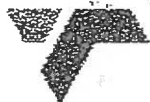


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TRANSNET



freight rail

**PROPOSAL TO CNR TO PROVIDE CONSULTING SERVICES IN
RELATION TO PROJECT COSTING LEADING TO THE AWARD OF
COSTS BY TE TO CNR FOR PLANT RE-LOCATION**

SUBMITTED TO CNR BY:

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1 Preamble

1.1 Issues to Resolve

TE requires CNR to change the location of the local manufacture programme from the TE Koedoespoort Gauteng facility to their Bay-Head Durban facility.

1.2 Objectives

To ensure the most optimal selection and order of execution of this Project it is important to conduct a detailed feasibility study of the project to familiarize TE with the full impact of the re-location with respect to the following:

- Socio-economic impact (employment, community upliftment, etc.)
- Potential revenue impact
- Affordability
- Financial implications to TE
- Empowerment opportunity
- Environmental impact

1.3 Approach

BEX proposes scrubbing each of the Project and any sub-projects that may arise in the portfolio using the following tried and tested methodologies that we have employed at our other clients with great success.

- Project Lifecycle Management Methodology
- Project Optimisation Process
- Project Costing Models

1.3.1 Project Lifecycle Management Methodology

The Project Lifecycle Process (PLP), as a phased lifecycle-based approach to delivering projects, is an industry developed methodology which is widely used around the globe to reduce risks of project overruns and failure. It entails a "Gate Review" at the end of each development phase before deciding on whether to proceed to the next phase.

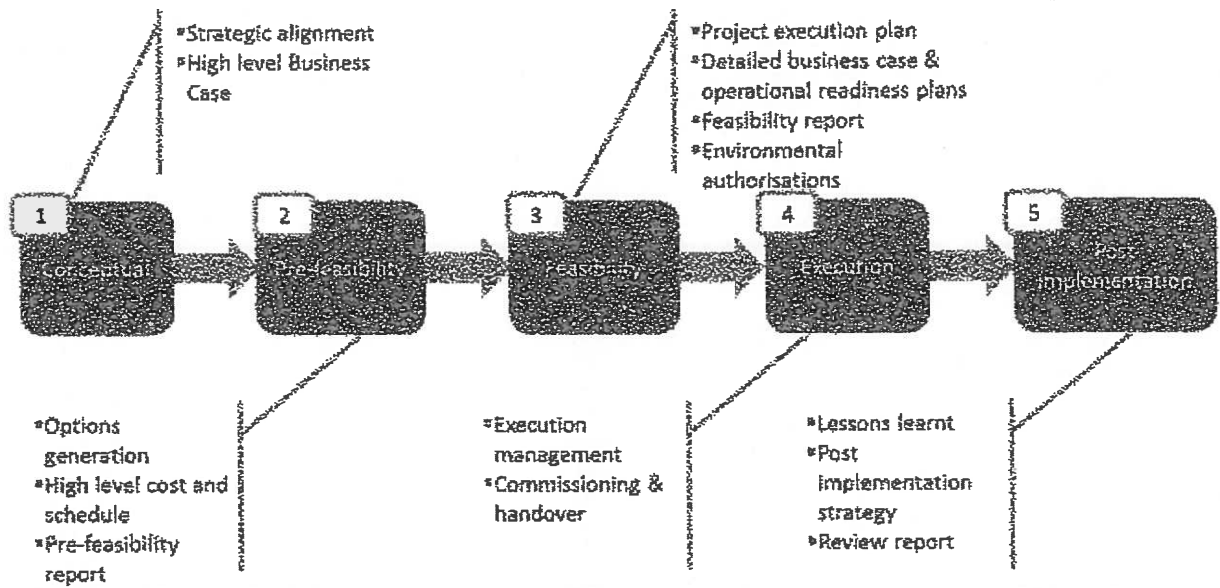


Figure 1: Overview of the PLP

1.3.2 Project Optimisation Process (POP)

The Project Optimisation Process enables a small group of dedicated people to support large, complex programmes in robust business case development. The POP helps to optimize pre-feasibility and feasibility projects and in the process maximize the socio-economic contribution of an organization's capital portfolio.

