

TRANSNET FREIGHT RAIL
REQUEST FOR PROPOSAL: COOKHOUSE – BLANEY BRANCH LINE
CONCESSION

RETURNABLES INFORMATION OVERVIEW

Bidders have to demonstrate that the Bidder's vision for the Concession is robust and achievable and includes a commitment to develop and maintain a cooperative and responsive relationship with Transnet, customers, and other key stakeholders.

1. Integrated and Optimised Operational Solution (Returnable 1)

The Bidder needs to indicate the extent to which the operational and technical solutions support the delivery of an integrated, sustainable and reliable freight system that will enhance the regional economy, allow for future expansion, encourage business growth, deliver revenue and volume growth and will provide efficient and reliable customer services, maximise empowerment opportunities and increase (rail) mode share.

1.1 Operating Experience and Capability

- 1.1.1 Bidders are required to demonstrate evidence that such Bidder or Relevant Entity (as the case may be) is, or has been, an accredited operator of –
 - 1.1.1.1 freight rail transport or of passenger rail operations;
 - 1.1.1.2 road or sea freight transport operations; or
 - 1.1.1.3 transport logistic operations.
- 1.1.2 Bidders are required to provide the following:
 - 1.1.2.1 details of operations, and relevant accreditation(s) currently or previously held;
 - 1.1.2.2 indicate the industry structures experience relevant to the examples provided in section 3.1.2.1 above in relation to by describing the following –
 - 1.1.2.2.1 ***the corporate structure of the Bidder, or Bidder, or Sponsor, or Relevant Entity, or member of the Bidder, as the case may be;***
 - 1.1.2.2.2 ***the nature of contractual arrangements with counter-parties;***
 - 1.1.2.2.3 ***the level of vertical integration; and***
 - 1.1.2.2.4 ***the nature of any relationships with relevant parties within the rail industry, if any.***
 - 1.1.2.3 indicate the track record in the last 5 year period relevant to the examples provided in section 3.1.2 above, including –

- 1.1.2.3.1 **accident statistics;**
- 1.1.2.3.2 **safety statistics;**
- 1.1.2.3.3 **density volumes transported; and**
- 1.1.2.3.4 **kilometres of rail or road operated.**

1.2 Operating Plan

- 1.2.1 Bidders are required to develop an operating plan, which demonstrates how the primary operational aspects of the business will function, and how the Bidder intends to ensure a high quality service is delivered, through efficient and innovative business processes.
- 1.2.2 Transnet will consider:
 - 1.2.2.1 the feasibility of the operating plan(s) proposed;
 - 1.2.2.2 the range of services and service levels offered to the Bidder's customers, which may include Transnet;
 - 1.2.2.3 the level of commitment to volume increases and the plausibility of the rationale supporting the increases;
 - 1.2.2.4 the extent of innovation proposed and general approach to business improvement; and
 - 1.2.2.5 the nature and extent of requirements placed on Transnet.
- 1.2.3 At a minimum the operating plan, should include:
 - 1.2.3.1 the Bidder's minimum operating standards;
 - 1.2.3.2 confirmation of the proposed routes and service frequency indicating all of the stations proposed for use in the Concession;
 - 1.2.3.3 a service timetable demonstrating that the Bidder can achieve the Minimum Volume Requirements;
 - 1.2.3.4 the size of the required rolling stock fleet, including total number and type of locomotives and wagons;
 - 1.2.3.5 strategies to ensure quality of service and a culture of continuous improvement and innovation including:
 - 1.2.3.5.1 *provide details of the quality and environmental management system which the Bidder will adopt, including the timeframe for certification;*
 - 1.2.3.5.2 *a description of the proposed process for self-monitoring of compliance and performance against relevant performance indicators in the Concession Agreement and where applicable the Ancillary Agreements;*
 - 1.2.3.5.3 *identify additional performance indicators that will be self-monitored and measured through (including but not limited to maintenance management systems and electronic monitoring systems);*

- 1.2.3.5.4 *detail the electronic or other systems that will be put in place to monitor and measure the performance indicators identified above and how these systems will effectively monitor and measure the applicable performance indicators;*
- 1.2.3.5.5 *details of how information reliant on electronic monitoring systems will be collected in the event of electronic system outages;*
- 1.2.3.6 a strategy for managing planned business growth – identifying the expected moment for incremental changes from the initial operational arrangements, such as the need for additional staff and/or rolling stock, and an explanation of how those changes will be managed;
- 1.2.3.7 a business continuity plan, demonstrating the Bidder's ability to recover and restore partially or completely interrupted critical functions within a predetermined time after an occurrence, a disaster or extended disruption;
- 1.2.3.8 a clear statement of the Bidder's understanding and expectations of Transnet's role in respect of the operational interfaces, and/or dependencies, between the Bidder's operations and those of Transnet, in particular in respect of expected service levels, if any, to be provided by Transnet to the Bidder and/or any specific service level improvements over time. Special emphasis should be given to the interface relationship between the Bidder and Transnet, and the processes to be adopted and followed to enhance this interface relationship in keeping and adhering to the required service levels expected; and

2. Infrastructure Management and Maintenance (Returnable 2)

Bidders need to indicate the extent to which the proposed asset management regime will deliver high and consistent levels of asset performance and optimise whole of life outcomes.

