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PASSENGER RAIL AGENCY
OF SOUTH AFRICA

PRESENTATION TO PORTFOLIO COMMITTEE ON TRANSPORT

13 October 2011

Cape Town

From Stabilisation to Quality Travel Experience

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INTRODUCTION

- PRASA Implemented a New Strategy during 2010/11;
- Passenger Rail does not generate adequate resources to recapitalise itself (long-distances, low-densities and low-income base);
- High Costs of running Old Railway System;
- However, Passenger Rail is important to Achieving key National Objectives.

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Introduction Cont…
2010/11 – A Momentous Year

- Despite difficult economic and operating environment, 2010/11 FY was a momentous year for PRASA - Strategic Highlights:

  - Successful Hosting of 2010 FIFA World Cup
  - Investment Initiatives in Modern Signaling and Rolling Stock for Rail;
  - Unlocking Value of Property Assets (Part of New Strategy for PRASA).

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Key Highlights of 2010/11

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- Business Case for Fleet Renewal Completed;
- Commencement of Signaling Upgrade;
- Value of Assets increased to R17.4 billion;
- Recapitalised Intersite and Autopax (BSR);
- 50 Infrastructure Projects completed;
- 356 Coaches Refurbished;
- Acquisition of 570 New Buses;
- 66% in Black Economic Empowerment;
- Unqualified Audit Report.

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Key Shortcomings

- Loss of R1.019 million;
- Going-Concern Issue;
- 39% Decline in Fare Income;
- 25% Decline in Passenger Trips;
- R9.3 million in Wasteful and Fruitless Expenditure (Interest Payment).

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Challenges Facing Rail

- The biggest business in PRASA, Rail Division, faced major challenges during the 2010/11 FY and main contributor to Poor Performance:

  - Serious decline in Rolling stock Availability and Reliability;
  - Dispute with Transnet on pricing and access to network;
  - Unresolved contractual & pricing issues with RS contractors.

- Result was a decline in passenger trips from 633.99 million in 2009/10 to 471.66 million passenger trips for the Metrorail service;
- Poor Revenue Performance declined;
- Dispute with Transnet paralysed Mainline Passenger Service (MLPS) with a reduction of passengers from 3.78 million in 2009/10 to 1.54 million in 2010/11.

