PORTFOLIO COMMITTEE ON TRADE AND INDUSTRY

Impact of IPAP on the PRASA Rolling Stock Fleet Renewal Programme

Strategic Asset Development

Date: 11th August 2015
Agenda

- Investment Outlook

- Rolling Stock Fleet Renewal Programme Approach
  - Feasibility Study
  - Market Engagement
  - Strategy for the Acquisition
  - The Contract with Gibela
  - Salient Economic Features of the Programme – localization, Enterprise Development etc.

- The Local Factory

- Progress and Key Dates
Investment Outlook
PRASA’s Modernisation Programme

Addressing the challenges through modernisation

- Rail commuter service in SA needs a **complete overhaul** to ensure efficient and enjoyable passenger experience.

- PRASA has initiated a Programme to **transform and modernise passenger railways** in South Africa.

- PRASA is looking to invest approximately **R172bn** over 10 years (from 2013/14).

- The **investment** outlook by PRASA encompasses:
  - Acquisition of new rolling stock
  - Station improvements
  - Network improvement
  - Signalling system upgrades
  - Communication and marketing
  - Renewal of Metrorail brand
Rolling Stock Fleet Renewal Programme Feasibility Study
A detailed feasibility study for commuter/suburban rail service was undertaken in 2011 focused on:

- Needs Analysis
- Market Engagement
- Due-diligence
- Value Assessment
- Economic Valuation
- Procurement Strategy and Plan
Feasibility Study

- The process was overseen by:
  - Intergovernmental Steering Committee consisting of senior officials from the National Treasury, Department of Transport, PRASA, Department of Trade and Industry, Public Enterprises and Railway Safety Regulator;
  - The work was undertaken by PRASA supported by a team of Specialist Transaction Advisors

- Results of the study were submitted to Minister of Transport, National Treasury and tabled before Cabinet in November 2011

- Funding commitment was confirmed by Minister of Finance in February 2012;
Feasibility Study Results

Modern Fleet
• PRASA wants to migrate from 1950’s technology to a modern fleet which is up to world standards

Programme Requirements
• New Fleet requirement ~7224 procurement at ~360 coaches per year for two x 10 year contracts
• Total ~R123.5bn over 20 year period

Job Creation
• Creating ~65 000 direct and indirect jobs

Industrialization
• Focus on industrialisation through long term procurement aiming for above 65% of the value of a coach to be produced locally
Results (industrialisation)

- A large contract is required to achieve revitalisation of the rail industry.

- The study examined three scenarios of localisation (60%, 65%, 70%). PRASA aligned to IPAP2 and the Designated Sector report (by the dti) and selected the 65% Scenario.

- Economic Impact:
  - The total GDP impact of R103.16 billion expenditure amounts to R255.3 billion GDP impact.
  - Approx. R65.9 billion is anticipated to be returned to the Government in the form of indirect taxes, direct taxes and personal taxes.

<table>
<thead>
<tr>
<th>Results</th>
<th>Total impact - 65% local content</th>
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<tbody>
<tr>
<td>Initial Impact</td>
<td>R 103 165.47 million</td>
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<tr>
<td>Economy wide GDP impact</td>
<td>R 255 291.84 million</td>
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<tr>
<td>GDP multiplier</td>
<td>2.5</td>
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</table>

- Job Creation:
  - Approximately 65 000 direct and indirect jobs expected to be created through the Programme over 20 years (2015 – 2035).

<table>
<thead>
<tr>
<th>Category</th>
<th>Opex</th>
<th>Capex</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>Total employment created (no. of jobs)</td>
<td>13 108</td>
<td>52 311</td>
<td>65 419</td>
</tr>
<tr>
<td>Highly Skilled</td>
<td>1 054</td>
<td>4 257</td>
<td>5 311</td>
</tr>
<tr>
<td>Skilled</td>
<td>3 893</td>
<td>16 921</td>
<td>20 814</td>
</tr>
<tr>
<td>Unskilled</td>
<td>4 952</td>
<td>19 593</td>
<td>24 545</td>
</tr>
<tr>
<td>Informal</td>
<td>3 209</td>
<td>11 540</td>
<td>14 749</td>
</tr>
</tbody>
</table>
Market Engagements
Market Engagement (1/2)

PRASA undertook market engagement in 2011 to test:

- Project’s appeal to the market;
- Manufacture’s appetite for localization;
- Establish level of demand to achieve localization targets;
- BBBEE structure in the transaction;
- Manufacture’s ability to supply the quantities of rolling stock required to specifications that suit local requirements; and
- Financiers ability to provide long-term funding for the programme
## Market Engagement Outcomes (Outcomes)

