The Ministry of Transport and Telecommunications (MTT) of the Government of Chile and the Agency for the Promotion of Foreign Investment of the Government of Chile, InvestChile, invite public transport operators, bus manufacturers and the financial sector, throughout the world, to participate in the Tender Process for Licensing the Use of Roads of the Paid Public Passenger Transport System of the city of Santiago – Transantiago.

The MTT and InvestChile seek national or international companies that, either on their own or through a consortium or any other type of partnership, have the experience and the technical and financial capacity to invest in the operation of bus transport services.
The Metropolitan Public Transport System of Santiago

Since 2007, the public transport in Santiago is an integrated system, physically, operationally and in terms of fares. It is comprised of all the buses of urban transport of the city, which are operated by different private operators; the underground tube service and the nearby railway services. The system integrates fares by using a means of access, the so-called ‘bip!’ card.

The System works within an area of 2,353 km$^2$ and operates in urban zones, covering an area of 680 km$^2$, with a population of about 7 million inhabitants.

The Integrated Transport System has 5.4 MM daily trips, considering the three transport modes.

Metro of Santiago

The underground railway service is the main pillar of the Public Transport System, which has 7 metro lines. Including the upcoming opening of lines 3 and 6, the network will have 140 kilometers of railways and 136 stations.

The underground network is used by over 2.3 million people on a daily basis.

140 KM of Metro railways  
136 Stations

Buses

Bus transport operation services are provided by seven licensees. The surface network is comprised of 6,600 buses, with 380 different lines. Over 4.2 million trips are daily made in the bus system.

6600 Buses  
380 Bus Services

Railway

Operations of the service Alameda-Nos started by the end of 2016. This means contributes with 23 km of routes, and it is expected to transport about 20 million passengers a year.

23 KM of railways  
10 Stations

The system has also a smart card, named ‘bip!’!, and a top-up network with stands in the Metro stations and several spots on the surface (stores, kiosks, among others). Additionally, buses that provide transport services are equipped with GPS technology, allowing to measure performance indicators.

1 Lines 3 and 6, which will begin operating soon, are considered.
System Revenues

System revenues are determined by the fare paid by users, in addition to subsidies granted under Law No. 20,378.

Currently, the revenues amount to USD 1,500 MM, where 55% comes from fares paid by the users, and 45% from the aforementioned subsidies. The system resources are used to pay for the different services comprising the system, as follows: 66.4% for bus transport, 25.9% for Metro service and 7.7% for the remaining complementary services.
# Current Operators

Operators using roads

<table>
<thead>
<tr>
<th>BUSINESS UNIT No.</th>
<th>PROVIDER</th>
<th>ORIGIN COUNTRY</th>
<th>HIRED FLEET (No. OF BUSES)</th>
<th>CONTRACT MATURITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>N°1</td>
<td>Inversiones Alsacia S.A.</td>
<td>Colombia</td>
<td>685</td>
<td>22-10-2018</td>
</tr>
<tr>
<td>N°2</td>
<td>Subus Chile S.A.</td>
<td>Colombia</td>
<td>1219</td>
<td>22-10-2020</td>
</tr>
<tr>
<td>N°3</td>
<td>Buses Vule S.A.</td>
<td>Chile</td>
<td>1118</td>
<td>24-11-2021</td>
</tr>
<tr>
<td>N°4</td>
<td>Express de Santiago Uno S.A.</td>
<td>Colombia</td>
<td>1187</td>
<td>22-10-2018</td>
</tr>
<tr>
<td>N°5</td>
<td>Metbus S.A.</td>
<td>Chile</td>
<td>875</td>
<td>22-10-2018²</td>
</tr>
<tr>
<td>N°6</td>
<td>Redbus Urbano S.A.</td>
<td>France</td>
<td>599</td>
<td>31-05-2018</td>
</tr>
<tr>
<td>N°7</td>
<td>Servicios de Transporte de Personas S.A.</td>
<td>Chile</td>
<td>384</td>
<td>31-05-2018</td>
</tr>
</tbody>
</table>

The operators using roads are corporations with exclusive line of business, that provide the public bus transport services, under a licensing system for the use of roads or regulation analogous methods. Services provided by these companies are regulated by the Ministry of Transport and Telecommunications, through the Executive Secretariat of the Metropolitan Public Transport Board (DTPM), which administer licensing contracts or the equivalent instruments.

Currently, the System has seven Business Units, each of them operating a set of lines, generally classified by numbers and/or letters, which are also identified with a specific color.

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² The contract with this company includes an extension in the licensing period for Cox and NOx emission reductions. Consequently, services comprising this Business Unit will be tendered in the second stage of the process.
Card and Top-up Network

Metro S.A. is the company responsible for issuing the means of access (bip! card), providing and operating its commercialization and top-up networks, and generating the transport credits.

Such service is provided under a service provision contract, whose maturity date is Sunday, February 10, 2019.

