



Private and confidential

Mr Hermann Erdmann
Chief Executive Officer
The Recycling Economic Development Initiative of South Africa NPC
4th Floor, Sunclare Building
21 Dreyer Street
Claremont
Cape Town
7735

22 July 2016

Dear Mr Erdmann

Review of the operational compliance of the Recycling and Economic Development Initiative of South Africa NPC ("REDISA") to the Integrated Industry Waste Tyre Management Plan ("the Plan") and consideration of matters relevant to the Plan

1. Thank you for asking us to assist in the above matter.
2. You informed us that you entered into an *agreement* with the South African Department of Environmental Affairs ("the DEA") during November 2012, as the Service Provider appointed to deliver tyre recycling services and operations related the terms of the Plan. You further informed us that the Plan is focussed on implementing the requirements of the National Environmental Management Waste Act of 2008 ("NEMWA").
3. You informed us that the services being delivered in terms of this plan was the first of its kind in South Africa and was aimed at starting up and establishing a new *industry* in the South African Economy. This includes the recycling of used tyres and typically involves the collection and transport (distribution) of used tyres to depots, transfer of these tyres to recycling plants and the recycling of tyres, as well as further procurement of recycled tyre product.
4. You stated that REDISA is meant to mainly function or operate in terms of the Plan as established and gazetted during 2012. Furthermore, you mentioned that at date of implementation (during 2012) of the Plan, it was in initial development phase and as the *industry* resulting from it was new to the South African Economy, the plan was only a starting point or goal. From 2012 to the current date, various alterations and resulting mitigations have been made by REDISA in order to maintain the *goals* or *mandates* within its operations.
5. You informed us that the nature of your *agreement* with the DEA is of such that the plan is to be implemented and functional for 5 years from acceptance date (29 November 2012) and that, in your opinion, the nature of the *agreement* is that REDISA will have the operational rights and obligations as Service Provider, in terms of the Plan until, at least expiry of the Plan after 5 years, should it comply reasonably with the terms and conditions of the Plan.

PricewaterhouseCoopers Advisory Services (Pty) Ltd, Reg. no. 1999/024417/07
2 Eglin Road, Sunninghill 2157, Private Bag X36, Sunninghill 2157, South Africa
T: +27 (11) 797 4000, F: +27 (11) 209 5071. www.pwc.com/za

M.A. O'Flaherty – National Advisory Leader
The Company's principal place of business is at 2 Eglin Road, Sunninghill where a list of directors' names is available for inspection.

6. You informed us that during 2014 certain amendments were made by the South African Parliament, in the form of the National Environmental: Waste Amendment Act of 2014, to NEMWA and that REDISA was required to align its operations in terms of these amendments. It was however, at date of this letter, not exactly clear, which amendments were required in order to align the operations of REDISA due to the manner in which the tyre levy collections would be made from 1 October 2016 and thus REDISA's operations have not entirely been aligned as expected by the DEA as it was not possible to do so as of yet.
7. You also informed us that due to the fact that the Plan is the first of its sort in South Africa, and in its first phase of implementation (first 5 years), certain goals and estimates which are required by the Plan is not exactly obtainable and this was realised through implementation of the Plan since inception during 2012.
8. As a result of this, the operations of REDISA was thus altered in order to achieve the best viable results, whilst adhering to the Plan as far as possible, over the period which started at inception of the plan during 2012 and that mitigating factors were considered and implemented wherever the Plan's initial goals could be complied with exactly.
9. You informed us that the DEA issued a Request for Proposal ("RFP") during November 2015 in order to appoint a service provider which will assist the department in performing an "audit" on REDISA in terms of alignment of their operations to the Plan.
10. You informed us that iSolveit Consulting ("iSolveit") were contracted during February 2016 by the DEA to perform a review over the operations of REDISA.
11. This review was performed based on a letter sent to you by iSolveit on 29 February 2016 which contained the *scope* or *mandate* of their work, and it is assumed this was based on their agreement with the DEA. It included the following objectives to be achieved with the audit:
 - a) *"Assessment of the REDISA records of the activities in line with the approved Industry Waste Management Plan;*
 - b) *Review of the REDISA annual external audit report and management interventions to implement the recommendations of the report;*
 - c) *Compilation of a list of all projects funded by the Company, including, amongst others, the monetary values, location and project stage;*
 - d) *Determine all the current assets, reserves and liabilities of REDISA;*
 - e) *Compilation of a list of all the current contracts, including the contractual values and termination dates;*
 - f) *Determine the cash flow pattern for REDISA in order to establish the financial needs for the company as of 31 March 2016 (revenue likely to be collected in March 2016 against the required expenditure);*
 - g) *Provide the estimate of financial implications for funding REDISA from within the Department or Waste Bureau;*