The core functions of the POP are to:

- Conduct transparent project evaluation
 - Make fact-based decisions regarding project trade-offs, including:
 - Balance economic and social outcomes;
 - Identify interdependencies;
 - Create alignment with TE Growth and Development Strategies; and
 - Provide an integrated programme view.

- Maximize the value of the Project
 - Support the project in robust pre-feasibility and feasibility projects development to maximize value and reduce cost, schedule and safety risks.

- Build capabilities across the organization
 - Build capabilities of project teams; and
 - Maximize effectiveness of existing expertise.

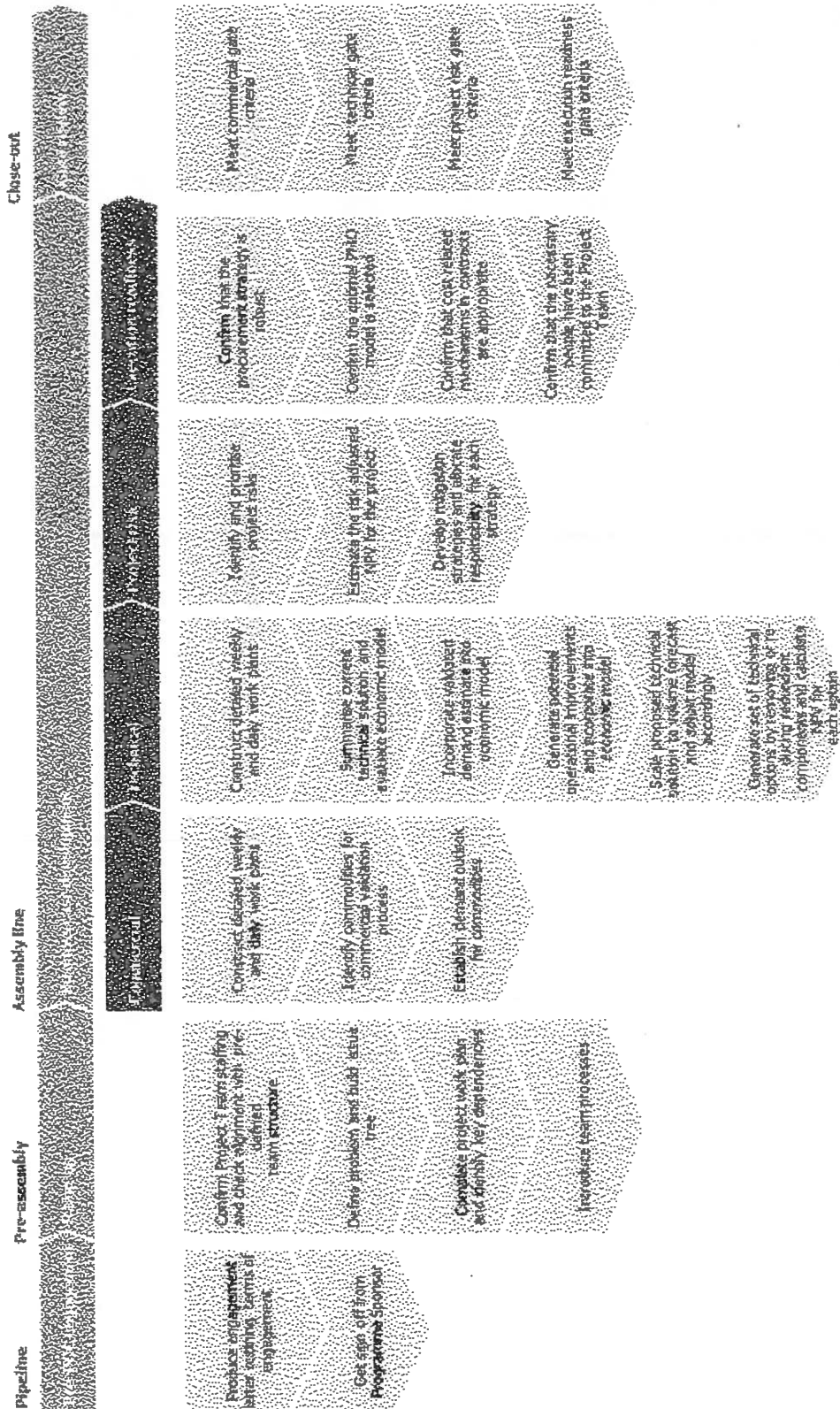


Figure 2: Overview of the Project Optimisation Process

1.4 Budget and Payment Terms

Our pricing is typically based on the nature, size and complexity of the work to be done as well as resources assigned to the Project.

For the given Project, we propose the following two pricing models:

Model A:

Task	Fee basis	Professional fees
Pre-award work	Fixed	ZAR 35 000 000.00
Execution leading to award	Fixed	ZAR 65 000 000.00

The total Fee proposed to be charged in Model A will be R100million regardless of the outcome of the decision by TE and will be binding on CNR. Payment terms will be 50% in advance and balance payable on submission of the final proposal to TE

Model B:

Task	Fee basis	Professional fees
Pre-award work	At Risk	No Cost
Execution leading to award	At Risk	Any amount exceeding the price benchmark award of R280 million awarded to CNR

In the pricing proposed in Model B, BEX will undertake to conduct the work at Risk and will not charge the Client any amount if the award amount is less than the benchmark price of R280million. Any amount exceeding the R280m will be claimed by BEX as their success fee.

All pricing indicated above is exclusive of VAT, which will be charged over and above the base fee.

2 TE Plant re-location initiative

2.1.1 Issues to Resolve

TE requires CNR to change the location of the local manufacture programme from the TE Koedoespoort Gauteng facility to their Bay-Head Durban facility.

2.1.2 Objectives

To ensure the most optimal selection and order of execution of this Project it is important to conduct a detailed feasibility study of the project to familiarize TE with the full impact of the re-location with respect to various factors enumerated above.

