SCOPE OF REQUIREMENT

THE PROVISION OF TRANSACTIONAL ADVISORY SERVICES TO SUPPORT THE CONTAINER CORRIDOR PRIVATE SECTOR PARTICIPATION TRANSACTION

TCC/2025/10/0001/109816/RFP

SCOPE OF WORK (SOW)

1. Purpose

Transnet has initiated a private sector participation (PSP) transaction under the Transnet Joint Investment and External Partner Selection (JIEPS) framework, seeking private sector partners to invest in and operate one of the six freight corridors, namely **the Container Corridor**. The objectives of this transaction include funding and investment on the rail network and improved rail operations.

The regulatory, commercial, and financial complexities of developing this PSP transaction require the appointment of specialist Transaction Advisors to assist Transnet in preparing a bankable feasibility business case, transaction strategy, and external partner selection plan.

Transnet therefore seeks the services of a competent and experienced consultant to provide transaction advisory support for the PSP transaction (TCC/2025/10/0001/109816/RFP) to support the PSP for the Container Corridor.

Although the focus is on improving the financial position of Transnet's Rail and Port operations, the intent is that the anticipated transaction would have a positive effect on the South African economy as well as the larger Transnet system through increased rail-bound volumes. There is an expectation that this transaction will unlock additional unrealised value both within the rail network, rail operations and in the broader value chain.

The intended objectives of this transaction are to:

- Maximise contribution to Transnet's bottom line;
- Improve logistics for container & automotive sector in SA;
- Contribute to the reduction of cost of doing business in SA and improve competitiveness;
- Increase rail market share of overall general freight sector; and
- To broaden the available capital base for key logistics infrastructure and operational equipment investments.

In addition, Transnet wishes to leverage Private Sector capital in the funding for the growth and expansion initiatives through Project Financing Structures that will reduce the reliance and burden on the already constrained Transnet balance sheet for the funding of these projects.

It must be noted that Transnet reserves the right to terminate, modify the scope and or reduce the scope of any of the sub tasks identified as part of this task order. The transaction advisor shall be provided with adequate notice as to the change and no additional cost would be allowed for demobilisation of resources. The deliverable schedule for the sub task order would be reconciled in accordance with the scope modification and the associated credit on the task order would be passed.

At the inception kick-off meeting Transnet will confirm the detailed scope and the key deliverables and the key dates for delivery that is required from the Transaction Advisor.

It must be noted that all advisory outputs will be subjected to internal and external auditing. It is therefore imperative that governance documentation complies with the standards required.

2. Background

Transnet SOC Ltd is a large South African rail, port and pipeline company and plays a critical role in South Africa's freight logistic system. The company is responsible for the effective and efficient functioning of key industrial supply chains that move goods from production to consumers. To contribute to South Africa's growth, these supply chains must operate effectively and be competitive.

Transnet currently finds itself at an uncomfortable juncture – its contribution to improving freight and logistics performance and supply chain competitiveness, as well as other national growth and development imperatives is lagging and has been for some time. The company's financial position is also heavily constrained, resulting in severe curtailment of investments, further weakening the freight system, and posing a risk to the security of supply.

Therefore, the Transnet Reinvent for Growth Strategy aims to address operational challenges and improve execution of the mandate. This entails a renewed and focussed delivery against the three focus areas:

- **Fix and Optimise the Business**: Tactical in nature and operationally focused initiatives aimed at protecting current revenue sources, improving the way in which we do business, saving costs and delivering on current mandate.
- **Transform the Business**: Transformative journey in developing new ways of doing business, a fundamental change to operating models (incl. rail operating model reform) and longer-term repositioning of the business.
- **Growing the Business**: Expansionary focus with a mix of initiatives intended to leverage successes of repositioning to expand market share with focus being on areas of inherent and acquired comparative advantage.