- h) *Assessment of any risks associated with the implementation of the Waste Tyre Industry Waste Management Plan (risks will be analysed in accordance with information that is made available to the audit team);*
 - i) *Propose a clear process to be followed in order to ensure a smooth transition from the current system to the system as per the Waste Amendment Act of 2014; and*
 - j) *Ascertaining that the proposed transition has minimal negative impact on existing programmes including the jobs and SMMEs created."*
12. The letter sent to you by iSolveit also contains a list of information required from you in order to assist them in performing the procedures in order to achieve the goals per this letter.
13. You further informed us that as far as you are aware, iSolveit consultants spent approximately two days at the REDISA head office premises to obtain information which would enable them to perform the required procedures. Furthermore, based on your knowledge, they did not perform any site visits to any REDISA depots. Other than this, you are not aware of any other communications or engagements performed with iSolveit or its consultants during the process of performance of the specified procedures.
14. You provided us with a report issued by iSolveit on 11 June 2016, which, in your view, contains unsubstantiated findings regarding the operations of REDISA and compliance with the Plan.
15. You further informed us that the DEA considers the work performed by iSolveit to be an "audit" however it is not evident on what basis this was performed and in terms of what relevant or applicable audit standards.
16. You requested us to consider the information compiled by iSolveit as per the letter sent to you on 29 February 2016 and to perform procedures which would enable us to achieve the stated objectives as indicated in this letter.
17. You further requested us to perform a review over the operations of REDISA since inception during 2012 and to consider its compliance with the Plan, as well as to consider other relevant information and mitigations that REDISA made where exact compliance with the Plan was not possible.
18. You did not ask us to compare our findings to that of iSolveit, which is included in their report dated 11 June 2016 and therefore we did not endeavour to do so.
19. Our review will be based on information provided by you, will in no way or form evaluate the professional competence or judgement of iSolveit and will be performed on the basis set out below:
- We will:
- a) Obtain a detailed understanding of the Plan, its relevant requirements and the mandates that REDISA has in terms of it;
 - b) Review the operations of REDISA, as a whole and in context of current and historic information applicable to the industry it operates in, in terms of the Plan. This will be performed from inception of the Plan, will take into account the mandates derived from the Plan and will cover a period up until date of this letter of engagement;



- e) Identify areas and instances where REDISA's operations did not comply with the Plan;
 - d) Evaluate, through interviews with relevant REDISA staff members, contractors and other stakeholders in the *Industry*, as well as consideration of information at hand, whether such instances of non-compliance was due to new information which came to light since inception of the Plan, other unknown circumstances at date of development and inception of the Plan or possible oversight or negligence from REDISA;
 - e) Develop procedures in order to achieve the same goals as included in paragraph 11 (a) – (j) above. These procedures will be developed through ongoing engagement with you and relevant REDISA staff members and may possibly be performed on risk based sampling methodology, should we deem it to be applicable.
 - f) Compile a detailed report, based on the requirements of REDISA and its intentions with this report, detailing our findings and conclusions on the matters at hand.
20. In addition to the abovementioned procedures, should you require us to do so, we are available to present the key findings and outcomes of our procedures performed to third parties identified by REDISA in order to assist these parties to understand the nature and scope of our work and the impact of our findings.
21. The procedures specified above is not exhaustive and may be altered. This will however only be done after consultation with you and relevant REDISA staff members.
22. Malcolm Campbell will be the Director responsible for the engagement. He will be assisted in his work by staff members of PricewaterhouseCoopers. We reserve the right to change staffing on the Engagement but will only do so after discussions with you.
23. Our terms and conditions of business are attached as **Appendix A** to this letter. These set out, in paragraph 1, the definitions which apply to this Contract and form part of the terms of our Engagement.

Reporting format

24. We will provide you with a letter setting out our findings upon completion of this assignment. Initially this letter will be presented to you as draft for discussion purposes. This draft will provide you with an opportunity either to confirm any assumptions made by us or to supply any information necessary to enable us to finalise our letter.
25. We confirm that our findings will be for your exclusive use and that of your appointed legal representatives. No other party, whether referred to herein or not, will be entitled to rely on any of the views expressed in our letter. We will not accept responsibility to any party to whom our report may be shown or into whose hands it may come.
26. We understand that you require that the report be made available to the Treasury and the DEA. You agree to indemnify and hold us harmless from and against any claims, suits and actions, and all associated damages, settlements, losses, liabilities, costs, and expenses, including without limitation attorney's fees (on an attorney and client scale), arising from or relating to the Services and provision of the report to the Treasury and / or DEA, except to the extent finally determined to have resulted from any gross negligence or wilful misconduct.