The Bidder also needs to indicate the extent to which the Bidder's approach to managing and maintaining the infrastructure asset base realises an efficient and effective means of achieving or exceeding minimum condition requirements and ensures service continuity with minimum disruption to customers and other stakeholders.

Bidders are advised that Transnet has a Rolling stock maintenance plan. Each Bidder is required to take into account the content of such Transnet rolling stock infrastructure maintenance plan, and any deviations by a Bidder from such Transnet rolling stock maintenance plan are to be clearly and specifically identified by the Bidder in its response.

Transnet will consider:

- *the experience and capability of the Bidder in relation to rolling stock management and maintenance;*
- *the robustness of the management practices and the application of systems and technology that will be applied in the existing infrastructure;*
- *the robustness of processes proposed to manage disruptions to customers and others;*
and

2.1 Maintenance Experience and Capability

2.1.1 Bidders are required to demonstrate evidence that such Bidder or Relevant Entity (as the case may be) is, or has been, a maintainer of, or has expertise and experience in the maintenance of, or in procuring the maintenance of –

2.1.1.1 Rolling stock infrastructure; or

2.1.1.2 transport infrastructure;

2.1.1.3 built environment infrastructure.

2.1.2 Bidders are required, in relation to section 4.1.1 above, to provide the following -

2.1.2.1 details of maintenance, and relevant accreditation(s) currently or previously held, or expertise and experience in maintaining or procuring the maintenance of rolling stock infrastructure, or transport infrastructure, or built environment infrastructure, as the case may be; and

2.1.2.2 indicate the industry structures experience relevant to the examples provided in section 4.1.2.1 above in relation to by describing the following -

2.1.2.2.1 *the corporate structure of the Bidder, or Sponsor, or Relevant Entity, or member of the Bidder, as the case may be;*

2.1.2.2.2 *the nature of contractual arrangements with counter-parties;*

2.1.2.2.3 *the level of vertical integration;*

- 2.1.2.2.4 *the nature of any relationships with relevant parties within the rail industry, if any; and*
- 2.1.2.2.5 *the net asset value of the infrastructure;*
- 2.1.2.3 the curriculum vitae of the personnel with the experience furnished by the Bidder in response to section 4.1.1 above.

2.2 Asset Management Strategy

- 2.2.1 Bidders must provide, either in two separate documents, or if in a single document, then in two discrete parts thereof, a clear and practical in nature Asset Management Strategy for Rolling Stock on the one hand and for Station Infrastructure on the other hand, not only describing the philosophy and approach to Infrastructure asset management, but also including a description of the processes by which the Bidder will ensure that the Hand-back Condition of Infrastructure will comply with the requirements of the Concession Agreement.
- 2.2.2 Each Bidder's response should address (in discrete parts for Rolling Stock and Station Infrastructure, wherever relevant) each of the following items:
 - 2.2.2.1 the Bidder's approach and ability to create value by implementing a continuous improvement programme to optimise the capacity, availability, reliability and functionality of the Assets, having regard to:
 - 2.2.2.1.1 *the planned usage by reference to forecast volumes, numbers of trains and their respective axle loads, where applicable;*
 - 2.2.2.1.2 *its planned maintenance programme;*
 - 2.2.2.1.3 *the overall cost applicable to asset and property maintenance and repair (inclusive of monitoring)*
 - 2.2.2.1.4 *optimising the balance between scheduled maintenance and any planned upgrade or investment in Infrastructure;*
 - 2.2.2.1.5 *maximising the economic life of the rolling stock;*
 - 2.2.2.2 the approach and ability of the Bidder to meet and improve upon the rolling stock performance requirements during the Concession period;
 - 2.2.2.3 the Bidder's ability to adapt to variation in maintenance demands as the requirements of Rolling stock changes and/or ages;
 - 2.2.2.4 an outline of the major physical and technical resources and equipment to be employed in the delivery of scheduled and reactive maintenance of the Infrastructure, including:
 - 2.2.2.4.1 *a general description of each physical resource (the maintenance facilities that the Bidder intends to utilise in order to implement its maintenance programme and strategy to be employed);*
 - 2.2.2.4.2 *proposed physical location of each physical resource;*
 - 2.2.2.4.3 *proposed utilisation of each physical resource;*
 - 2.2.2.4.4 *details of the key maintenance equipment; and*

2.2.2.4.5 *details of specialised road vehicles to be used in support of infrastructure maintenance;*

2.2.2.5 the Bidder's approach and ability to ensure the spares/rotatable pool is appropriate to meet the maintenance demand.

2.3 Asset Management System

2.3.1 Bidders must provide, either in two separate documents, or if in a single document, then in two discrete parts thereof, a description of the robust Asset Management System for Rolling stock on the one hand and for Station Infrastructure on the other hand, that will be applied to both Concessionaire and Transnet owned assets. The Asset Management System should be seen as a core management tool that will enable the successful Concessionaire and Transnet to achieve their short, medium and long term asset management objectives.

2.3.2 In describing the system the Bidder should address its approach to the following issues:

2.3.2.1 development and maintenance of asset register

2.3.2.2 geo-location of assets;

2.3.2.3 configuration management;

2.3.2.4 scheduled maintenance management on both a time and distance basis;

2.3.2.5 reactive maintenance management;

2.3.2.6 control of inventories of consumable spares and rotatable spares;

2.3.2.7 generation of work orders, bills of materials and cost tracking;

2.3.2.8 recording of asset maintenance histories;

2.3.2.9 arrangements for maintenance instructions, procedures, manuals and documentation for the system (including hosting of electronic format documents, if applicable);

2.3.2.10 management of engineering drawings (including hosting of electronic format documents, and computer aided design format drawings, if applicable);

2.3.2.11 reporting, including capability to design and produce customised reports; and

2.3.2.12 strategies to ensure quality of service and a culture of continuous improvement and innovation including a description of the proposed process for self-monitoring of compliance and performance against relevant performance indicators in the Concession Agreement and where applicable the Ancillary Agreements.