2.1.3 Challenges

TE requires detailed and benchmarked independent document substantiating all the increased costs in order to present the Contract Variation Order to the Board for the relevant governance approvals as determined by the PFMA.

BEX will assess and review every factor and substantiate the variation to satisfy the needs and requirements of TE so that we may ensure the proposal is accepted.

The initial proposal submitted by CNR was rejected as it did not adequately meet their requirements, as a result CNR face the potential loss of this fee.

To mitigate the risk of possible rejection, we will highlight and assess these main areas:

- Labour Cost
- Material Cost
- Logistics Costs and Implications
- Transportation on the whole
- A Warehouse Variance
- Sundry Costs
- Finance and Hedge Costs and Implications (benchmarked to Treasury Curves and Forward Options)

This approach is based on our IP and know-how and we are confident that we can present a strong case to TE to accept our proposal.

2.1.4 Approach

The process we propose is as follows:

- Evaluate the current situation;
- Identify gaps in the current scenario and propose interventions to TE;
- Agree on a pricing model with TE;
- Roll out the additional training requirements where shortcomings were identified;
- Monitor and evaluate the results of the re-location program on a regular basis; and
- Tweak the process to ensure optimal outcomes are achieved on an ongoing basis.

This process will have the added advantage of enabling improved reporting, monitoring and evaluation for TE as the re-location progresses. This in turn will allow improved visibility for TE as the project progresses and assist them in evaluating the agreed milestones for the Project.

In addition, on a project by project basis, BEX will assist CNR in various other technical, actuarial and economic studies, such as for instance, to price the specific re-location program to be undertaken in conjunction with TE

2.2 Socio-economic impact of the Project re-location

2.2.1 Issues to Resolve

TE currently does not seem to have a workable model to determine the socio-economic impact of the proposed plant re-location. The failure to correctly assess the same may have a significant negative impact on the finances of TE and the socio-economic circumstances of the communities involved.

2.2.2 Objectives

An understanding of the socio economic conditions and the socio-economic impact of the Plant re-location is extremely important to build a model that is sensitive to the socio-economic development. As a government entity, TE has a role to play in the development of the local economy. The long and short term impact of the re-location will therefore need to be assessed in order to determine their impact on the society within which these activities are carried out. However, this has to be balanced with its revenue contribution to TE's revenue base.

2.2.3 Approach

A number of macroeconomic models can be used to assess and quantify the socio-economic impact of the re-location on the affected regions. These include computable general equilibrium, input-output tables and social accounting matrices. It is common practice to determine the economy-wide impact embedded in the relationships between the different sectors of the economy using regional and national input-output tables. An input-output model is a quantitative tool used to represent the interdependencies between the different segments of a national economy or different regional economies. The upward and downward linkages in terms of identifying industry input sources and the sectors that consume the outputs of these activities form a solid analytical framework to determine the economic contribution thereof. A multiplier analysis will also be used to measure the direct, indirect, and induced impact of additional or reduced spending associated with the Project.

Computable general equilibrium and social accounting matrices are employed to determine the multiplier effects of the various procurement activities so that one would reliably measure the socio-economic impact of the various activities.

It is envisaged that for the purpose of determining the economic benefits and costs that are associated with the re-location, input-output tables and social accounting matrices will be used. Some of the key economic indicators of socio economic impacts to be assessed may include:

- Job creation/losses in the related sectors of the economy
- Skills transfer and supplier development
- Community development

Our preliminary analytical approach to determine the economic impact will involve the following:

- Identification of the economic sectors that are most affected;
- Determination of the direct and indirect impacts in terms of gross value add, employment, and other value gains;
- Determination of the duration of the benefits to be enjoyed by each economic sector;
- Determination of the impact on the provincial and national economy by identifying all the sectors that have forward and backward linkages to the sectors identified above.

Once the diagnostic has been concluded, the solution generation and refinement stage will commence. The primary focus of this stage will be analysis of the collected data, generating strategic insights from this analysis and testing these insights against prevailing organisational experiences and viewpoints. Once this is done, BEX will develop a set of strategic options to be work-shopped with relevant stakeholders and will then model the operational implications of each of these options.

Once the preferred strategy option has been selected, BEX will commence the process of translating it into a set of objectives and actions to enable implementation. This will be compiled into strategy document, covering both TE and CNR, which contains a detailed implementation plan and how delivery against the plan will be tracked and monitored. Upon completion, the strategy document will be presented to the executive management team and the board for approval.

In the third phase, the consulting team will be available on site to actively support management in its implementation effort.