### RSMs (5-7 April 2011)
- Commitment of 5-10 years at +/- 250 cars per year required to justify:
  - Local investment
  - 65% local content target
- Involvement of B-BBEE / SMME entities envisaged for components supply
- RSMs would like to retain some involvement in on-going maintenance

### Rolling Stock Financiers (5-7 April 2011)
- Financiers have sufficient capacity to finance the project
- Expected cost of capital is accepted on a lower risk premium
- A penalty and deduction regime is an acceptable concept

### Online Market Engagement & local market survey (11 February – 31 March 2012)
- Based on responses to a survey of South African component manufacturers, local content target of 70% - 80% could be achievable (UNIDO)
- 43 local companies provided PRASA with their profiles

### B-BBEE (22 November 2011)
- Strong interest in:
  - Partnerships with OEMs
  - Component supply
  - Mechanical
  - Maintenance
  - Skills transfer
Strategy for the Acquisition
Alignment to Government Policies

**Growth & Development**
- **New Growth Path (NGP) (from 2010)**
  Aims to create decent jobs, decrease inequality and eliminate poverty
- **National Industrial Participation Programme (NIPP) (from 2010)**
  Objective is to ensure sustainable economic growth by facilitating access to new markets, establish trade partners, encourage Foreign direct investment, increase exports of South African ‘value-added’ goods and services
- **Competitive Supplier Development Programme (CSDP) (from 2007)**
  Aims to contribute towards competitiveness by leveraging large-scale SOC procurement to develop a local supplier base
- **National Industrial Policy Framework (NIPF) [IPAP II] (from 2007)**
  Aims to provide strategic direction to the economy with respect to the issue of industrial development

**Transformation & Empowerment**
- **B-BBEE (from 2004) (historical view of spend)**
  Aims to address issues in previous societal wealth and ownership imbalances by providing opportunities for PDIs
- **Transport Charter (incl. Rail and Port Charters) (from 2007)**
  Aims to develop a world-class rail industry while increasing black participation in ownership, management and employment in companies throughout the industry value chain

**Compliance & Regulatory**
- **Preferential Procurement Policy Framework Act (PPPFA) (from 2000)**
  Contract assessment must take into account preference point system which prescribes functionality, price and reconstruction and development programme goals (RDP)
- **Public Finance Management Act (PFMA) (from 2000)**
  To secure transparency, accountability, a sound control environment and management of the revenue, expenditure, assets and liabilities of the institutions to which this Act applies
- **Construction Industry Development Board (CIDB) (from 2000)**
  Allowing for the implementation of an integrated strategy for reconstruction, growth and development of the construction industry through promoting a regulatory and development framework
This is much more than a train supply contract – this Project must regenerate South Africa’s rolling stock manufacturing industry & supply chain.
Strategy for the Procurement

Strategic Objectives

High Localization (including Local Factory)

Latest Technology

Competitive Pricing

Sustainable Industry

Approach

- **One supplier**
  - Advantage of economies of scale based on volume
  - Minimum capacity for efficiencies
  - Develop sustainable supply chain
  - One technology solution
- **One large contract**
  - Competitive pricing benefit through tender process
- **Long term contract**
  - Allows local industry to develop over time
  - Allows PRASA to grow internally and modernise supporting infrastructure
  - Creates a more attractive sustainable procurement

BOTTOM LINE - Develop a sustainable local supply chain over a period of time, which will eventually become **globally competitive**
Strategy for Economic Development (1/2)

- Long Term Investment Outlook: Consistent production over ~20 years
- Creation of Special Purpose Vehicle: South African Manufacturer
- Development of Local Supply Chain: Focus on South African Spend
- Focus on Transformation: Broad-Based Black Economic Empowerment focus
Transformation Strategy

Alignment to Government Policy
- New Growth Path
- Industrial Policy Action Plan (IPAP)
- Broad-Based Black Economic Empowerment
- Strategy focused on:
  - Industrialization
  - South African Jobs
  - Competitive local market development

Strategy Targets
- Increase Black Equity
- Job Creation
- Skills Development
- Women and youth participation
- Development of SMMEs

Implementation
- B-BBEE Scorecard within the programme
- Separate process for B-BBEE equity partners (30% shareholding in SPV)

<table>
<thead>
<tr>
<th>Equity Partner</th>
<th>Shareholding</th>
</tr>
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<tbody>
<tr>
<td>Active Black Enterprises</td>
<td>10%</td>
</tr>
<tr>
<td>Investor Black Enterprises</td>
<td>7%</td>
</tr>
<tr>
<td>Employee Trust</td>
<td>10%</td>
</tr>
<tr>
<td>Educational Trust</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td>30%</td>
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</table>
The Contract with Gibela
Contract Signature