The South African Government has, through the National Cabinet, considered and approved the Freight Logistics Roadmap for implementation. The main tenet of the Roadmap is to separate infrastructure (network) from operations and allow access on the network to increase throughput. The Roadmap outlines a clear path to address immediate challenges in the national logistics system and seeks to reform the system in the long term, while addressing some quick wins in the short to medium term. The key challenges within South Africa's freight logistics system pose a significant constraint on economic growth and job creation. The impact is currently experienced through job losses in the mining and manufacturing sectors.

As part of the Roadmap and Transnet strategy, private sector partnerships have been identified as a key strategy to turnaround and enhance the performance of the logistics sector, and by implication, the Container Corridor in the medium to long term. By increasing operational efficiency, integrating technological innovations, and implementing customer-centric service models, these partnerships can drive improved performance, attract additional business, and facilitate the shift of more freight from road to rail. This approach will not only strengthen Transnet's financial stability but also support national objectives of easing road congestion, reducing carbon emissions, and fostering sustainable economic growth.

3. The Container Corridor

The Container Corridor is the backbone of South Africa's general freight rail network, playing a pivotal role in economic growth, trade facilitation, and regional connectivity. As the primary rail artery to the Port of Durban, the busiest container port in Africa and the Southern Hemisphere, the Corridor is essential for linking Durban's port operations with Gauteng's economic hub, inland terminals, and neighbouring countries.

Spanning 688km, the Corridor enables the direct transport of strategic commodities between the Port of Durban and key inland freight terminals, including City Deep, Kascon, Pretcon, Kaalfontein, and various private sidings. It is a vital logistics enabler for import and export freight, supporting the movement of containers, automotive cargo, grain, fuel, chemicals, coal, manganese, chrome, and general freight logistics and passengers.

The customer base comprises major shipping lines, major automotive original equipment manufacturers and other logistics service providers. These segments are regarded as high-value industrial sectors and contribute materially to the South African economy and gross domestic product. However, despite its significance, nearly 90% of these goods are still transported by road, placing excessive pressure on road infrastructure, and increasing logistics costs.

The rail reform introduced by the Roadmap has resulted in the separation of infrastructure from operations. Rail operations in the Container Corridor are currently provided by Transnet Freight Rail (TFR) whilst the rail infrastructure is owned and managed by the Transnet Rail Infrastructure Manager (TRIM).

Transnet has and continues to face significant financial losses on the Container Corridor due to declining volumes, operational inefficiencies and increasing competition from road freight. Aging infrastructure, rampant theft and vandalism, unreliable service levels, and limited investment in asset maintenance have left rail infrastructure in critical disrepair. These factors have eroded the corridor's competitiveness, resulting in revenue shortfalls and escalating rehabilitative maintenance costs. Freight volumes transported on the Corridor have declined dramatically, from 12.6 million tons in the 2017/18 fiscal year to a projected 6.7 million tons in the 2024/25 fiscal year. The above has resulted in cross-subsidisation of these losses through profits generated by other profitable corridors.

From an infrastructure ownership and management perspective, the income from the Interim Rail Economic Regulator Capacity approved Access Charges for the Container Corridor is insufficient to allow TRIM to cover operational and capital expenses resulting in significant projected cash shortfall for 2025/26 financial year and beyond. The allowed access charges will further exacerbate the losses made by TRIM.

Transnet is therefore seeking a solution to improve network reliability and increase operational throughput on the Container Corridor, through a PSP process.

4. Deliverables

The anticipated deliverables for this assignment are summarised below.

4.1. Bankable Feasibility Business Case incorporating:

4.1.1. Overview and detailed analysis of the Container Corridor, including benchmarking report

4.1.2. Market Study

4.1.3. Technical, Commercial, Legal, Financial and Environmental due diligence report

4.1.4. Transaction strategy, transaction structure, and transaction parameters (e.g., equity percentage holding, price, governance, treatment of licenses and permits)

4.1.5. Potential Funding and financing solutions.

4.2. Detailed Financial Model/s for each option considered, with financial valuation report supported by three interlinked financial statements (income statement, balance sheet, cash flow statement) financial model in Excel format, with a clear list of assumptions, including any sensitivity analysis which may be required.