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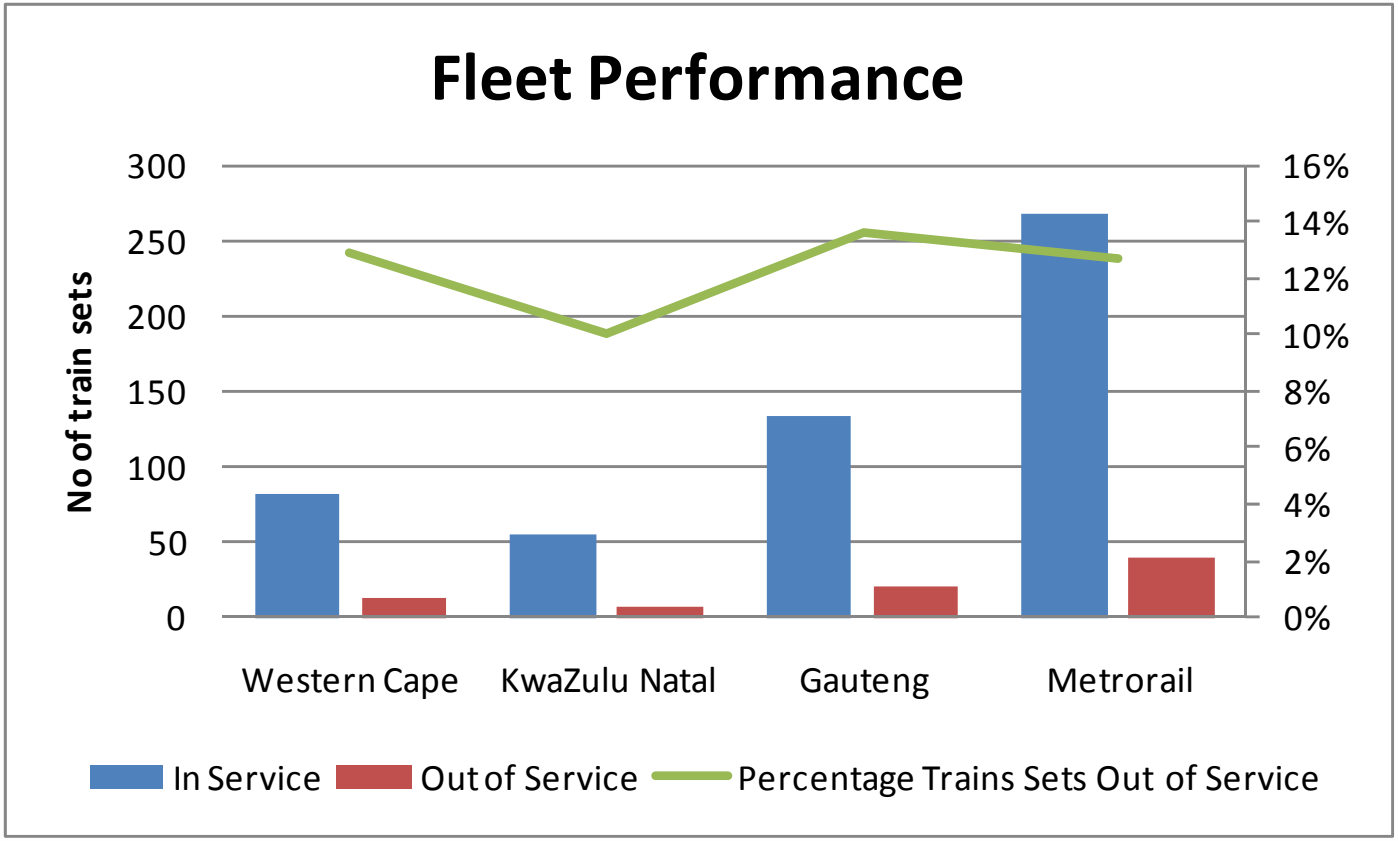
Fleet Availability



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Changes in Financial Position

↑	**Property, plant and equipment** 11% increase to R17,8 billion
↑	**Intangible assets** 327% increase to R113,52 million
↑	**Trade and other receivables** 41% increase to R368 million
↑	**Cash and cash equivalent** 407% increase to R2,12 billion
↑	**Accumulated loss** 28% increase to R4,4 billion
↓	**Loan and borrowings** 50% decline to R468,39 million
↑	**Provision for employee benefits** 13% increase to R208,55 million

Negative impact *Positive impact*

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Quality of Earnings

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QUALITY OF EARNINGS 2011

	2011	2010
Loss as per AFS	**-979 151**	**-1 269 131**
Insurance provision adjustment	-40 000	
	-1 019 151	-1 269 131
Add back:	158 646	370 148
Amortisation on capital subsidy	-985 680	-776 246
Depreciation	1 277 970	1 035 511
Fair valuation of Investment property	-234 382	-
Bad debt written off	8 752	64 276
Loss on disposal of assets	55 282	56 827
Impairment losses recognised/(reversed)	32 415	12 778
Fair value adjustments on derivative	-	-24 557
Actuarial loss	4 289	1 559
Loss after adjustments	**-860 505**	**-898 983**

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Financial Performance by BU

Business Unit	March 2011		March 2010	
	Rm	%	Rm	%
LOSS	**(1,019)**		**(1,269)**	
Corporate	647	-63%	(132)	10%
Mainline Passenger Services	(534)	52%	(351)	28%
Metrorail	(899)	88%	(711)	56%
Autopax	(50)	5%	(106)	8%
PRASA Cres	(177)	17%	103	-8%
Intersite	(6)	1%	(72)	6%

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Financial Performance by PRASA GROUP