- 14th October 2013
PRASA’s contract with the Gibela Rail Transport Consortium

- On the 14th October 2013, PRASA and Gibela signed the following two agreements:
  - Manufacture and Supply Agreement (MSA)
  - Technical Support and Spares Supply Agreement (TSSSA)
- PRASA and Gibela reached Financial Close on the 26th April 2014

**MSA**
- The MSA has been contracted on the following terms:
  - **Contract Value**: R51 billion (including VAT, excluding Forex movement and inflation)
  - **Number of Vehicles**: 600 New Trains (3600 vehicles)
  - **Duration**: 10 years

**TSSSA**
- The TSSSA is the agreement governing the maintenance of the New Trains.
- The scope of the TSSSA will ensure that Gibela will perform at least one overhaul on each New Train.
- It is estimated that the TSSSA will have a duration of 18 years.
PRASA has contracted with Gibela Rail Transport Consortium

- Alstom (61%)
- New Africa Rail (9%)
- Ubumbano Rail Proprietary Limited (30%)
Salient Economic Features of the Programme
Economic Development Impact from the Programme

**Local Factory**
- Manufacture 580 New Trains
- 288 hectares for Industrial Park and Local Factory
- Dunnottar Park, Ekurhuleni
- Operational July 2016

**Local Spend**
- R35.8bn to empowered entities
- R5.3bn to SMMEs
- R1.7bn to Women owned

**19500 Individuals Skilled**
- Artisans - 6800
- Engineers – 5200
- Engineering Technicians – 2000
- Trade workers – 3400
- Production Staff – 1500
- Technologists - 600

**Local Content**
- 67% in the 3rd year of delivery with 75% in the last delivery year
- Brazil Trains have South African components:
  - Stainless Steel (Car bodies)
  - Seats
  - Passenger Doors

**Enterprise Development**
- R 892m to be spent on the development of enterprises in the Rail Sector

**Socio-Economic Development**
- R 323m to be spent on Socio-Economic Development

**Impact from Rolling Stock Fleet Renewal Programme**

**8088 Direct Jobs**
Gibela has committed to localisation targets for both the supply and maintenance of the new trains:

**Manufacture and Supply**

<table>
<thead>
<tr>
<th>Delivery Year</th>
<th>1 and 2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
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<tbody>
<tr>
<td>Local Content %</td>
<td>43.3%</td>
<td>67%</td>
<td>69%</td>
<td>69%</td>
<td>69%</td>
<td>72%</td>
<td>72%</td>
<td>72%</td>
<td>72%</td>
<td>75%</td>
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**Maintenance**

<table>
<thead>
<tr>
<th>Contract Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
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</thead>
<tbody>
<tr>
<td>Local Content %</td>
<td>50%</td>
<td>85%</td>
<td>92%</td>
<td>89%</td>
<td>87%</td>
<td>84%</td>
<td>81%</td>
<td>78%</td>
<td>77%</td>
<td>76%</td>
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<table>
<thead>
<tr>
<th>Contract Year</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
<th>17</th>
<th>18</th>
<th>19</th>
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<tbody>
<tr>
<td>Local Content %</td>
<td>76%</td>
<td>74%</td>
<td>73%</td>
<td>72%</td>
<td>72%</td>
<td>72%</td>
<td>71%</td>
<td>71%</td>
<td>71%</td>
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**Local Content:**
- is measured throughout the supply chain, i.e., up to the raw materials used within a component
- measures South African value add on components, i.e., if the raw material is foreign, but has local manufacturing, then the local manufacturing portion will only count as Local Content.

Gibela will thus require companies **within its supply chain** to have **Local Content commitments** on their products.
PRASA and Gibela have established a PEF in line with industrialization objectives. The Product Evolution Facility will have the capacity to be used:

- as the on-going design authority in respect of the New Trains;
- a research facility for the purposes of the design and implementation of modifications and enhancements to the existing design of the New Trains;
- a research facility for the purposes of modifications to manufacturing processes;
- Become a Centre of Excellence on modifications and enhancements to systems, sub-systems and components
- The PEF must have at minimum an 80% Local employee base by the 5th Year of the Delivery Period (November 2021).
- The PEF will be transferred to PRASA after the expiry of the contract.
Skills Development throughout the Programme (10 years and downstream)

<table>
<thead>
<tr>
<th>Total</th>
<th>Artisans</th>
<th>Other Engineers</th>
<th>Other Trade Workers</th>
<th>Engineering Technicians</th>
<th>Gibela Staff</th>
<th>Professional Engineers</th>
<th>Technologists</th>
<th>Designers</th>
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<tr>
<td></td>
<td>19,527</td>
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<td>461</td>
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<td>153</td>
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</tbody>
</table>
Progress and Key Dates
Manufacture is on track

