

**Minutes of the REQUEST FOR PROPOSALS: Transnet
Engineering Capital Assets Leasing Company**

RFP NUMBER: TE/2023/04/0019/26626/RFP

Briefing Session, 08 May 2023



Discussion Point	
<p>Opening and Welcome</p> <p>The Chairperson opened the meeting and welcomed attendees at 9:00am 15:00pm.</p> <ul style="list-style-type: none">• The tender briefing session is for the Transnet Engineering Capital Assets Leasing Company RFP.• The purpose of the session is to take prospective bidders through the expectations of Transnet.• Furthermore, it is for the attendees to ask questions for clarity and Transnet to respond.• The bidders are encouraged to capture their questions on the chat. Where Transnet has an official response, it will respond accordingly and where it does not have a response, Transnet will release an official response. All responses will be made available to all attendees of both sessions.• Sifiso Dlamini, the Chief Finance Officer will take the attendees through the context and the background of the RFP.• Supply chain, represented by Aaron Mabena, will highlight the next steps in the supply chain process.	Kamogelo Puoane
<p>Meeting Rules</p> <p>The Transnet Supply Chain representatives stated the following house rules:</p> <ul style="list-style-type: none">• There have been enquiries from the market regarding the two briefing sessions scheduled for today. For clarity, two sessions will be held, and the same content will be presented. The reason behind the two sessions was to be considerate of different time zones across the globe.• The attendees are to remain on mute if not given the go-ahead to speak.• The session is being recorded; this is just for record keeping.• All the attendees are required to write their names, the company they are representing and their contact details (phone number and e-mail address) on the chat so that Transnet can contact you where necessary.	Aaron Mabena
<p>Attendance Register</p> <ul style="list-style-type: none">• See the Annexure A	

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RFP	Sifiso Dlamini
<p>The presenter highlighted the following points relating to the RFP:</p> <p><i>Purpose of the RFP and Background</i></p> <ul style="list-style-type: none">• The purpose of this briefing session is broadly to cover the main areas of the RFP so the audience can have context.• Transnet, through Transnet Engineering, seeks to find a partner, a person or consortium that is going to work with it in establishing a new company for leasing rolling stock and developing market opportunities together.• Transnet is looking for a partner that has access to financial resources because we foresee this as a capital-intensive project. Secondly, given the nature of the project where we want to enter a leasing framework, Transnet is looking for a partner that has leasing capabilities to make this venture a success.• The main objective would be to pursue the domestic and the regional leasing opportunities from a rolling stock and port equipment perspective.• When we're talking about the domestic market, we are talking mainly the South African market. Regional refers to outside the borders of South Africa like Zimbabwe, Zambia, Democratic Republic of Congo. <p><i>Value Proposition</i></p> <ul style="list-style-type: none">• Transnet, is a state-owned company with one shareholder, the South African government• Transnet has a mandate to assist in lowering the cost of doing business in South Africa. The other mandate is to enable economic growth. Furthermore, it is to ensure security of supply by providing appropriate port rail and pipeline infrastructure in a cost effective and efficient manner within acceptable benchmarks.• Transnet has been subdivided into various components. The division whose responsibility is the operation of locomotives and wagons is Transnet Freight Rail (TFR).• Transnet Engineering is responsible for the maintenance of the locomotives and of wagons, as well as the manufacturing thereof.• Other operating divisions are Transnet National Ports Authority, Transnet Port Terminals, and Transnet Pipelines.• Transnet Engineering will be the lead partner in the establishment of the LeaseCo.• Transnet Engineering is the largest engineering firm in South Africa and has a national footprint.• Transnet Engineering's main products and services are in engineering services. This includes research, design, development, qualification and certification. Transnet Engineering also manufactures locomotives and wagons and has designed and manufactured the Port Hauler.	

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- Transnet Engineering is capable of refurbishing locomotives or wagons that are out of service.
- We have various clients both in the domestic market and in the sub regional market. We also provide after sales support.
- We maintain wagons and, have a maintenance capability for Port Haulers.
- We have developed and manufactured the three Trans Africa Locomotives, currently being used in the Saldanha Ore line.
- Transnet Engineering has done some capital asset leasing in Zambia and Tanzania, where 125 wagons were released for those operations. We entered a five-year lease for 100 container wagons in the Democratic Republic of Congo.
- Transnet, as a group, has access to 100 locomotives and 2000 wagons, currently in what we call the B fleet rolling stock.
- The B fleet refers to a grouping of assets that are out of service.
- These can be injected into the NewCo for the leasing business as an asset base for the LeaseCo.
- The refurbishment of those fleets, if they are injected as an asset base into the LeaseCo, would be the responsibility of the NewCo. The valuation of those assets then will depend on the fair value.

MARKET OPPORTUNITIES AND THE PROJECT

- There has been a preliminary assessment that has indicated that in the South African market and the regional market in general, there are opportunities that the LeaseCo can capitalise on.
- Information in the public domain indicates that there is currently a freight volume demand that is not met by TFR. Some of TFR's challenges are contractual (disputes that are currently ongoing between Transnet and the Chinese manufacturers impacting the availability of locomotives) and some are financial. Transnet Engineering have assessed that there is a gap, there is a demand for rolling stock that can be fulfilled by the LeaseCo in the event that the private sector meets this unmet demand.
- There is a drive by the South African government to open the rail network to third parties. That initiative may bring challenges to the private sector in that they might find the cost of buying locomotives and wagons prohibitive. The locomotive price ranges from R50 million to R70 million. Therefore, LeaseCo could be a perfect vehicle to provide leased assets to rail operators in South Africa.
- There is a proposed capacity expansion in the Durban container terminal that is expected to result in an increase in container throughput. With an increase in throughput there will be a need for more locomotives, wagons, and Port Haulers.
- There is also a proposed leasing of the Container Corridor by TFR which may create demand for capital assets, which could be provided by LeaseCo.
- These opportunities have been identified but not quantified.