2.4 Rolling Stock Maintenance Plan

2.4.1 Bidders must provide, either in two separate documents, or if in a single document, then in two discrete parts thereof, as a minimum a technical and innovative infrastructure asset maintenance plan for Rolling stock assets on the one hand and for Station Infrastructure on the other hand (to optimise operational output and utilisation of rolling stock assets and resources), including an annual rolling stock works plan,

which details the activities of maintenance and renewal activities to be undertaken by asset type, together with the expected costs.

- 2.4.2 In preparing its Proposal the Bidder should include its approach and ability to create value by implementing a continuous improvement programme for managing the rolling stock assets. The anticipation is that the above plans will, to the extent acceptable to Transnet, be incorporated into the Transaction Agreements prior to their execution.
- 2.4.3 The infrastructure asset maintenance plan ("IAMP") should include, at a minimum, the following:
 - 2.4.3.1 an overview of the planned maintenance and renewals activity for each asset class for the whole term of the Concession;
 - 2.4.3.2 a rolling annual infrastructure works plan ("AIWP"), within the framework of the IAMP, covering the first three (3) years, describing the actual planned activities - (for example, the number of sleepers to be replaced and with what type of sleeper and fastening, in which locations) – and associated budget. Year one (1) of the plan is to be committed whilst the remaining two (2) years are indicative and may be subject to amendment, with Transnet's approval, post Concession transition; and
 - 2.4.3.3 a monitoring, reporting and review regime covering both configuration and financial data.

2.5 Hand-back Condition of Infrastructure

- 2.5.1 Bidders are required, in their Proposals, to propose an Infrastructure hand-back condition ("Hand-back Condition") discretely, in respect of –
 - 2.5.1.1 Rolling Stock Assets; and
 - 2.5.1.2 Station Infrastructure.
- 2.5.2 Bidders are advised the Hand-back Condition proposed should take into account not only the asset condition at expiry of the Concession but also on early termination of the concession (on the terms of the Concession Agreement) for Hand-back Condition purposes.

3. Safety (Returnable 3)

Bidders are required to show how they will achieve continual safety improvement in their operations, demonstrating a commitment to network security and the development, implementation and maintenance of a robust Safety Management System that will achieve the obtainment of a Safety Permit from the Railway Safety Regulator and meet all contractual and legislative requirements.

The issues Transnet will consider include:

- *the Bidder's understanding of the legislation and regulations applicable to South African rail operations;*
- *the quality and deliverability of the Bidder's plan to obtain a Safety Permit(s) (as a Network Operator, Station Operator and/or Train Operator as required in terms of the RSR Act) by Concession commencement;*
- *the extent of completeness of the draft Safety Management System Report; and*
- *the extent of innovation and continuous improvement processes embedded within the committed approach to safety.*

3.1 Safety Returnables

The Bidder is required to provide the following Returnables:

- 3.1.1 an outline of its Rail Safety Commitment;
- 3.1.2 the Rail Safety Plan; and
- 3.1.3 a draft Application for a Safety Permit(s).

3.2 Rail Safety Commitment

- 3.2.1 Each Concessionaire will be required to operate in accordance with the South African National Safety Standards (SANS 3000-1:2009). Each Bidder should outline its commitment to rail safety including:
 - 3.2.1.1 its general approach towards safety management for the Concession; and
 - 3.2.1.2 its safety management system expertise and its capability to integrate that expertise into the safety management system inherited as part of the broader Transnet-operated rail network.
- 3.2.2 The Bidder should articulate its commitment to a culture of continual safety improvement throughout the Concession and detail any initiatives or proposals with indicative implementation dates with regard to:
 - 3.2.2.1 procedures for identifying, assessing and managing risks;
 - 3.2.2.2 developing the safety culture;
 - 3.2.2.3 continual improvement of safety performance in the workplace, with customers and from an operational perspective; and
 - 3.2.2.4 the Bidder's approach to maintaining the Safety Permit(s).

3.3 Rail Safety Plan

- 3.3.1 With regards to safety transition, the Bidder should detail how it will obtain each Safety Permit from the Railway Safety Regulator, under the RSR Act, and develop a Safety Management System that delivers the Bidder's own commitments, as outlined in section 8.2 above.
- 3.3.2 The Bidder's Safety Plan should cover any initiatives that the Bidder may have for:
 - 3.3.2.1 risk management during the transition period;
 - 3.3.2.2 key staff appointments – the position and competencies of key personnel responsible for railway safety, including details of the positions to be designated safety-critical and safety related and how those positions will be integrated within the Bidder's organisational structure;
 - 3.3.2.3 the development of the safety culture;
 - 3.3.2.4 proposed improvements to railway safety performance; and
 - 3.3.2.5 a timetable, detailing tasks, milestones and delivery dates to apply for and obtain a Safety Permit(s).