4.3. External Partner Selection Plan and Evaluation Criteria.

4.4. Legal Advisory Services.

5. Detailed Scope Breakdown

5.1. Bankable Comprehensive Feasibility Business Case, incorporating the following:

5.1.1. Corridor Analysis - Overview and detailed analysis of the Container Corridor, including benchmarking report:

- Conduct a detailed analysis of Container Corridor, split between rail infrastructure network and rail operations. This should include analysis of employees, current customers, suppliers, land, site, technical (equipment, rolling stock, rail and other operational infrastructure) and ICT infrastructure. Transnet undertakes periodic asset valuations, and as such the latest asset valuations will be made available to, and may be relied upon by, the consultants.
- Rail infrastructure: Review and consider the outcomes of the detailed technical evaluation and due diligence of rail infrastructure and assets, including identification of required upgrades, maintenance needs for rail infrastructure and technology enhancements to meet market demands.
- Rail operations: Conduct a detailed technical evaluation and due diligence of rail operational assets, including identification of rolling stock (wagons and locomotives) inventory and required upgrades, maintenance needs for rail operations and technology enhancements to meet market demands.

- Development of a stakeholder management plan, identification of key, critical and strategic stakeholders and key expectations for the project including a structured communication management plan
- Perform benchmarking of performance against regional competitors and global best practice to identify:
    - Operating model to maximise volumes
    - Proposed staff structure and employee requirements, noting the requirements of S197 of the Labour Relations Act requiring the transfer of all employees at their existing terms and conditions of service.
    - Sustainable Operating Expenditure (Opex) levels; and
    - Affordability and competitiveness of access charges and tariff structures.

5.1.2. Market Study:

- Market assessment, including where additional volumes may be accessed and potential customers; this should consider:
- The Rail Reform and approved rail network tariff structure (access charge) considering:
    - The latest published Network Statement by TRIM; and
    - The various channels utilised for exports and the likely volumes targeted.
- Analyse potential demand based on market assessment and develop potential scenarios to increase accessed demand.
- Conduct a competitor analysis and estimate the possible market share that can be targeted for this transaction.
- Consideration and alignment with outcomes from the Department of Transport Request for Information (RFI), specifically the Intermodal Supply Chain RFI – including assessment of market interest in participation in the potential transaction.

5.1.3. Technical, Commercial, Financial, Legal and Environmental Due Diligence

Conduct detailed technical, commercial, financial, legal and environmental due diligence, including but not limited to:

- Analysis of applicable environmental compliance requirements.
- Analysis of the regulatory framework, legal and compliance requirements for implementing the transaction.
- Identify human resources, systems, social and environmental issues and requirements.

- Identifying any issues that may affect private sector participation, from a human resource, health, safety, security, land, site, environmental, ICT and other technical considerations.
- Assessing applicable local content requirements and opportunities, potential B-BBEE benefits of the project, and appropriateness of any statutory exemptions in order to give effect to project objectives.
- Assessing the socioeconomic impact of the project and the ability to provide economic benefit to the affected communities in the area.
- Examination of exiting commercial agreements and contract.
- Benchmarking, decomposition and analysis of existing tariff structures, including the proposal of the most optimal tariff structures.
- Review and seek alignment on the scope of assets which will be included in the transaction scope.
- Assess any pre-existing encumbrances, loan agreements and repayment terms and conditions, in so far as they affect assets to be included under the scope of the transaction.

