established we will start the process analyse the Regional risk reports and include such in the monthly, quarterly and annual risk reports for Group Risk Committee and Executive Committee meetings

- A process of review of the system and continuous improvement will be put in place in line with the ISO requirements.

11 Summary of Key Projects

	Project	Timeframe
Reframing	Consolidation of Shosholoza Meyl	2008/09
	Change Management	2008/09
Reorganising	Integration Information Management Systems	Standardised ERP systems (HR, Finance & Procurement) Supply Chain Management & Occupational Health and Safety
	Information Management Systems	Train Operations System
	Preventative Maintenance programme	
	Integrated Management System (SMS, ISO and SANS 3000)	
	Operational Efficiencies and Benchmarking	
	Total Station Management	
	Consolidation of Gauteng Region	
	Consolidation of Gauteng Region	
Revitalisation	Accelerated Rolling Stock Program – GO's and Refurbishments: 700 Coaches	Mar 2009
	Gauteng Nerve Centre (CTC and Operational Control Centre)	Mar 2011
	Cape Town Station Re-development – 2010 & Strand on Adderley phases	Mar & Apr 2010
	New Extension:	Khayelitsha
	New Extension	Cape Town International Airport Rail Link – Construction to start
	New Extension	Bridge City Extension – Feasibility business case
	New Extension:	Moloto Rail Corridor
	Enhancement:	Capacity Enhancement Eerste Fabrieke - Greenview
	Planning and Feasibility	Motherwell
	Planning and Feasibility	Bloemfontein – Botshabelo – ThabaNchu
	Intermodal Projects	Integration Gautrain Rapid Rail Link
	Intermodal Projects	Tembisa – Midrand Link Planning Centurion Planning
Intermodal Projects	Integrated Ticketing (AFCC)	
Renewal	Skills Development	2008/09
	Fleet Renewal Program	Recapitalisation Tender
	Passenger Rail Finance Strategy Project	Jun 2008

12 Key Performance Indicators:

Unit	Balanced Scorecard Perspective	SARCC Strategic objective	Measure	Target	Projection	
				2008/09	2009/10	2010/11
SARCC	Investment Perspective	Optimise Asset Value:	GO's and Upgrades	700	700	700
			o Rolling Stock	New Rolling Stock – Train sets	0	2
		o Infrastructure investment	Signals: CTC Wits			Mar 2011
			Other signal projects: A Corridors	4	10	
			Bridges & structures projects: A Corridors	4	2	
			Electrical projects: A Corridors	6	17	
			Perway projects: A Corridors	11	14	
			Telecommunications projects: A Corridors	2	7	
Station and Facilities projects:						
New stations		1				
A Corridors (Upgrades)	0	2	1			

Unit	Balanced Scorecard Perspective	SARCC Strategic objective	Measure	Target	Projection	
				2008/09	2009/10	2010/11
SARCC	Investment Perspective	o Infrastructure (Cont.)	New extensions completed: Khayelitsha Cape Town Airport Link Bridge City	Sep 2008	Mar 2010	Mar 2011
		o ERP System	Standardised ERP for HR, Finance & Procurement Occupational Health & Safety & Supply Chain Management (Full) Train Ops	Mar 2009	Mar 2010	Mar 2011
	Learning & Growth Perspective	Investing in Human Capital	No of internships	320	350	380
			Employee training & development as percentage of Personnel Costs	2.5%	2.5%	2.5%
			Reduced no of resignations	-5%	-5%	-5%
			Employee Satisfaction Index	80%	90%	95%
			Disabling Injury Frequency Rate	1.5	1.5	1.5
	Governance Perspective	Strengthen Corporate Governance	Audit findings	No major findings	No major findings	No major findings
			EE achievement of targets	92%	94%	96%
			% of spending to BBBEE (Value of work contracted by Procurement)	60%	65%	70%

Unit	Balanced Scorecard Perspective	SARCC Strategic objective	Measure	Target	Projection		
				2008/09	2009/10	2010/11	
SARCC	Financial Perspective	Strengthen Corporate Governance	Capex Program Spending	5% variance	5% variance	5% variance	
			2010 Programme Spending	1% variance	1% variance	1% variance	
			Expenditure Management	5% variance	5% variance	5% variance	
Metrorail	Customer Perspective	Customer Focused Improvements	o Reliability	Trains on Time:			
				A Corridors	90%	92%	93%
				B Corridors	88%	90%	91%
				C Corridors	85%	87%	88%
			o Predictability	Train canceled:			
				A Corridors	1.5%	1.3%	1%
				B Corridors	1.7%	1.6%	1.5%
				C Corridors	2%	1.9%	1.8%
			o Safety & security	Reduction of accidents per million train kilometer	20% reduction	25% reduction	30% reduction
				Reduce fatalities per million passenger trips	20% reduction	25% reduction	30% reduction
	Reduce injuries per million passenger trips	20% reduction	25% reduction	30% reduction			
	Reduce Crime Index	0.400	0.380	0.360			
o Metro Plus product	Metro Plus passenger trips on specific corridors and express services	6% increase	8% increase	10% increase			

Unit	Balanced Scorecard Perspective	SARCC Strategic objective	Measure	Target	Projection	
				2008/09	2009/10	2010/11
Metrorail	Customer Perspective	o Customer Satisfaction	Customer Satisfaction Index			
			A Corridors	75	77	80
			B Corridors	73	75	77
			C Corridors	71	73	75
	Learning & Growth Perspective	Increase patronage	Passenger trips increase	6%	8%	10%
			Subsidy per passenger kilometer	R0.14	R0.15	R0.15
Financial Perspective	Boost Revenue	Fare Revenue (Inclusive of 5% fare increase in September of each year)	7% increase	9% increase	10% increase	
		Fare evasion	<10%	<6%	<5%	
Shosholoz Meyl	Financial Perspective	Cost Containment	Expenditure Management	5% Variance	5% Variance	5% Variance
			Revenue		Increase by 4%	Increase by 8%
			Economy Class	R311.4m		
			Sleeper Class	R40.8m		
			Premier Classe	R25.8m		
			Cost Coverage		Improve by 4%	Improve by 8%
Economy Class	26%					
Sleeper Class	18%					
Premier Classe	54%					
Capex Program Management	5% Variance	5% Variance	5% Variance			

Unit	Balanced Scorecard Perspective	SARCC Strategic objective	Measure	Target	Projection		
				2008/09	2009/10	2010/11	
Shosholozza Meyl	Customer Perspective	Improve reliability	Trains on time	50%	Improve by 10%	Improve by 10%	
		Improve security	Reduction in safety incidents related to passengers	5% reduction	5% reduction	5% reduction	
Intersite	Customer Perspective	Customer Focused Improvements	Station Improvements – Stations completed	40	40		
	Investment Perspective	Exploit Rail Property Assets	Mabopane Development				
			Air Rights Slab	Feb 2009			
			Traders Market	Mar 2009			
			Pedestrian Bridge		May 2009		
			Commercial Offices		Oct 2009		
			Pretoria Station			Dec 2010	
			Park Station		Dec 2009		
			Berea Road – Feasibility Study	Jul 2009			
Umgeni Business Park Development			Sep 2011				
Scottburgh Residential Development	Oct 2010						
Cape Town Station							
Strand on Adderley		Mar 2010					
World Cup 2010			Apr 2010				

13 Annexure 1: Shosholoza Meyl Business Plan

To be finalized with the BOC in May 2008.