3.4 Draft Application for Safety Permit(s)

- 3.4.1 Each Bidder should submit a draft Application for a Safety Permit(s) as part of its Proposal. In preparing its draft Application for a Safety Permit(s), the Bidder should consult directly with the Rail Safety Regulator.
- 3.4.2 If successful, the Bidder will then be required to complete and submit a formal Application for a Safety Permit(s) to attain safety accreditation for Concession commencement, recognising that possession of a Safety Permit is a condition precedent of commencement under the Concession Agreement.

4. Transition Plan (Returnable 4)

Where applicable, Bidders must indicate through cohesive and robust plans the extent to which each Bidder will implement a transition to the new Concession arrangements, with minimum risk of service disruption or other difficulties.

In respect of Transition, Transnet will consider:

- *the clarity and practicability of the proposed plan;*
- *the expected risks associated with timely completion of the conditions precedent to the Concession Agreement and Ancillary Agreements, if any; and*
- *the extent of resources and experience planned to be committed to the transition phase.*

4.1 Transition Plan

- 4.1.1 A successful and seamless transition to the new Concessionaire is of the highest priority to Transnet and its customers.
- 4.1.2 The issues Transnet will consider include:
 - 4.1.2.1 the Bidder's demonstrated ability and plan to achieve a timely Concession commencement; and
 - 4.1.2.2 the extent to which the Bidder's approach demonstrates its ability and intention to work with all the stakeholders involved in achieving a successful transition.
- 4.1.3 The Bidder is required to provide a Transition Plan.
- 4.1.4 The Bidder's Transition Plan must provide details of the Bidder's strategy and specific programme of initiatives for the hand-over arrangements, including the lead up to Concession commencement and the initial six (6) months of the new Concession. It should include a timetable detailing the tasks, milestones and delivery dates for all the activities included within this Transition Plan.
- 4.1.5 At a minimum the Transition Plan should address:
 - 4.1.5.1 the management and briefing of key media following the announcement of Concession award in consultation with Transnet;
 - 4.1.5.2 communication with key stakeholders, including Transnet, current and prospective customers, provincial and local government about the Bidder's vision for the Concession;
 - 4.1.5.3 on-going communication to customers, the wider public and community, providing reassurance of a seamless transition and continuing service levels, safety and other key aspects of on-going service delivery;
 - 4.1.5.4 recruitment and training of new employees by the Concessionaire, including any necessary selection process, arrangements for induction and introduction to the management team;
 - 4.1.5.5 identification of any risks arising as a result of transition and plans to mitigate their impact on Transnet, its customers, and other stakeholders;
 - 4.1.5.6 management of the branding and marketing of its services during the

transition period; and

4.1.5.7 delivery of its obligations in relation to conditions precedent under the Concession Agreement, and Ancillary Agreements, if any.

4.1.6 Note: the steps taken by the Concessionaire to achieve Safety Permit certification in time for Concession commencement should be documented in the Returnable 8: Safety. Although that process takes place in the Transition period, there is no need to duplicate the information in this Returnable 7.

5. Commercial Acceptability (Returnable 5)

Bidders need to show the extent to which their proposed governance, legal and commercial structures are robust, sustainable and appropriate for the Concession operations.

Bidders must also indicate the extent to which their Proposals comply with the requirements of the draft Transaction Agreements and must demonstrate the Bidder's commitment to achieving Commercial Close and Financial Close in accordance with Transnet's timeframe, should it be awarded the Concession.

In respect of Commercial Acceptability, Transnet will also consider the following issues:

- *the extent to which the structure facilitates the efficient and effective performance of the Concessionaire's obligations under the Transaction Agreements;*
- *certainty of the commercial and contractual arrangements including the completeness and the terms of the agreements/term sheets between the Concessionaire, its primary subcontractors, counter-parties and any other contractors (as appropriate);*
- *appropriateness of commercial relationships and risk allocation, having regard to Transnet's preferred position;*
- *the extent to which the commercial structure provides sufficient flexibility for the introduction of new arrangements (for example, in the event of new rolling stock procurement or regulatory changes);*
- *the nature, extent, risk allocation and value for money impact (if any) of any proposed departures from the draft Transaction Agreements; and*
- *the extent of any contractual execution risk including the risk of delay in achieving Commercial Close, Financial Close and transition.*

5.1 Commercial Acceptability Returnables

5.1.1 As explained further below, the Bidder is required to provide the following, as a minimum, in response to this Section:

- 5.1.1.1 **the Bidder Information and Consortium Structure;**
- 5.1.1.2 **Mark-up of the Transaction Agreements;**
- 5.1.1.3 **a Departures Schedule; and**
- 5.1.1.4 **a Competition Commission Confirmation Statement.**

5.1.2 Elements of the Bidder's response will be incorporated into the Transaction Agreements to reflect the agreed commercial structure. The Departure Schedule will neither form part of nor survive execution of the Transaction Agreements, and all departures will be resolved in finalising those documents.

5.2 Bidder Information and Consortium Structure

The following information is to be provided by Bidder and Bidder, namely: -

5.2.1 in respect of each Bidder and Bidder (if incorporated), Sponsor and Relevant Entity, the incorporation details (namely registered name and registration number) and registered office, all constitutive company documentation including, without

limitation, the Bidder's, Bidder's, Sponsor's and Relevant Entity's memorandum and articles of association (or memorandum of incorporation) or if not a company similar constitutive documentation;

- 5.2.2 where a Bidder or Bidder is a consortium, not incorporated into legal entity as yet, copies of resolutions by members of the consortium authorising their individual representatives to represent and bind them in the consortium, and a resolution passed by the duly authorised representatives of the members of the consortium appointing the lead member(s) of the consortium;
- 5.2.3 details of the Bidder's and Bidder's proposed share structure, namely authorised share capital, issued capital, both expressed as Rand value and number of shares with the (par) value of each share, distinguishing between different classes, of shares, if any;
- 5.2.4 details of all shareholders or members of the Bidder and Bidder (namely name, address and number of shares held or proposed to be held by each shareholder or member) and a certified copy of the shareholders' agreement(s) or similar agreement regulating (i) the relationship of the shareholders/members between each other and the relationship between the shareholders/members and (ii) the Bidder and Bidder;
- 5.2.5 declaration by each Sponsor, Relevant Entity and the member of the Bidder and Bidder that:
 - 5.2.5.1 they are participating in the Bidder and Bidder for submitting the Proposal;
 - 5.2.5.2 they accept and are bound by the terms and conditions upon which the Proposal is being submitted;
 - 5.2.5.3 they are fully acquainted with all the legal provisions (including without limitation all laws, provincial enactments and municipal by-laws) prevailing in South Africa in respect of the realisation of the Concession and will comply therewith; and
 - 5.2.5.4 they will take up the shares that they are stated in the Proposal to be subscribing for;
- 5.2.6 the holding (or parent) company of the Bidder and Bidder, if any, and the holding (or parent) company of each Sponsor and Relevant Entity, if any, and details of any subsidiary(ies) of the Bidder, Bidder, Sponsor and Relevant Entity (namely name, registration number, main business (objective) and authorised share capital);
- 5.2.7 details of any other shareholding or equity interests greater than 10% that the Bidder, Bidder, Sponsor and Relevant Entity have in any other company, business, firm, consortium or partnership arrangement (namely, name of entity, registration number (if any) main business, percentage equity holding and Rand value thereof);
- 5.2.8 details of all directors (name, address and occupation) of the Bidder and Bidder, or proposed ones where they have not been appointed as yet, indicating in respect of each director whether he/she is an executive or non executive director including brief curricula vitae;

- 5.2.9 details of any perceived potential or actual conflict of interest by each Sponsor and Relevant Entity, in participating in the procurement process, if any, and in undertaking the Concession, if any;
- 5.2.10 lenders term sheet(s), confirming the lending arrangements to the Bidder/Bidder;
- 5.2.11 full disclosure of the details of any material current or anticipated legal proceeding (including court proceedings and arbitrations) where material for the disclosing entity has the meaning ascribed thereto in its annual financial statements, provided that all legal proceedings with a contested amount greater than R 1 000 000,00 are to be disclosed.

6. Real Estate Management (Returnable 6)

Bidders need to indicate the extent to which the funding solution is robust, committed and provides certainty for the duration of the term of the Concession.

Bidders also need to indicate the financial sustainability of the Proposal, including the financial strength of the Bidder and its associates and the robustness of financial projections.

Also, Bidders will have to indicate the extent to which the Bidder's whole of life, risk-adjusted cost / benefit, taking into account the financial risks and consequences to Transnet, demonstrates value for money.

6.1 Real Estate Management Returnables

6.1.1 Each Bidder is required to provide the following, as a minimum, in response to this Section:

6.1.1.1 **a Real Estate Development Plan;**

6.1.1.2 **a Property Management and Maintenance Plan; and**

6.1.1.3 **a Risk and Compliance Plan.**

6.1.2 Elements of the Real Estate Development Plan will be incorporated into the Transaction Agreements prior to execution.

6.2 Real Estate Development Plan

6.2.1 Each Bidder is required to:

6.2.1.1 Provide a comprehensive investment plan in relation to construction and/or improvements of Transnet properties that form part of the Concession opportunity;

6.2.1.2 The investment plan should indicate the estimated commencement date of the construction and/or improvement;

6.2.1.3 Submit comprehensive financial plan with relevant financial ratio's for the proposed construction and/or improvement;

6.2.1.4 Provide estimates and summaries of operating costs, capital expenditure and funding requirements for the proposed development;

6.3 Property Management and Maintenance Plan

6.3.1 Each Bidder is required to submit a Property Management and Maintenance Plan, which contains the following:

6.3.1.1 Detailed management and maintenance plan for both existing and proposed construction if applicable; and

6.3.1.2 Proposed management and maintenance budget with cash flows.

6.4 Risk and Compliance Management

- 6.4.1 Bidders need to demonstrate plans that are aligned to existing and relevant legislation pertaining to Occupational Health and Safety;
- 6.4.2 Submit Property Management Plan in line with relevant legislation pertaining to Occupational Health and Safety and any other relevant legislation; and
- 6.4.3 Submit an Environmental Management Plan with details of how contamination and pollution emanating from oil *etc* will be prevented and dealt with should they occur;
- 6.4.4 Bidders to confirm that they have obtained quotes for the Public Liability Insurance;
- 6.4.5 Bidders need to submit a Take-over process clearly demonstrating understanding of utilities and how the process to be followed with the Municipality; and
- 6.4.6 Bidders must submit an on-boarding process for existing Transnet tenants in the buildings that form part of the concession (where applicable).