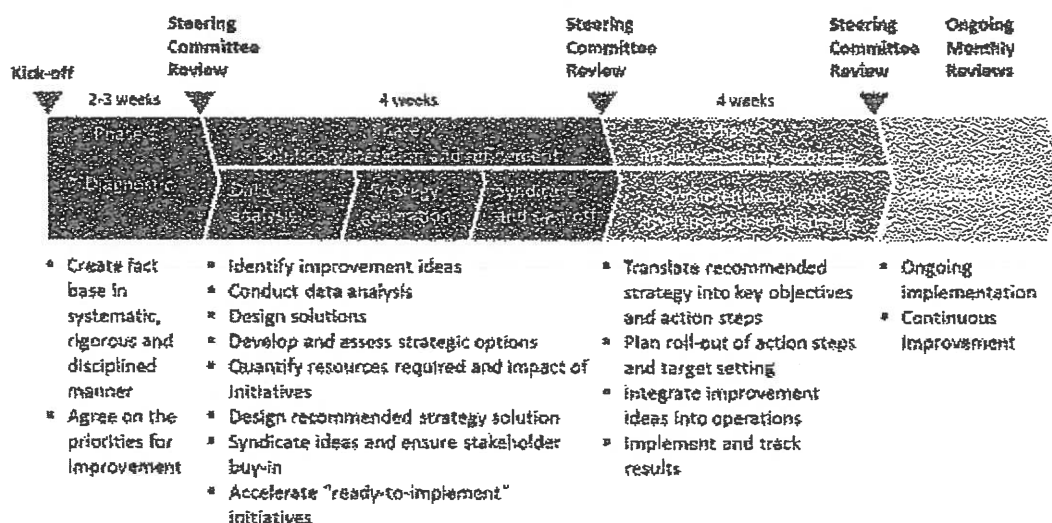


Figure 3: BEX approach towards strategy development

This abovementioned approach to strategy development will allow us to work in a focused manner in order to fast track the strategy development process. Our preference is to work closely with the management team in order to facilitate joint solution development. To this end, BEX provides specific methodology and resources in areas of expertise while the management team provides Provincial and National specific knowledge and resources for the implementation of the project outcomes. Our approach is consensus driven and we will use meetings and workshops to drive buy-

in amongst the relevant stakeholders. Throughout this engagement, BEX will remain pragmatic and only focus on implementable solutions.

- *Diagnostic*

Any strategy formulation effort should be premised on a clear and robust understanding on internal and external trends and dynamics. To support this process, the first phase involves the collection of the most relevant information. The information collected will be based on agreed priorities for the strategy development process and to support future phases. All of which will be aimed at creating a data bank which will form the basis of our understanding of the status quo and all analysis exercises.

- *Solution generation and refinement*

Our focus when developing the fact base is on specific elements within the general environment, operating environment and internal environment. This ensures that any solutions or recommendations that we provide, is based on an accurate and comprehensive fact base.

The general environment will provide the context within which the project will operate, permitting us to understand the political, economic, social-cultural, technological, legal and environmental conditions that could affect the re-location. While these factors provide a broad overview of the environment, they can have a substantial impact on strategic recommendations that are delivered. As part of this phase of analysis, we include the development of the stakeholder map to ensure that any actions or decisions taken can be assessed in terms of the impact it may have on key stakeholders.

Analysis of the operating environment provides the key information that will shape the available solutions for TE. A wide range of information is considered during this phase, which allows BEX to fully understand the opportunities and challenges that exist for the project. Detailed analysis of demand drivers and the industry value chain, may highlight opportunities for further investment or influence the strategic options which are available. The competitive landscape forms a critical part of this phase, as any decisions taken for TE and its stakeholders cannot be made without due consideration of existing market forces.

The internal environment permits BEX to understand the current strategy for the relevant sector within TE. Our analysis will focus on the factors upon which the current strategy is built, to review if these are in fact valid or if these require further development. Our analysis will include an evaluation of historical performance, to guide the approach that is proposed.