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- From a regional market perspective (supported by studies in Zimbabwe, Zambia and the DR), there remains a demand that is currently not served.
- Once this joint venture has been implemented, these opportunities can be quantified and developed.
- The reason Transnet Engineering is seeking a partner is to take advantage of these opportunities that have been identified in the market.

PROJECT SCOPE

- The scope of the partnership includes, but it's not limited to:
 - Formal assessment of the market.
 - Acquisition and where required refurbishment of the assets: locomotives, wagons and, if the NewCo is looking into ports, Port Haulers.
 - Business model
- Transnet Engineering will need the partner to lease rolling stock both in the South African market and to the regional markets.
- The leasing experience comes into play because we will need to make sure that we are running an efficient and effective NewCo.
- To manage rolling stock, we need to ensure that the rolling stock is well maintained and is available for leasing to the customers at any given point in time.

COMMERCIAL AND GOVERNANCE ARRANGEMENTS

- It is envisaged that a Special Purpose Vehicle (SPV) is going to be created for the implementation of this project.
- Transnet is a state-owned entity, and the following approvals needed:
 - Approval from the Minister of Finance and the Minister of Public Enterprises to establish the Newco and to dispose of the shares into the NewCo to the Preferred Bidder, in terms of the Public Finance Management Act (PFMA).
 - If there is a need, Transnet will seek approval for the project in terms of the Competition Act.
 - If there is a need, Transnet will seek approval to be exempted from the PFMA for the NewCo.
- Transnet will solicit all the approvals.
- Transnet and the preferred bidder will then jointly develop the projects for both the domestic and the regional market. So the envisaged structure is going to be a jointly owned, controlled and operated NewCo, owned and managed by Transnet and the Preferred Bidder.
- The shareholding of this NewCo will be negotiated between Transnet and the Preferred Bidder.
- The governance arrangements will be negotiated with the Preferred Bidder.

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- The Memorandum of Incorporation and the Shareholders' Agreement will be developed jointly.
- The shareholding structure, the majority control of the board, appointment of the board, and the number of votes per director are some of the points that will be incorporated into the memorandum of incorporation. The list is not exhaustive.

ANTICIPATED PROCUREMENT SCHEDULE

- This is the briefing session and this will be followed by the clarification question and answer period, which will be between today and the 15th of June 2023.
- 30 June 2023 is the bid submission date for interested bidders.
- In July 2023, the evaluation of the proposals will be done.
- In August 2023, we will request the regulatory approvals.
- In September 2023 we will conduct the negotiations and complete the project agreement.
- It is likely that the announcement of preferred bidder will only take place after the regulatory approvals have been received.

EVALUATION CRITERIA AND METHODOLOGY

- The evaluation process will be conducted in the following stages.
 - The first is compliance. The bidders will have to pass the administrative responsiveness before proceeding to the next stage.
 - Transnet will also be looking at the compliance with the exclusion criteria where the exclusion criteria apply.
 - There will be compliance with the minimum financial criteria which is set out in the RFP.
 - Lastly there is compliance with minimum technical criteria. The minimum qualifying score that is going to be required will be 70% from the technical criteria.
- The minimum financial criteria will be applied for eligibility: the submission of the most recent five years audited Financial Statements that will show that the profit, EBITDA and operational free cash flow in each of the last five years were positive (with allowance made for the impact of COVID).
- Solvency must be equal to or exceed 0.4.
- The liquidity ratio using the acid test ratio must be greater than one.
- There must be a declaration by the bidders regarding any material changes to the financial position or financial statements, and any commitments since the last submission of the financial statements, that will have a material bearing, the bidder's ability to execute on the project.
- Transnet may require that the minimum financial criteria be verified or certified by an independent third party.

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<ul style="list-style-type: none"> • Transnet will have a tiebreaker where if there's more than one supplier, the company with the most financial strength will be considered for partnering with Transnet. <p><i>PROPOSAL REQUIREMENT</i></p> <p>The required content of the proposals:</p> <ul style="list-style-type: none"> • the general information will require contact information and corporate information. • Form 1 covers the ownership structure and authorised representatives • Form 2 requires the process statement. • Form 3 non-disclosure agreement. • Form 4 is the RFP declaration and the breach of law firm. • Form 5 is central supplier database • Form 6 is a disclosure of contract form. • Form 7 is confirmation on due diligence information • Form 8 is the qualification declaration. • Form 9 is the statement of qualifications. • Form 10 is the protection of personal information. 	
<p>Next steps in the Procurement Process</p> <ul style="list-style-type: none"> • The CFO has already covered the procurement timelines • The presentation has been published on the E-tender portal • The questions that have been answered here and any subsequent questions that may be asked, will be responded to in writing and be published on the advertising portal on a continuous basis. • Advantage with the attendees is that these documents will be sent to your e-mail inbox, but for those that were not part of the briefing sessions, the documents will be available on the Central Supplier Database, National Treasury, as well as the Transnet E-tender portal. • Tender briefing sessions are not compulsory, so those that did not participate will not be disqualified as a result of non-attendance. • 	Aaron Mabena
<p>Question and Answer Session</p> <p>See the Annexure B Question-and-Answer document.</p>	Lead by Transnet and open to all audience
<p>Closure</p> <p>The Chairperson declared the meeting closed</p>	

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Chairperson

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K Puoane

Date: 24 May 2023

Supply Chain Representative

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A Mabena

Date: 24 May 2023