Validation in Buses, Positioning and Central Services

Provision of validation services and positioning of the bus fleet, network services for the commercialization and top-up system of the means of access, and central technological services are provided by Sonda. This company has a service provision contract, whose maturity date is Sunday, February 10, 2019.

Financial Management Services

These services are provided by AFT (Spanish acronym standing for Financial Manager of Transantiago in English), which is responsible for managing, safeguarding and recording the System resources, for the allocation of resources among transport service providers and for the payment to complementary and infrastructure service providers.

TENDER PROCESS FOR LICENSING THE USE OF ROADS 2017–2018

Provisioning an efficient, safe and high-quality transport service is one of the main goals of the MTT. For this purpose, during the second half of 2015 a process to globally review and assess the Transport System operations and all its License Contracts for the Use of Roads and provision of Complementary Services, held under the article No. 3 of Law. No. 18,696, was developed.

The Technical Secretariat for Strategy and Planning (STEP in Spanish) of the Metropolitan Public Transport Board (DTPM) has been created, to review and improve the Transport System. This is the organization responsible for assessing and redefining the relevant elements of passenger transport and its consequent tender process for licensing the use of roads and providing the necessary complementary services.

Considering the upcoming maturity of some of the business units operating in the System, the MTT has prepared a tender process for licensing the use of roads for 4 of the 7 existing business units. Business units that are subject to this new process represent 47% of the System\(^3\), including 2,855 of the buses currently in operation.

Some of the most relevant aspects of the upcoming tender process are described in the following paragraphs.

Business Units and Fleet Size

For this tender process, it has been established that the 4 existing Business Units to be tendered will become 6 new Business Units, considering 530 and 560 buses per fleet.

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\(^3\) Measured as a percentage of the fleet that currently comprises the System.
Technological and Emissions Requirements

Interested transport service operators need to offer a number of buses that comply with the local regulations - regarding pollutant emissions (Euro VI or EPA2010) and the allowed functional and dimension standard⁴ - meeting the service levels required through an Operation Program, defined in terms of frequency, regularity and occupancy - per period and direction of services. This will be known by the bidders when applying.

Fleet Age Requirements

The bus fleet offered by the bidder(s) may be new or used. At the beginning of the licensing period, the average age of the fleet shall not exceed 5 years, and no vehicle comprising the fleet may have been manufactured 7 years before the date of submitting the offer (i.e. maximum manufacturing year must be 2010).

Electrical buses and buses with special attributes

Every awardee shall have at least 15 electrical buses and 15 buses with special attributes. The latter are those that feature additional conditions, regarding the minimum required, such as low floor and air conditioning, or that have emission technologies over the requirements of the current regulations, or that have more seats and air conditioning.

Licensing Term

Contracts arising from the tender for licensing the use of roads shall have a 10-year license term.

Fare evasion control

For operators to play an active role in fare evasion control, the different participants in the tender process for the use of roads must consider in their bid a group of “movable prepaid zones”, the installation of turnstiles in new buses and a minimum number of workers, for fare evasion control.

Allocated Assets and Provisioning Contract

The license contract arising from the bid states that “Allocated Assets” are those necessary for the basic provision of the service, such as buses, terminals, personal rights arising from the contract and any other movable and immovable property the State deems critical for the provision of the service.

The license contract also considers a “provisioning contract” tool, allowing the Ministry to retain in the system the basic assets and minimum services for the service provision, such as buses.

This way, the service provider is able to fulfill its responsibilities and the goods and service provider is more certain regarding the release of the corresponding payments, as the good remains in the System until the end of its service life, regardless of the operator.

Cession of rights

The contract sets that the company/licensee may transfer and assign, to a third party, the totality or part of the rights arising from the Licensing Contract for the Use of Roads. If there is a cession of rights, MTT shall arrange that the payment is made as agreed on said Cession of Rights. On the other hand, the AFT shall pay directly to the third party appointed in the Cession of Rights.

The Cession of rights allows for the independence of the flow of financial resources from any situation that may affect the operator, guaranteeing payment for bus manufacturers and investors.

Who can participate?

- Chilean legal entities
- Foreign legal entities
- Holding of legal entities

⁴ Supreme Decree No. 122/1991, establishing the operation and dimension requirements for vehicles used to provide urban public transport services. [https://www.leychile.cl/Navegar?idNorma=9612](https://www.leychile.cl/Navegar?idNorma=9612)
The bidders or bidding holdings must present their proposals for each Business Unit they apply for, in separate, and independently, as set forth in the Terms and Conditions.

Each bidder or bidding holding may present a single proposal for each Business Unit they apply for, with no limit so as to the submission of Bids for other tendered business units.

For consortiums or holdings, one of the companies must prove it has performed transport services in the past. In case of being awarded, said company must own at least 30% of the bidding holding, throughout the validity of the contract.

**Required Experience**

Companies that have never performed services in the System must prove their simultaneous operation of 150 buses in public, rural, urban, or intercity transport, for at least three (3) consecutive years, within the period of ten (10) years prior to the submission of bids.

