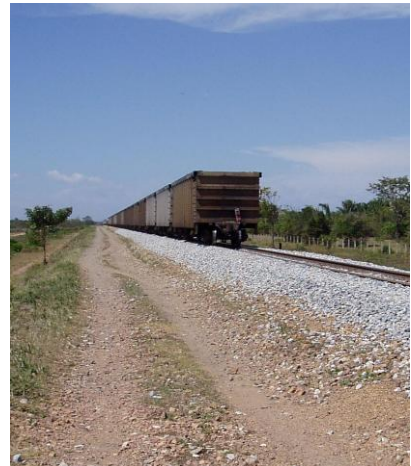


## Regulatory Analysis

### Cost/Price Analysis - MOZAMBIQUE

For a major international consultancy Vanness advised on *appropriate cost-based tariff setting* in the context of government or franchised operation:

- Of an existing railway line by examining
  - Effects on required tariffs of line upgrading
  - Effects on required tariffs of operating scenarios



By using Vanness proprietary and collected data it was possible to forecast railway revenue requirements to cover:

- Operations and Maintenance expenses
  - Topography of the route, train performance and fuel consumption
  - Crew and support personnel needs
  - Operating overheads expenses
  - System average general and administrative expenses
- Financial expenses and return on capital
  - Estimated total assets employed by Operator in the service rendered,
  - Weighted Average Cost of Capital (generated using expected return on shareholders' equity blended with existing and expected fixed financial obligations consisting of debt and leases);
  - Equaled financial return markup over O&M expenses.

The total expenses and return expectations were then forecast for specified future periods and the resulting forecasts were subjected to simple and compound sensitivity analysis by varying:

- Load factors
- Interest rates
- Shareholders' return expectations

The results led to changes in approach and vision for the project on the part of participants, proving the value of such exercises.