- Manufacture of the first set of trains is on track
  - First Train on Track for delivery in November 2015
  - Gibela will deliver the first 20 Trains as per plan
Gibela Localisation

- Gibela has contracted with various South African supplier for **38 components** for the trains being manufactured in Brazil, including:
  - Couplers
  - Passenger Door
  - Seats
  - Braking Resistor
  - Cables
  - Master Controller
  - Lateral Windows and Windshield
  - Side walls
  - Carbon Steel and Stainless Steel
  - Air Tanks
  - Fire Detection
Job Creation

- Target is to achieve 95% South African employee participation throughout the supply chain, through a combination of the following:
  - **Concerted recruitment effort**, from the first year of contract
  - Implementation of **Skills Development**. Performed through “train-the-trainer” Programme, by exposing minimum 110 Engineers and 170 Artisans to operations in other countries
  - **Bursary fund** for South Africans (focus on Black people and Black Women)
  - Providing **Learnerships**

- To date, Gibela has directly created a total of **115 jobs** of which **103 (90%)** are South African citizens.
- Jobs created are in the Sourcing, Supply Chain Management, Supplier Development, Supplier Quality Management, Industrialization and Product Engineering and Support Functions.
- The following list shows Gibela’s achievement in B-BBEE Job creation:
  - 71 Jobs Created for Black Citizens;
  - 53 Jobs for Skilled Black Citizens;
  - 29 Jobs created for Women; and
  - 30 Jobs created for Youth.
On the 12th March 2015, PRASA and Gibela held a Supplier Day at the Alberton Civic Centre in Ekurhuleni.

The Supplier Day was open to the public (through a registration process) and attendance was estimated at over 1000 delegates.

Objective:
- Present the Rolling Stock Fleet Renewal Programme,
- Present Gibela’s process of on-boarding local suppliers
- Engage with the public on the Programme

Gibela presented:
- Supplier selection process
- Industrialization plan
- Overview of supplier specifications
- Opportunities within their supply chain
- How Gibela will support suppliers

PRASA signed two Memorandum of Understandings on the day:
- Tripartite MoU with Gibela and the Industrial Development Corporation (IDC)
- MoU with the South African Bureau of Standards (SABS)
Local Factory

• The site selected for the Local Factory is at **Dunnottar Park in Ekurhuleni**.

• The total land area selected is 288ha and PRASA has allocated **78ha** for the development of the Factory.

• Gibela will be responsible for the development of the Local Factory for the manufacture and assembly of the New Trains.

• At the end of the Programme, **PRASA will retain** the Local Factory and the tools and equipment.

• PRASA will develop the remaining site over the course of the Programme to support the development of a local rail industry.
Principle

• At the end of the Programme, **PRASA will be the owner** of the Factory Site, including all developments (and tools and equipment for manufacture of new rolling stock)

Separate Lease to enable “Development Lease” arrangements for a “Developer”

**Phase 1 Factory Site (78ha)**

PRASA will pursue the purchase of land from Ekurhuleni

**City of Ekurhuleni**

Head Lease for 288ha

**Phase 2 (210ha)**

Sub-lease, through 2 leases

**Local Factory (52ha)**

**Supplier Park (26ha)**

**Gibela**
Local Factory

• PRASA plan to handover the Dunnottar Park site to Gibela for construction by end of **August 2015**

• Handover includes a site that has the Environmental Authorisation in place as well as a Township proclamation.

• PRASA was able to receive the Environmental Authorisation (Record of Decision) **10 months** after Financial Close was reached. This was performed with the support of the City of Ekurhuleni and the Department of Environmental Affairs.

• Environmental conditions found during the Environmental Authorisation Process which required Gibela to amend the layout plans.
Progress of the Programme

- **100% complete**
  - April 2012
  - Issue RFP

- **100% complete**
  - Sept 2012
  - Submission of Bids

- **100% complete**
  - Dec 2012
  - Preferred Bidder announced

- **100% complete**
  - Oct 2013
  - Contract Signature

- **100% complete**
  - Apr 2014
  - Reach Financial Close

- **100% complete**
  - Apr 2014
  - Design Review commencement

- **100% complete**
  - Nov 2015
  - First train from Brazil in SA

- To be reviewed
  - Jul 2016
  - Local Factory operational

- **100% complete**
  - First Train is in Gibela testing phase

- **100% complete**
  - To be reviewed once Final EIA RoD is received
Thank You

The FUTURE of South African Passenger Rail is here!

THANK YOU