On the other hand, if they have previously operated in the System, or have a relevant partner that has operated in the System, they must prove a compliance level equal or higher than 0.8 in the regularity compliance indicator.

**Some Obligations of the Awardee**

- Incorporation of the bidding holding with a capital of at least UF{superscript}5 200,000
- Performance Bond of UF 110,000
- Additional Performance Bond of UF 220,000
- Labor laws compliance Bond of UF 11,000
- System Integration Contract Signing
- Licensing Contract Signing

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{superscript}5 UF stands for Unidad de Fomento in Spanish, and it is an accounting unit set by the Central Bank of Chile.
Financial Conditions outstanding as Investment Opportunities

REASONS FOR INVESTING IN CHILE

For several years, Chile has attracted a steady flow of Foreign Direct Investment, positioning the country as one of the World’s main recipients of FDI.

Chile is the second country in Latin America, and the first in South America, to become an OECD member, an organization comprised of the most stable economies in the World.

The main credit rating companies in the world assign to Chile a low sovereign risk for investing and performing credit operations with the Government of Chile and its main corporations.

High Medium- and Long-Term Expected Returns

- High sustainable and sustained GDP growth rate.
- Existence of bilateral and multilateral trade agreements with priority access to important and dynamic consumption markets.
- Important internal markets, high dynamism and sophistication, offering a strong internal demand.
- High growth rate for productivity in factors of production.
- Low country risk, translating into low spreads collected on sovereign and corporate debt.
- Broad variety of agreements for preventing international double taxation on revenues generated in Chile by foreign investors.

Low Systemic Risk

- Management of macroeconomic policies, based on fiscal austerity, and an autonomous Central Bank.
- High stability, solidity, maturity, and transparency of its political and economic institutions.
- Low levels of public debt.
- High compliance and behavior standards, due to Chile being an OECD member, and trade agreements with the U.S. and the EU.
- Agreements for the protection of foreign investment, establishing a non-discriminatory access to the foreign exchange market, reliable controversy solution mechanisms, among others.

FINANCIAL CONDITIONS OF THE CONTRACTS

Payment Formula

Transport services provided by the operators are paid through a payment formula containing the following elements:

- Payment per transported passenger (PPT as per Spanish acronym)
- Payment per traveled commercial kilometer (PK as per Spanish acronym)
- Payment per Compliance with Indicators (ICI as per Spanish acronym)
- Fleet Quota Payment (PCF as per Spanish acronym)
- Other Payments
The payment per kilometer is the payment made by the System for traveled commercial kilometers in the Operation Program. In order to clearly express the payment mechanism for the service effectively provided, the number of kilometers to be paid is corrected by a factor that represents the real compliance of the Operation Program (IFCP as per Spanish acronym). Thus, it is guaranteed that the payment to the operator totally matches the services provided on-site and the proper compliance with the required frequency and occupancy.

On the other hand, the payment per transported passenger corresponds to a value in Chilean pesos that the system will pay to the licensee for each transaction on board of their buses. Thereby, operators are encouraged to provide a quality service and to make an effort to obtain new passengers and to contribute to control fare evasion.

The Indicator compliance payment component, included in the payment formula, considers the following elements:

- Incentives of up to 10%\(^6\)
- Discount of up to 7.5%\(^7\)

Thus, the concept of reward for correct provision of service is added, and discounts for poor performance are established. In this index, the indicators of Regularity, User experience quality; Vehicle Quality, and calling at bus stops are considered.

Finally, a payment representing the costs related to rolling materials (amortization and interests) is considered in the payment formula.

This concept allows to partially separate the business’ OPEX and CAPEX, where the investment in rolling material is exempted from operational risk.

The bidder may assign their rights over this quota to a third party. In this case, the system shall pay directly to such third party. This mechanism makes the business assessment easier for the investors.

The PK and PCF components seek to cover a high percentage of the operating costs, while the payment per transported passenger, together with the payment for compliance with indicators, seek to represent the earnings of the companies, as well as costs not covered in the previous factors.

Cost Update Mechanism

In order to maintain the real value of the contract over time, a Cost-Adjustment Mechanism is considered, per type of bus and fueling technology, based on the application of a cost indexation vector.

Exceptional Revisions

To safeguard the sustainability of the System, MTT considers determined adjustment mechanisms for exogenous falls in key variables determining the revenue and profitability of the business, such as new means of massive transport (metro lines), fleet increase, among others.

OPPORTUNITY

The tendering process for the use of the roads of business units UN1, UN4, UN6, UN7, UN8 and UN9, considers the following investment elements:

- 38 million commercial kilometers, on average for each Business Unit to be tendered.
- Fleets of 550 buses, on average for each Business Unit to be tendered.
- 1,500 new buses that will enter the system, for the renewal of the fleet due to age.
- Maximum of 2 Business Units to be awarded per bidder.

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\(^6\) Amount calculated using income per transported passenger and income per kilometer.
\(^7\) Amount calculated using income per transported passenger and income per kilometer.