Description	March 2011	March 2010	YOY movement	
			Rm	%
GROUP				
Revenue generated	2,532	2,449	83	3%
Subsidy and grants	3,155	3,186	(31)	-1%
Revenue	5,687	5,635	52	1%
Sundry income	172	102	70	69%
Total revenue	5,859	5,737	122	2%
Total expenditure	(6,663)	(6,658)	(5)	0%
Fair value investment property	234	0	234	100%
Loss before finance income and cost	**(570)**	**(921)**	**351**	**38%**
Finance income and cost	(70)	(18)	(52)	-289%
Loss before depreciation and amortisation	**(640)**	**(939)**	**299**	**32%**
	(379)	(330)	(49)	-15%
Depreciation/derecognition/impairment	(1,365)	(1,106)	(259)	-23%
Amortisation on capital subsidy	986	776	210	27%
Loss for the year	**(1,019)**	**(1,269)**	**250**	**20%**

Excluding intercompany Revenue and Expenditure

Key contributors to the loss generated

- Revenue generated improved by R83mil mainly due to external additional revenue from Autopax of R212mil. PRASA Rail Fare Revenue reduced by R123mil.
- Reduction in Government Subsidy by R31mil.
- Sundry income increased by R71mil, due to third party income Rail + Cres of R104mil.
- Fair valuation surplus realised upon change in accounting policy for valuation of investment properties from cost method to fair value method
- Opex increased by R5mil driven mainly by the following:
  - Personnel: higher wage settlement of 10 % against a budgeted 6%, overtime and new appointments – R370mil
  - Energy: 25% increase by Eskom (R263mil).
  - Significant savings have been realised on following cost items:
    - Maintenance R292mil
    - Haulage R113mil
    - Leases R78mil
    - Security R60mil
    - Increase in Finance costs is a mainly due to PRASA Rail Interest payable on Transnet debt and increase in finance costs in Autopax resulting from new buses purchased during the current year
    - Increase in Depreciation is largely due to increase in assets acquired during the year.

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2010 FIFA WC Achievements

PRASA set itself and successfully achieved the following objectives for the 2010 FIFA World Cup:

1. To contribute to the successful hosting of the 2010 FIFA World Cup;
2. To transport significant numbers of football lovers in order to strengthen the position of rail as the backbone of passenger transport;
3. To reward PRASA's loyal customers and motivate and celebrate with staff;
4. To position and strengthen the rail mode and other services of PRASA in the public transport market.

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2010 FIFA WC Achievements Cont…

2010 plans and operations a major success:

- 1.4 million people transported by rail to stadia and fan parks;
- 18 860 bus trips transporting FIFA family, MATCH clients and
- Corporate Hospitality Clients;
- 2000 coaches refurbished;
- 3 new stations built, 50 stations upgraded;
- Modern integrated communication system implemented in key
- stations;
- Completed improvements to 111 stations under the Station Improvement Programme;
- Acquisition of 570 buses for Autopax.

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WE TRANSPORTED 1.4 MILLION FANS TO STADIA & FAN FESTS

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Lessons of 2010 FIFA WC

- With correct investment and maintenance Rail can play central role as mass mover within efficient public transport system;
- World Cup a success due to integrated & joint planning from a PT view – PRASA/Cities/National & Provincial Transport Authorities;
- Passenger information is key – it allowed public to plan journeys to stadia & fan parks;
- Most critical, plans were structured such as to avoid modal competition.

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New Strategy

- **<u>August 2010:</u>**– PRASA Board reviewed performance of the business and approved a new strategy to deal with financial and service delivery challenges facing PRASA:

Key Interventions of the New Strategy:

1. Implement a Financial Turnaround for PRASA to deliver on its Mandate;
2. Improve Operational Effectiveness;
3. Investing in New Capacity to meet Passenger demands in the medium to long –term.

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Balance Sheet Restructuring Programme

- Balance Sheet Restructuring a critical component of the financial turn-around of PRASA, its achievements to date include:

  - Property managed internally by a division –PRASA CRES;
  - Intersite focusing on leveraging non-core and non-strategic assets to generate additional income;
  - Capitalisation of Autopax Shareholders loan of R333 million-will improve its capital structure;
  - Capitalisation of portion of Intersite shareholders loan (R87m);
  - Release of inactive cash (R40m) in Intersite for benefit of rail divisions;
  - Transfer of property and devt. rights to Intersite for SEP purposes.