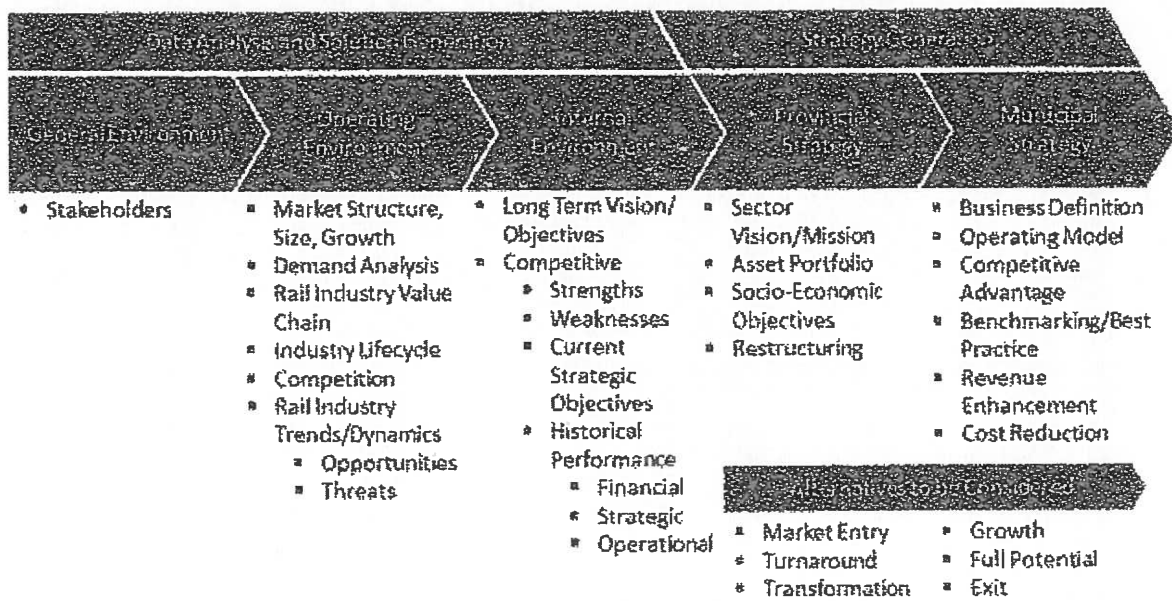


Figure 4: BEX framework for solution generation and refinement phase

The outcome of our data analysis and solution generation will permit BEX to provide input into the development of the overall strategy. The intention is to develop a strategy at a macro level, which guides and shapes the strategic options that are available at a micro level. A key aspect of this phase will be the alignment of the asset portfolio, which would allow a rationalisation of existing assets to facilitate the execution of the strategic options. Our recommendations will take into account the socio-economic objectives of the sector within TE, which ensures that our recommendations balance the need for profitability with the role of TE. The strategy will focus on specific options that should be addressed at that level, such as cost reduction measures or operating model improvements. Our recommendations at the macro and micro level will be guided by the various options that are available, such as entry into new markets, turnaround strategies, transformation initiatives, growth strategies, developing the full potential of the existing assets or exiting certain investments where necessary.

• *Implementation planning and ongoing support*

The focus of phase three will be the implementation of the recommended strategy, which has been agreed on with the steering committee. The strategy will first be translated into key objectives and action steps, including the proposed metrics to be used for reporting purposes.

We will work with client counterparts to plan the roll-out of the action steps, while setting clear targets. The intention is to ensure that the roll-out plan is realistic and achievable, to ensure successful implementation of the strategy recommendations. The implementation will be constantly tracked and monitored, to provide the steering committee with a constant view of progress.

In the final phase, the consulting team will be available on site where necessary to actively support management in its implementation effort.

The financial analysis stream will be focused on the key financial considerations of the Project such as direct costs, indirect costs and identified maintenance costs for the assets in the new environment. Our analysis will also include an assessment of current subsidies that are provided by local government to facilitate economic activities. Included in this stream is an evaluation of current revenue generation, versus alternative investment options to assess the performance of the relevant assets.

The portfolio management stream is focused on opportunities to improve the current management activities practised across the portfolio. In this regard, we can assist with looking at space planning opportunities which give rise to additional revenue and cash generation opportunities. This intervention may further result in leaseback opportunities. Our team is able to provide further guidance for the effective use of land. We view surplus land as a possible source of income for the Client, and will therefore assist with the development of a strategic plan to allocate and manage surplus land.

The principles applied in the portfolio management stream are similarly applied in our Space Optimisation Programme. This relates to space planning and asset management initiatives on the overall project.

Underpinning our work within any of these initiatives, BEX will conduct a constant review and refinement of the human resource capacity, internal processes and systems required to support an ongoing asset optimisation capability. This is essential to the sustainability of the changes that are recommended.

3 Conclusion

BEX Capital has helped a number of public sector institutions and state owned enterprises in the areas of strategy, transaction and debt-capital market advisory, providing risk management tools including interest rate management solutions and building financial and econometric model as well as corporate finance.

Given this and our extensive experience in public finance solutions, we are best suited to provide the kind of services that CNR and its Client, TE would benefit from to ensure that they achieve the stated objectives for the Plant re-location in a mutually beneficial manner

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