5.1.4. Transaction Strategy, structure and transaction parameters

Solution Development and Options Analysis:

- Identify and consider the most appropriate and viable options towards the achievement of the transaction objectives – including performing a Public Sector comparative (the as-is scenario).
- Consider the impact of the Rail Reform process which requires open access on the Corridor.
- Consider the role of TRIM with regards to the management of the network.
- Recommend the operational structure of the transaction, considering the implications of TRIM as infrastructure manager, the requirement for investment in the rail network (without adequate returns in the form of the access charge) and the requirement for open access for rail operating companies.
- Conduct a detailed comparative assessment of each option to identify the requirements, risks, benefits, advantages and disadvantages.
- Develop financial models to assess the options and present the optimal solution including sensitivity analysis and relevant funding including BFI funding considerations.
- Recommend the preferred option to meet Transnet's stated objectives. This includes recommending a market competitive tariff for the Container Corridor, taking into account the access charges, cost of supply, and any potential changes in the rail route, where applicable.

PSP Transaction strategy, structure and parameters:

- Based on the recommended option, define the Transaction strategy, structure and partner selection plan.
- Develop a strategy for attracting potential equity partners, including defining the ideal partner profile.
- Develop an Options Analysis and Transaction Structure which takes into account the following:
    - The assets/infrastructure/operations which will be the subject of the PSP
    - Roles and responsibilities of the parties
    - Nature and scale of contributions by Transnet and External Partner
    - Proposed duration of the joint investment; and
    - Bankability Considerations.
- Advise Transnet on a transaction structure that optimizes the project's financial viability and achieves the desired objectives. This must include:
- Structuring the ownership and control of the project entity. Outline various options and legal structures and recommend, in conjunction with the legal advisers, how the Container Corridor will be ringfenced for the introduction of the private sector partner and on what basis the partner can share in the ownership and management of the Container Corridor rail operations and/or rail network; this should consider the role of TRIM and the requirement for licensing arrangements.
- Providing a recommendation on the key transaction parameters to be included in the transaction agreements.
- Recommending institutional arrangements and governance structures for transaction.
- Develop a detailed project plan to achieve private sector participation in the earliest timeframe without any risk to ensuring best practice in the implementation process
- Outline how the bidders will be evaluated and, post transaction implementation, managed against specified performance outputs.
- Prepare a Stakeholder Management Plan and communication management plan to address the concerns of stakeholders identified above.

Risk Transfer:

- Conduct a detailed risk assessment of the transaction, including quantifying the cost of risk and recommending appropriate remedial and mitigation actions.
- The business case must outline the proposed risk transfer approach. In addition to traditional project risk analysis (typically focused on bankability), significant analysis

must be done on the transfer of risks to the External Partner compared to the risks retained by Transnet.

- Identify reputational risk and benefit, and the impact of the transaction on Transnet as a brand.

5.2. Detailed Financial Modelling and Analysis

- Carry out financial due diligence, including total project cost estimate, assessment of the availability of financing, sources of revenue, hedging/risk mitigation products.
- Based on the benchmarking and the various capital scenarios, conduct a financial analysis of the proposed performance of the preferred option, comparing these to best practice to identify current weaknesses and opportunities for increased efficiencies, noting that employee costs may not be reduced other than through natural attrition.
- Develop a detailed financial model, based on the model developed above including capital expenditure, operational costs, and revenue projections, including an analysis of the assumptions to be used in forecasting the NPV and IRR (nominal and real), as well as the discounted payback years and payback period. The financial model should provide various capital scenarios, as well as partnership structures. Sufficient sensitivity analysis should be included in the outputs, with a clear contingency and risk allowance percentage. The assumptions of the model should be explicitly stated and justified. The model should be for the proposed period of the contract. The impact of the choices of funding should be reflected in the financial model.
- Determination of the Weighted Average Cost of Capital (WACC) and Hurdle Rate to be used in the financial model, with a justification of the assumptions used to arrive at the rates utilised.
- Recommend the appropriate term of the transaction.
- Assess Whole-of-Life Affordability and Benefits: where Transnet is required to contribute or investment in the transaction, the Transnet affordability and impact must be considered.
- Perform value for money analysis, which assesses the financial viability, includes a quantitative and qualitative assessment of the benefits and differences between the proposed transaction and the status quo.