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Strategic Equity Partner

- PRASA pursuing an SEP, subject to Ministerial approval, to inject R1 billion (once-off cash) into the business.

- Four Possible Options were Identified:
  - Sale of non-core and commercial properties;
  - PRASA raises a long-term loan secured by its cash generative properties;
  - An SEP transaction in terms of which an equity investor purchases a significant stake in Intersite;
  - Long-term development leases are entered into between PRASA and various private sector developers for the development of PRASA's properties.

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Investing in Modern Capacity 2010/11

- **New Rolling Stock Fleet**:
  - Business Case for New Rolling Stock for Metrorail and the Mainline Passenger Services (MLPS) – supported by Government;
  - Completed Detailed Feasibility Study for new Metrorail Fleet;
  - Market Engagement with Manufacturers and Financiers;
  - 65 000 Jobs to be Created through the Programme.

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Investing in New Capacity 2010/11 Cont…

- **Signaling Upgrade Programme:**
  - Commenced first phase of Signal Upgrade Programme
  - Siemens SA appointed in December 2010;
  - re-signaling key rail corridors and construction of a single Central Nerve Centre (CNC) for the Gauteng commuter rail network;
  - Construction underway in Lenz-Midway area;
  - KZN and Western Cape re-Signaling Projects commence in November with procurement process;
  - Total re-signaling of commuter rail network to cost R17 billion over next 7 years.

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Employment Creation

- PRASA will use the Rolling Stock and Infrastructure investment to contribute to the goal of Employment Creation:
- Through encouraging and promoting labour-intensive methodologies and adopting Principles of the Community Based Public Works Programme.

- *5 000* jobs will be created in the short term through the implementation of the rolling stock and infrastructure upgrade programmes:

- Greenview – Mamelodi Gardens Doubling of Rail Line and stations;
-Bridge City rail link and station – KZN;
- Signaling Project;
- Refurbishment of Coaches;
- Cleaning of Rail Corridors.

- 65 000 jobs will be created over the next 18 years through the acquisition of the new fleet for commuter rail coaches (Industrial Policy Action Plan) .

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Employment Creation (Cont)

- PRASA plans to create 5 000 Jobs over the 3 year MTEF period through the following:
  - Accelerated Rolling Stock - 2000 jobs;
  - Infrastructure Projects - 700 jobs on large projects over life of the projects plus 650 jobs p/a on stations related projects;
  - Public Works for the Rehabilitation of Rail Infrastructure - 430 jobs p/a;
  - Cooperatives for Cleaning of Rail Corridors and Rail Reserves - 130 p/a.
- A total of 1210 jobs p/a and 830 project related jobs will be directly created through PRASA's capital investment program. A further 380 jobs will also be created downstream through sub-contractors n PRASA's infrastructure renewal program.
- **Total direct jobs over 3 years = 3630, total project related jobs = 830 and total down stream jobs = 380 (Total = 5000 jobs).**

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Empowerment Initiatives

- PRASA will use its procurement spend to ensure that Government's BBBEE Objectives are achieved, some projects in this regard include:

- The Women in Rail Project – PRASA to promote 10 Women-Owned Enterprises in its environment over the next 5 Years (Cooperatives);
  - The Pilot Project between PRASA and the Taxi Industry for the Rail Feeder and Distribution Service (Sedibeng, Johannesburg, East rand and Tshwane);

- PRASA reviewing its stipulation BEE Policy to ensure maximum benefit and that targeted groups are effectively the beneficiaries of our programmes.

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Conclusion

- The Year under review was a challenging one, but one characterised by major Advances;
- The Financial Loss remain a major challenge that the Board and Management is addressing, with various revenue generation plans already underway;
- The new strategy, in particular the Balance Sheet Restructuring, has already placed the two Subsidiaries (Autopax and Intersite) on a sound financial footing and seeks to unlock value out of the assets of PRASA;
- The successful execution of the new strategy is vital to delivering a Modern Organisation that delivers on its Transport Mandate.

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