7. Financial Arrangements (Returnable 7)

Bidders need to indicate the extent to which the funding solution is robust, committed and provides certainty for the duration of the term of the Concession.

Bidders also need to indicate the financial sustainability of the Proposal, including the financial strength of the Bidder and its associates and the robustness of financial projections.

Also, Bidders will have to indicate the extent to which the Bidder's whole of life, risk-adjusted cost / benefit, taking into account the financial risks and consequences to Transnet, demonstrates value for money.

Transnet will consider the following issues:

- *concession fee proposed by each Bidder;*
- *the nature of the commitments being provided by parent entities, shareholders and other financiers in support of the obligations of the Concessionaire under the draft Transaction Agreements;*
- *the financial strength of the Bidder as a whole and of each Sponsor and the capacity and commitment to meet the minimum capital requirements;*
- *the financial strength of the Bidder as a whole to procure the issuance of a performance bond contemplated in the Concession Agreement;*
- *the volume of freight transported over the life of the Concession, including forecast revenue growth;*
- *the level of haulage and access charges to be charged by Transnet in respect of haulage by Transnet on the core Network and access onto the Access Route, as proposed by the Bidder;*
- *the net present value of revenues expected to be charged by Transnet over the Concession period, including access and haulage and property lease rentals (if any), using Transnet real discount rate.;*
- *the value of local employment in the relevant region;*
- *the quantum of investment in infrastructure maintenance and renewal;*
- *the quantum of any requests for capital contribution, it being recorded that Transnet will not make any capital contribution of fund any portion thereof (whether directly or indirectly);*
- *the cost to Transnet of any proposed departures from the draft Transaction Agreements; and*
- *the value of any risk adjustment deemed appropriate by Transnet.*

7.1 Financial Arrangement Returnables

7.1.1 Each Bidder is required to provide the following, as a minimum, in response to this Section:

7.1.1.1 **a Financial Offer Summary;**

7.1.1.2 **an Assumptions Book; and**

7.1.1.3 **a Financial Model.**

- 7.1.2 Elements of the Financial Offer Summary will be incorporated into the Transaction Agreements prior to execution.

7.2 Financial Offer Summary

- 7.2.1 Each Bidder is required to:

- 7.2.1.1 populate the Financial Offer Summary in nominal Rands;
- 7.2.1.2 adopt consumer price index ("CPI") forecasts provided by Transnet in the preparation of its Proposal in so far as revenue or costs escalate in line with CPI. Each Bidder will, however, need to form its own view on the impact of price changes on costs. Transnet will use its CPI forecasts for deflating the nominal amounts included in the Financial Offer Summary to real amounts. Real amounts will be expressed consistently with the definitions in the Concession Agreement and Ancillary Agreements;
- 7.2.1.3 note that escalation of amounts in the first financial part year (estimated to be 2022/23) will be calculated based on the movement in the CPI between the relevant quarter of the Proposal Submission Date "Base Quarter" and the quarter of January 2022. For all subsequent years, escalation of real amounts will occur at the commencement of the financial year and be based on the preceding March CPI relative to the Base Quarter.
- 7.2.1.4 note that the calculation of Net Present Values for evaluation purposes will be based upon a real discount rate of >13% and all cash flows will be discounted to 1 January 2022.

- 7.2.2 The Financial Offer Summary will need to encapsulate the financial highlights of the Proposal as per the Sections outlined below.

7.2.2.1 **Concession Fee**

7.2.2.1.1 *In consideration for the grant of the Concession the Concessionaire will be required to pay TFR a fee, referred to as the "Concession Fee".*

7.2.2.1.2 *Each Bidder will provide the net present value of the projected Concession Fee that will be payable over the term of the Concession. The calculation of net present values for evaluation purposes must be based upon Transnet real discount rate.*

7.2.2.2 **Volume/distance and revenue forecasts**

7.2.2.2.1 *Each Bidder will be required to provide summarised information with regard to forecast volumes and average origin to destination distances per commodity per annum over the period of the Concession. The following information must be included:*

- (a) total volume (tonnes per annum) per commodity that will contribute to the Concession revenue (full freight, origin to destination);

- (b) total estimated origin to destination kilometres per commodity flow (per annum), to be made up of:
 - (i) kilometres travelled on the Concessioned Branch Line; and
 - (ii) kilometres travelled on the Core Network;
- (c) Total Net Ton Kilometres ("**NTK**") per annum;
- (d) Forecast Revenue Rate (ZAR) per NTK per commodity per annum over the period of the Concession;
- (e) Total Revenue (Revenue Rate/NTK x NTK) per annum over the period of the Concession.

7.2.2.3 **Haulage and Access Rates**

7.2.2.3.1 *Where haulage services will be required from Transnet or where Track Access, Transnet will charge the Concessionaire an agreed upon Haulage Rate per NTK and Access Rate per NTK. The calculation of these rates will have to take into account an appropriate return on Transnet's infrastructure and operating costs. It is the intention of Transnet to align these rates to actual operating costs and depreciated optimised replacement cost (DORC) for infrastructure. It is however recognised that the market forces may not allow for the rates to meet these requirements from the start of the Concession as a result of operating and market parameters, and an escalation to the desired rates will have to be negotiated with the successful Bidder.*

7.2.2.3.2 *Bidders will be required to estimate haulage and access rates based on their view of the viability parameters of the proposed Concession. Specifically, Bidders must provide the following summarised information (for the period of the Concession):*

- (a) total volume (tonnes per annum) for which access to the Core Network will be required;
- (b) total volume (tonnes per annum) for which haulage services will be required.
- (c) total access kilometres per annum;
- (d) total haulage kilometres per annum;
- (e) estimated Access Rate (ZAR) per NTK per commodity per annum over the period of the Concession;
- (f) Estimated Haulage Rate (ZAR) per NTK per commodity per annum over the period of the Concession;
- (g) Total Access Cost (Access Rate/NTK x NTK) per annum over the period of the Concession; and
- (h) Total Haulage Cost (Haulage Rate/NTK x NTK) per annum over the period of the Concession.

7.2.2.4 Insurance Costs

7.2.2.4.1 *Bidders should make detailed proposals in respect of the insurance requirements of clause 42 (Insurance) of the Concession Agreement, taking into account that insurance requirements specific to and arising out of any Ancillary Agreement are to be dealt with and regulated in the relevant Ancillary Agreement.*

7.2.2.4.2 *If a Bidder considers that any of the insurances in Schedule 14 to the Concession Agreement are not required, that Bidder is required in addition to the mark up requirements of the Concession Agreement and its Schedules as required by the RFP to state why same is not required and how that risk will be mitigated in the Concession.*

7.2.2.4.3 *Bidder to confirm that they have obtained quotes for the Concession Agreement Schedule 14 insurance requirements indicating the excess payment and in particular for Rolling Stock separately:*

- (a) Design and Construction Insurance – Project Value of R50 million; and
- (b) Rolling Stock value of R100 million (\pm 4 locomotives).

7.2.2.5 Other Operating Costs

Bidders are required to provide a summary of all other operating costs included in the Financial Model (per annum over the period of the Concession).

7.2.2.6 Capital Expenditure

7.2.2.6.1 *Bidders are required to provide an estimate of annual capital expenditure over the period of the Concession. Specifically, Bidders must provide the summarised capital expenditure information with respect to the following categories:*

- (a) Rolling stock (where applicable);
- (b) upgrade or refurbishment costs on property improvements other than improvements on the rail reserve; and
- (c) movable assets.

7.2.2.7 Funding Requirements and Arrangements

7.2.2.7.1 *Bidders are required to provide an estimate of the funding requirements over the period of the Concession as well as a summary of sources and associated costs of funding. Specifically, Bidders must provide the following summarised information (for the period of the Concession):*

- (a) total estimated funding requirement;
- (b) proportion of debt and equity to fulfil the funding requirement;
- (c) sources of equity funding and proportion of funding from each source;

- (d) sources of debt funding and proportion of funding from each source;
- (e) estimated terms of debt funding (repayment term, interest rates etc.); and
- (f) total cost of debt per annum over the period of the Concession (interest charges).

7.2.2.8 *Quantum of the Performance Bond contemplated*

7.2.2.8.1 *Bidders to propose and align it to investment commitment of targeted aspects for purposes of the bond.*

7.2.2.9 *Earnings and Cash Flow*

Bidders are required to provide a forecast Income Statement and Cash Flow Statement for every year of the term of the Concession.

7.2.2.10 **Key indicators**

7.2.2.10.1 *Bidders are required to provide a summary of key financial indicators, including:*

- (a) break-even points (financial and volume);
- (b) Internal Rate of Return (IRR) for the Concession; and
- (c) Net Present Value (NPV) of the forecasted free cash flows.

7.3 **Assumptions Book**

7.3.1 Each Bidder is required to submit an Assumptions Book to support its Proposal as summarised in the Financial Offer Summary, which contains the following:

- 7.3.1.1 financial and pricing assumptions (i.e. quantitative inputs) used as the basis for the calculation of the Proposal and other associated pricing parameters;
- 7.3.1.2 other qualitative assumptions (e.g., exclusions of risks/costs);
- 7.3.1.3 forecasting methodology associated with key revenue and cost parameters, (e.g. approach to forecasting patronage);
- 7.3.1.4 a detailed description of the business and operational drivers relevant to each section of the Financial Offer Summary; and
- 7.3.1.5 insurance arrangements and costs.

7.3.2 The format of the Assumptions Book is required to follow the subheadings set out in the Financial Model, and the Bidder is required to include in the Assumptions Book a table setting out all relevant cross-references between the information set out in each subheading of the Financial Offer Summary and other Proposal Returnables. Appropriate cross-referencing in the remainder of the Assumptions Book to the Proposal Returnables should also be provided. Appropriate cross-references of model outputs to the Financial Offer Summary inputs should also be provided in the Assumptions Book.

- 7.3.3 In addition, each Bidder is to ensure the consistency of the Assumptions Book with the Marked-up Transaction Agreements. Any proposed departures with financial impacts should be clearly set out in the Assumptions Book with the pricing implications incorporated into the Financial Offer Summary, and the rationale for the departure described in the Departures Schedule.
- 7.3.4 The Assumption Book forms part of the Proposal Returnables and will be used by Transnet in its evaluation of the Proposal.

7.4 Financial Model

- 7.4.1 It is expected that each Bidder will also build its own an internal model(s) ("**Financial Model**") to support its Proposal. A separate Financial Model is to be provided for each Proposal. The Financial Model should set out any additional calculations, which support the information provided in the Financial Offer Summary to enable proper assessment of the reasonableness of the Bidder's financial assumptions. Where the Financial Offer Summary information is derived directly from the Financial Model, the Bidder is required within its Assumptions Book to reference the relevant part of the Financial Model, so that pricing calculations can be traced and understood.
- 7.4.2 The Financial Model should be developed in accordance with sound and generally accepted modelling practice, having regard to accuracy and clarity. At a minimum, the Financial Model will be required to comply with the following:
- 7.4.2.1 it should be compatible with Microsoft Excel 2003/7/10 or newer and should not require the installation of additional add-ins not provided with Microsoft Excel version;
 - 7.4.2.2 it should contain appropriate labels to assist in the understanding of the Financial Model;
 - 7.4.2.3 it should not be linked to any external files;
 - 7.4.2.4 any password protection included in the Financial Model must be removed or if password protected that password(s) must be provided with the Proposal and clearly identified as such;
 - 7.4.2.5 macros should not be hidden and must be fully documented to explain their functions and the part of the Financial Model that they relate to; and
 - 7.4.2.6 the Financial Model is to be dynamic (i.e. all formulae must be included and all links for automatic updating of information in cells must be maintained).
- 7.4.3 The Financial Model is considered as supporting information to the Proposal and, as such, will be used to assist in understanding the financial aspects of the Proposal.
- 7.4.4 Each Bidder must ensure the accuracy and integrity of the Financial Model, which has been submitted.

7.5 Sustainability of the Concession

Bidders need to indicate the financial sustainability of their Proposals, including the financial strength of the Bidder and its associates, and the financial robustness of its business plan.

7.5.1 Sustainability Returnable

Each Bidder is required to provide, as a minimum, a separately worded response on the Sustainability of its Proposal.

7.5.2 Sustainability of the Proposal

7.5.2.1 Each Bidder should prepare a separately worded response to demonstrate the financial sustainability of its Proposal. This response should be provided both on a consortium basis and for each Sponsor and Relevant Entity and other member(s), if any, of the Bidder, and provide sufficient detail and clarity to allow a proper understanding of:

- 7.5.2.1.1 *what the Bidder perceives as the major commercial risks / sustainability issues over the Concession period and strategies proposed to manage these risks;*
- 7.5.2.1.2 *the reasonableness and sensitivity of the assumptions which have been adopted as the basis for pricing of the Proposal;*
- 7.5.2.1.3 *the manner in which the identified risks and issues are addressed and/or mitigated through the management of the business; and*
- 7.5.2.1.4 *the Bidder's financial sustainability, each year and over the Concession period, demonstrated through quantitative sensitivity and/or scenario analysis.*

In connection with the Sustainability of the Proposal, Transnet will also have reference to the material provided by Sponsors and financiers in the Mandatory Compliance Requirements Returnable – Financial Capacity.

8. Human Resources (Returnable 8)

Bidders need to indicate the extent and manner in which they propose to staff their organisation to ensure, from a human resource perspective, delivery of their business plans.

Transnet will consider –

- *the robustness of the proposed human resource management practises;*
- *the means by which the Bidder intends to address skills retention and succession planning;*
- *the number and nature of new jobs created directly by the establishment and conduct of the business of the Bidder.*

Bidders should accordingly provide their management approach and staffing proposals in respect of the following areas, namely –

- *operations;*
- *maintenance;*
- *safety;*
- *environmental management;*
- *sales and marketing;*
- *finance and administration*

Bidders are required to provide the following, as a minimum, in response to this Section:

- a Human Resource Strategy;
- a Human Resource Plan.

8.1 Human Resource Strategy

8.1.1 The response of Bidders to staff and organisational strategy should address each of the following considerations:

- 8.1.1.1 its policy for employee recruitment and retention;
- 8.1.1.2 its organisational structure demonstrating management reporting lines and responsibilities for operations, infrastructure maintenance, safety, environment, sales and marketing, finance and administration, customers, etc;
- 8.1.1.3 its proposed workforce development strategy and training programme to ensure that staff are competent to carry out their respective duties for operations, infrastructure maintenance, safety, environment, sales and marketing, finance and administration, customers, etc;
- 8.1.1.4 its approach to succession planning, which demonstrates the ability to deliver a continuous level of service throughout the term of the Concession.

- 8.1.2 Bidders are also required to provide descriptions of the positions in top levels or senior management that would be responsible for operations, infrastructure maintenance, safety, environment, sales and marketing, finance and administration, customers, etc.
- 8.1.3 Bidders are required to provide proof of (or a copy of) the certification or accreditation of its proposed staff (or agents) in safety critical positions.
- 8.1.4 Bidders are required to provide their strategy for surveillance of prospective employees, and management of surveillance of the health of employees.
- 8.1.5 Bidders are required to provide their strategy for labour relations.

8.2 Human Resource Plan

- 8.2.1 Bidders must, as part of their Proposals, prepare a human resource plan.
- 8.2.2 The human resource plan should comprise the following:
 - 8.2.2.1 the estimated staff numbers for each of the first five (5) years of the Concession;
 - 8.2.2.2 a workforce plan for the first year of operations, providing staff numbers and shift patterns;
 - 8.2.2.3 the curriculum vitae of the proposed senior management personnel, and if not as yet identified, the qualifications and experience for such personnel with reference to all functions of the organisation, including operations, infrastructure maintenance, safety, sales and marketing, finance and administration and customers.
- 8.2.3 **Bidders must provide an estimate of the total staff cost for each of the first five (5) years of the Concession.**