Valuation and Equity:

- Provide a valuation based on the terminal's Discounted Cash Flows (DCF) methodology and justify the assumptions supporting the valuation.
- Provide an equity-based valuation from the private sector and Transnet's viewpoint to ensure attractiveness of the transaction to both.
- Advise Transnet on the optimal equity stake to retain considering project needs, project risks and rewards, and market standard ownership structures for similar

projects, while ensuring that the benefit of private sector management of operations is attained.

- Recommend how the percentage ownership should vest to the private sector partners (e.g., vesting a certain portion upfront and the rest as the partners deliver on their commitments).
- Highlight and provide advice on the possible exit strategies available to Transnet for the transaction and the risks and benefits of recommended strategies.

5.3. External Partner Selection Plan and Evaluation Criteria

- Recommend the strategy and structure for the procurement process, in conjunction with the legal advisors, and ensure cognisance is taken of the following:
  - Requirement for open, transparent, competitive processes (particularly in light of Section 217 of the Constitution and the ACSA judgement)
  - Protection of Transnet's commercial information while providing potential investors with sufficient information to prepare a binding offer in response to the bid documentation
  - Compliance with PPPFA and PFMA regulations and legislation
  - Whether the principal area of competition is price, technical expertise, prior experience or other qualifications
  - Other considerations which would impact on an appropriate selection method.
- Outline key attributes of a potential External Partner and identify the number of potential partners.
- Develop and recommend evaluation criteria for the procurement process, ensuring the selection of the right partner in terms of size and financial performance and ensuring a strategic fit for the transaction.
- Development of post implementation monitoring framework, including criteria and target settings mechanisms.

5.4. Legal Advisory Services

- Legal & Regulatory Review:
  - Review all applicable legislation (e.g., Constitution, PFMA, PPPFA, B-BBEE, Companies Act, Competition Act, Environmental and Tax laws, Transport Act)
  - Identify legal requirements, approvals, exemptions
  - Advise on sector-specific issues in SA and key regional markets (e.g., Mozambique, Zambia, Namibia)

- Provide legal advice on employee implications and procurement legislation
- Compile a consolidated Legal Regulatory Review Report.

- Approvals & Consents
    - Identify and prepare required applications including Section 54(2) & 51(1)(g) of PFMA, Competition Commission filings, Insolvency Act Section 34 approvals.
    - Track all third-party and government approvals.
    - Provide legal advice on employee implications and procurement legislation.
    - Compile a consolidated Legal Regulatory Review Report.
- Legal Risk Analysis
    - Identify and quantify legal risks.
    - Allocate risks between parties and propose mitigations, and incorporate into the PSP risk transfer approach.
    - Develop a Legal Risk Matrix and supporting report.
- Structuring the Corridor Business
    - Assess legal status of the Corridor business.
    - Recommend legal ring-fencing, transfer structures, and SPV capitalisation.
    - Advise on equity participation of private sector partners.
- PSP Structuring & Data Room
    - Draft Memorandum of Advice on PSP structure.
    - Define ring-fencing and partner participation terms.
    - Identify documents for legal due diligence in the Data Room.
- Review of Funding Agreements
    - Assess PSP impact on existing and future funding agreements.
    - Use templates to assess debt covenant risks.
    - Draft Legal Impact Report on funding obligations.
- RFQ and RFP Bid Support
    - Draft and review the RFQ and RFP documents.
    - Provide legal guidance during bidder evaluation at RFQ and RFP stages.
- Incorporation & Governance
    - Draft MOIs and Shareholder Agreements for new SPVs.
    - Register SPVs with CIPC.

    - Facilitate IP transfer to new entities.
    - BEEE analysis and compliance requirements.
- Transaction Agreements
    - Draft core agreements: Sale of Business, Share Sale, Subscription, and/or Concession Agreements.
    - Develop and review schedules and annexures.
- Competition Law Compliance
    - Provide legal advisory and manage merger notification/filings with Competition Commission.
- Execution & Close-Out
    - Finalise execution-ready contracts.
    - Coordinate signing protocols and Conditions Precedent checklists.