27. We will, should this be required, present our scope and key findings in a forum of participants to be determined by you. Such presentation will be subject to the same clauses as set out in 25 & 26 above.

Fees

28. We understand that REDISA will be responsible for our fees. Our fees will be charged based on time spent by us in conducting the Engagement, and are subject to our terms and conditions of business. Given the nature of assignments of this type, it is not possible at the outset to give you an exact indication of what our total fees will be. Our fees will depend on the time necessarily incurred at our discounted rates for specialist work of this nature and will reflect the seniority and professional experience of the directors and staff involved in the matter as tabulated below. Incidental expenses incurred by us plus VAT will be added. Interim fee notes will be issued on a monthly basis and are payable on submission.
29. We have estimated the fee for this assignment, excluding presentation of our scope and key findings as specified in paragraph 20 above, to be **R1,473,140** excluding VAT and disbursements for 5 weeks work.
30. This estimate is based on our experience of similar assignments and the information provided. Due to the uncertainty of the level of work required, this estimate may change. We undertake to charge you for the hours incurred, to issue monthly progress bills and to inform you should this estimate change.
31. PricewaterhouseCoopers Advisory Services (Pty) Ltd has ceded to its parent company PricewaterhouseCoopers Incorporated its right to all fees from this engagement and all billings will be made by PricewaterhouseCoopers Incorporated.

Limitation of liability

32. We have determined the extent to which it is reasonable for us to bear liability in connection with this Engagement. The Limit for the purpose of paragraph 28.1 of the Appendix will be equal to the amount paid by you in respect of the Engagement at the date of breach of Contract or the commission of the delict.
33. In determining the liability of PricewaterhouseCoopers for purposes of this paragraph, a court or arbitrator shall limit such liability to that proportion of the loss or damage suffered by you which is ascribed to PricewaterhouseCoopers by such court or arbitrator allocating a proportionate responsibility, having regard to the contribution to the loss or damage in question of you or any other person based upon relative degrees of fault; it being a term of the Contract that the provisions of Section 1 of the Apportionment of Damages Act, 1956 will apply to all claims between us and that "breach of contract or gross negligence" and "damages" or "losses" as used herein shall be deemed to fall within the meanings of "fault" and "damage" as contained in Section 1 of the Apportionment of Damages Act, 1956. Our liability to you shall in no circumstances exceed the lower of the amount determined by the application of the monetary limit based upon fees charged to you or the amount determined by the apportionment of responsibility as the case may be.

Quality of service

34. It is our desire to provide you at all times with a high quality service to meet your needs. If, at any time, you believe that our service to you could be improved, or if you are dissatisfied



with any aspect of our services, please raise the matter immediately with the director responsible for the aspect of our services to you. If for any other reason, you would prefer to discuss these matters with someone other than the engagement director, please contact Louis Strydom at our Sunninghill office at 011 797 5465. In this way, we are able to ensure that your concerns are dealt with carefully and promptly. In the unlikely event that we are unable to thus satisfy your concerns, you may then choose to take the matter up with the South African Institute of Chartered Accountants or another relevant professional body.

Confirmation of contract

35. Please do not hesitate to contact me if you would like to discuss any matter arising from this letter. We would be grateful if you would acknowledge your agreement to our understanding of the scope of our work, and your acceptance of the Contract, by signing and returning this letter to us.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Malcolm Campbell', written in a cursive style.

Malcolm Campbell
Director – Forensic Services

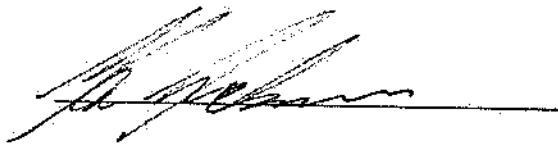
A handwritten signature in black ink, located at the bottom right of the page.



PricewaterhouseCoopers Advisory Services (Pty) Ltd

I have read the above letter and the attached Appendix. I confirm that your understanding of our instructions is correct and that the terms of the Engagement set out in the letter and the attached Appendix shall constitute the agreement for you to carry out the Engagement.

Signed:



On behalf of:

REDISA NPC

Capacity in which signed:

Date:

