Board

Date: **5 February 2014**

Item 13: **Earls Court – Proposed Joint Venture**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to:

(a) update the Board on the proposed development of London Underground's (LU's) interest in the Earls Court and West Kensington Opportunity Area with Capital and Counties Properties PLC (Capco), following the Finance and Policy Committee's decision on 18 July 2013, pursuant to authority delegated by the Board, to grant authority for TfL to enter into non binding Heads of Terms regarding the proposed development; and

(b) recommend to the Board that TfL enter into a joint venture arrangement with Capco and/or a wholly owned undertaking of Capco with regard to the development of the exhibition centres Earls Court 1 and 2 (EC1&2), of which LU is the freeholder and Capco the long leaseholder, along with other properties owned by LU and Capco, the details of which are set out in this paper and the supplemental paper on Part 2 of the agenda.

1.2 The benefits of TfL entering into the proposed joint venture arrangement with Capco are that the parties will be able to merge their respective land interests into a single vehicle to promote development, thereby allowing both parties to participate in the development in a flexible way and share both the risks and the rewards. LU would not be able to derive this benefit at this time without joining with Capco. The anticipated returns that TfL makes on its investment over time will be available for reinvestment into the transport system in accordance with the TfL Business Plan.

1.3 At its meeting on 23 January 2014, the Finance and Policy Committee considered the proposals in this paper and the paper on Part 2 of the agenda and supported the recommendations to the Board.

A number of letters addressed to the Committee's Chairman were shared with the Committee and considered as part of its review. The letters sought to persuade the Committee to defer a recommendation to entering into a proposed joint venture with Capco until a period of further scrutiny had passed, including a meeting of the London Assembly Transport Committee on 12 March 2014. The Committee noted that planning consent had been granted, and there was no reason to delay progression of the development given the scheme has already been subject to substantial scrutiny over a period of more than four years.

1.4 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial and business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendations

2.1 **The Board is asked to:**

(a) note this paper and the supplemental paper on Part 2 of the agenda;

(b) approve TfL and/or any other of its Subsidiaries (as described in paragraph 2.2 below) to enter into a joint venture with Capital and Counties Properties PLC and/or a wholly owned undertaking of Capital and Counties Properties PLC, with regard to the development of the exhibition centres Earls Court 1 and 2 (EC1&2) and any additional land, which includes proposals for the granting of long leasehold interests in EC1&2, as described in this paper and the supplemental paper on part 2 of the agenda;

(c) approve TfL or any of its Subsidiaries (as described in paragraph 2.2 below) to establish such subsidiary companies as it may require to enable the joint venture, and, further in the event that one or more new subsidiaries are required or desirable, to delegate to the TfL Officers (as described in paragraph 2.2 below) the authority to form one or more of the companies as subsidiaries of TfL or any of the Subsidiaries (as appropriate). The Board further resolves that the approval of: (i) the adoption of the memorandum and articles of the subsidiary; (ii) the individuals to comprise the board of directors of the subsidiary; (iii) the individuals to be appointed officers of the subsidiary; and (iv) the name of the subsidiary, be and is hereby delegated to TfL Officers (as described in paragraph 2.2 below), and that such officers be and are hereby authorised to negotiate, approve, authorise, agree and execute any documentation to be entered into by TfL and the Subsidiaries in connection with the incorporation of the subsidiary;

(d) delegate to the Chairman of the Finance and Policy Committee (in consultation with available members of the Committee) the authority to approve any investment decisions and guarantees required within the maximum approved budget set out in the supplemental paper on Part 2 of the agenda. Any such investment decisions and guarantees to be taken in accordance with TfL's usual investment processes;

(e) approve TfL, upon entering into the joint venture, to commit to spend up to £18.5m as its contribution to the initial funding of the development of EC1&2;

(f) **delegate to the Subsidiaries and TfL Officers (as described in paragraph 2.2 below) the authority to approve and finalise the terms (including the financial terms) of all documentation required in relation to the creation, operation and management of the joint venture with Capital and Counties Properties PLC and/or its wholly owned undertaking and authorise the agreement and execution (whether by deed or otherwise) on behalf of TfL or any Subsidiary (as appropriate) of any documentation to be entered into in connection with the completion and implementation of the joint venture (including, without limitation, all agreements, deeds, guarantees, indemnities, announcements, notices, contracts, certificates, letters or other documents); and**

(g) **authorise TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the joint venture.**

2.2 **The following Officers and Subsidiaries shall have delegated authority:**

(a) **TfL Officers: the Commissioner, Managing Director Finance, Managing Director Rail and Underground and General Counsel.**

(b) **Subsidiaries: Subsidiaries of TfL including Transport Trading Limited (TTL) and any other subsidiary (whether existing presently or to be formed) of TTL and of the directors of the relevant company shall be authorised to act for and on behalf of that company.**

3 Background

Earls Court Opportunity Area and Masterplan

3.1 The Earls Court Opportunity Area (ECOA) is one of the largest regeneration projects in London and covers an area of approximately 77 acres (31 hectares) on the western edge of central London spanning the London Borough of Hammersmith and Fulham (LBHF) and the Royal Borough of Kensington and Chelsea (RBKC). The ECOA is served by West Kensington, Earl’s Court and West Brompton tube stations, and is bounded to the north by the A4, the east by Warwick Avenue, the west by North End Road and the south by Lillie Road.

3.2 The Masterplan for the ECOA as is shown on the plan provided in Appendix 1, covers 10.1 million square feet of developable space, and proposals for 6,775 new homes (of which 740 are additional affordable homes and 760 are replacement homes) and 12,000 new jobs as well as new open green space, health facilities and community and cultural spaces.

3.3 Outline planning permission for the Masterplan was approved by the LBHF and RBKC in November 2013 following the signing of the section 106 (s106) planning agreement by all relevant parties, including TfL in its capacity as both a transport authority and landowner. The period for judicial review of the boroughs’ decision to approve the outline planning permission expired on 24

December 2013 and at the date of this report TfL has not been notified of any application for judicial review being received. On this basis, the permissions can now be implemented subject to the approval of reserved matters applications.

Earls Court Village

3.4 The area subject to development under the proposed joint venture arrangement between TfL and Capco is to be known as Earls Court Village and covers a 26.5 acre area within the Masterplan. It primarily covers LU's freehold interest in EC1&2 together with a number of smaller land parcels (together the Site), which are described on the plan provided in Appendix 2.

3.5 Earls Court Village has the potential to be developed in four core phases (broken into nine sub-phases). The vision is to create a new residential area entered through two main entrances, Brompton Square and Exhibition Square. It will feature a combination of townhouses and apartments in new residential squares, new green space, a new High Street as well as community and cultural facilities. Table 1 sets out the projected Gross External Area (GEA) for the development uses.

Table 1: Projected development areas

Sq ft	Residential	Retail	Hotel & Leisure	Cultural & Community	Offices	**Total**
GEA	2,928,000	172,000	84,000	60,000	303,000	**3,547,000**

3.6 Earls Court Village has the potential to create over 1,600 residential units.

TfL's interest

3.7 LU's interest in EC1&2 covers an area of 19 acres (7.7 hectares) and is subject to two leases to EC Properties LP (an undertaking of Capco). The lease for EC1 was granted in 1959 and has 28 years remaining. The lease for EC2 was granted in 1991 and has 102 years remaining. LU occupies part of the void beneath EC2 for storage and train sidings.

3.8 The Masterplan includes LU's Lillie Bridge Depot (LBD), although it has been excluded from the proposed joint venture and TfL has no obligation to develop it. The operational feasibility of bringing this element forward is still being investigated.

3.9 As a landowner, LU is a party to the s106 agreement, which covers the whole of the Masterplan area and which will deliver a package of benefits to the local community worth £450m which has been apportioned between the landowners of the Masterplan area. The package includes £54m towards transport. The terms of the s106 agreement will not bind on LU land at EC1&2 until TfL has entered into the joint venture. TfL will only become liable for its obligations under the s106 agreement relating to LBD if and when the operational and commercial feasibility of developing LBD is proven and development takes place. The planning application and associated activities have been fully funded at risk by Capco with no obligation on TfL to fund should these prove to be abortive.

Recommended Approach/Heads of Terms

3.10 TfL's commercial property adviser, Cushman and Wakefield (C&W), has advised that, unless the disposal of EC1&2 was to Capco, any third party disposals would be subject to the existing leases to EC Properties LP and would not maximise the value for LU. C&W also advises that LU will optimise its value by agreeing terms with its current tenant, Capco, to release the long term marriage value generated by combining the respective freehold and leasehold interests. C&W further confirms that the best way to capture value in light of the size, complexity and length of the development programme is through a joint venture, as opposed to a more traditional development agreement with overage.

3.11 Following approval from the Finance and Policy Committee in July 2013, TfL negotiated detailed legal documentation, based on the draft Heads of Terms summarised to the Committee in July 2013.

3.12 The terms proposed a separate joint venture vehicle be established as it offers the opportunity but not the obligation for Capco and TfL to fully participate in the development. As the negotiations of the detailed legal documentation were then the focus, the Heads of Terms were not subsequently signed.

4 TfL Separation of Roles

4.1 TfL has dual roles in relation to the Site in assessing (i) the transport impacts arising from the potential development in planning terms; and (ii) TfL's position as landowner and the duty to obtain best consideration by securing the most commercially advantageous development. To ensure there are no conflicts of interest, these workstreams have been kept as separate functions within TfL.

4.2 This paper focuses on TfL's position as landowner and the potential opportunities to realise value from the assets at EC1&2 which are not required for operational use. TfL, as landowner, is acutely aware of the need to ensure that TfL's operations are fully protected at all times.

5 Commercial Terms

5.1 The proposed joint venture arrangement with Capco will see a new entity established, with Capco on inception owning 63 per cent and a controlling share, and TfL owning the remaining 37 per cent. The proposed shareholdings have been negotiated and agreed between the parties with reference to the relative values of TfL's and Capco's pre-existing interests in EC1&2 together with other factors pertinent to value, such as Capco's funding of the planning to date and the value of third party land and interests to be transferred by Capco.

5.2 The commercial terms of the agreement are set out in the supplemental paper on Part 2 of the agenda, however the following points are highlighted:

(a) upon certain conditions being met, the Capco's leases for EC1&2 will be surrendered simultaneously with the grant to the joint venture of new 999 year leases (the length of term TfL has been advised is required by the market) which will contain suitable development rights;

(b) the joint venture will appoint a wholly owned undertaking of Capco, as development manager, to take forward the development on behalf of the joint venture;

(c) TfL, through LU, will retain its freehold interest, subject to these new leases;

(d) TfL will hold its shareholding in the new joint venture entity via a separate dedicated subsidiary company, under Transport Trading Limited (TTL); and

(e) the joint venture will be responsible for complying with the obligations within the s106 agreement which apply to its land holdings.

5.3 TfL's tax team supported by PricewaterhouseCoopers (PwC) has advised on the proposed tax structure for the holding vehicle and joint venture, and has advised that the proposals are acceptable.

6 Operational Implications

6.1 LU will need to relocate its operational assets including storage and train stabling from beneath the current EC2 while a new deck structure is built, as the existing deck is not capable of taking the loads of the proposed development. The development of EC2 cannot commence until this has taken place.

6.2 LU can re-provide the stabling currently beneath EC2 within LBD. This necessitates the relocation of transplant maintenance and storage facilities off site to Ruislip Depot. This work has full financial and operational authority and is due to be completed in the spring of 2015. The existing access will need to be re-routed during the course of the development and provisions have been included within the legal documentation to ensure that the depot maintains the current standard of access at all times with a new permanent route being provided at the earliest opportunity.

6.3 Once the new deck is constructed, it is proposed that the joint venture grants a lease back to LU of space beneath the new EC2 deck (once constructed) for stabling or other uses (if required) to facilitate any future LBD development as envisaged in the Masterplan area. Retaining this area allows maximum flexibility for TfL in the future.

6.4 The District and Piccadilly lines run beneath EC1 and full infrastructure protection provisions are included in line with operational requirements to ensure the proposed development and construction will not affect the operation of the railway.

6.5 The proposed land disposal requires the Secretary of State’s consent under section 163 of the Greater London Authority Act 1999. This process is in hand.

7 Financial Implications

7.1 Receipts from the development of Earls Court Village will make a significant contribution towards the £2bn Commercial Development income target set out in the latest TfL Business Plan.

7.2 The proposed commercial and financial terms for entering into an agreement with Capco are described in the supplemental paper on Part 2 of the agenda.

8 Capco Due Diligence

8.1 Capco is the fifth largest listed property company in the UK with a market capitalisation of £2.7bn (as at 10 January 2014). It is listed on the London and Johannesburg stock exchanges and a constituent of the FTSE-250 index. Capco focuses primarily on the retail and residential market segments with a focus on central London. Further information is contained in the supplemental paper on part 2 of the agenda.

9 Views of the Finance and Policy Committee

9.1 At its meeting on 23 January 2014, the Finance and Policy Committee considered the proposals in this paper and the paper on Part 2 of the agenda and supported the recommendations to the Board.

9.2 A number of letters were shared with the Committee and considered as part of its review. These letters were from Andy Slaughter MP; the Greater London Assembly Members Darren Johnson, Nicky Gavron and Stephen Knight; Bob Crow (General Secretary, RMT); and Anabela Hardwick on behalf of Linda Wade, Chair of the Earl's Court Area Action Group. Another letter was received after the meeting from Colenzo Jarrett-Thorpe (Regional Officer, Unite).

9.3 The letters were addressed to Peter Anderson as Chairman of the Finance and Policy Committee, and sought to persuade the Committee to defer a recommendation on entering the proposed joint venture with Capco until a period of further scrutiny had passed, including a meeting of the London Assembly Transport Committee on 12 March 2014.

9.4 The Committee noted that planning consent had been granted, and there was no reason to delay progression of the development given the scheme had already been subject to substantial scrutiny over a period of more than four years. This scrutiny included:

(a) the London Borough of Hammersmith and Fulham (LBHF) Core Strategy, which included the proposed development and commenced consultation in summer 2009;

(b) the GLA London Plan, which included the development and commenced consultation in October 2009;

(c) the Supplementary Planning Documents (SPD) for the Earls Court masterplan, which commenced formal consultation in March 2011;

(d) an application for Outline planning permission which was submitted in June 2011;

(e) the London Plan incorporating the Earls Court and West Kensington Opportunity Area, which was adopted in July 2011;

(f) LBHF and RBKC adopted the SPD in March 2012 and a Court found the decision making process to be lawful in October 2013;

(g) LBHF's Planning Committee resolved to grant consent in September 2012 and reconsidered the decision in September 2013, with RBKC resolving to grant consent in November 2012; and

(h) the s106 was signed and consent granted in November 2013.

9.5 Further issues raised by the Committee are covered in the paper on Part 2 of the agenda.

List of Appendices attached to this report:

Appendix 1: Earls Court Masterplan

Appendix 2: Earls Court Village Site Plan

Exempt supplemental information is included in a paper on Part 2 of the agenda.

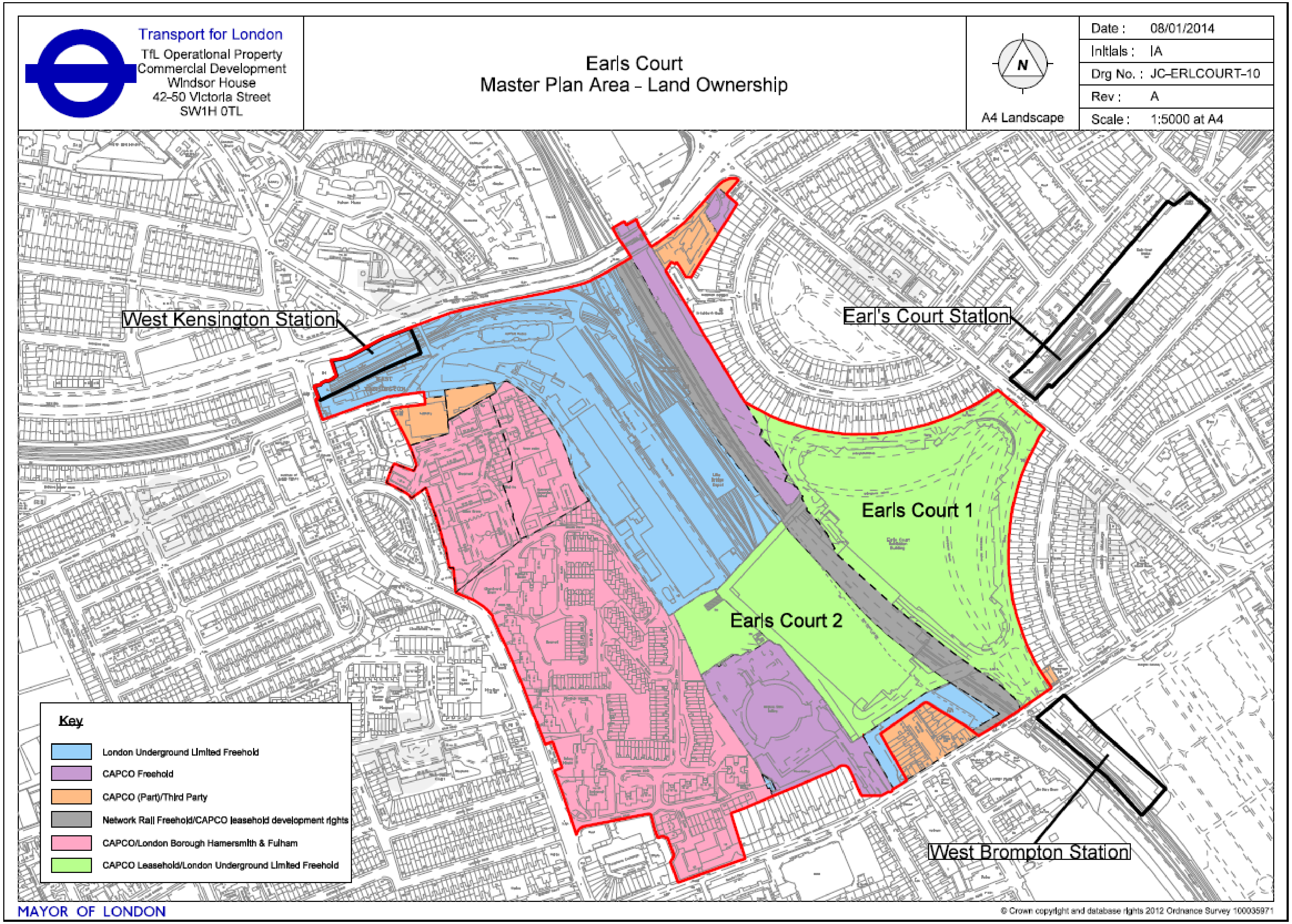
List of Background Papers

18 July 2013 Paper to Finance and Policy Committee

Contact Officer: Graeme Craig, Commercial Development Director
Number: 020 3054 3417
Email: GraemeCraig@tfl.gov.uk

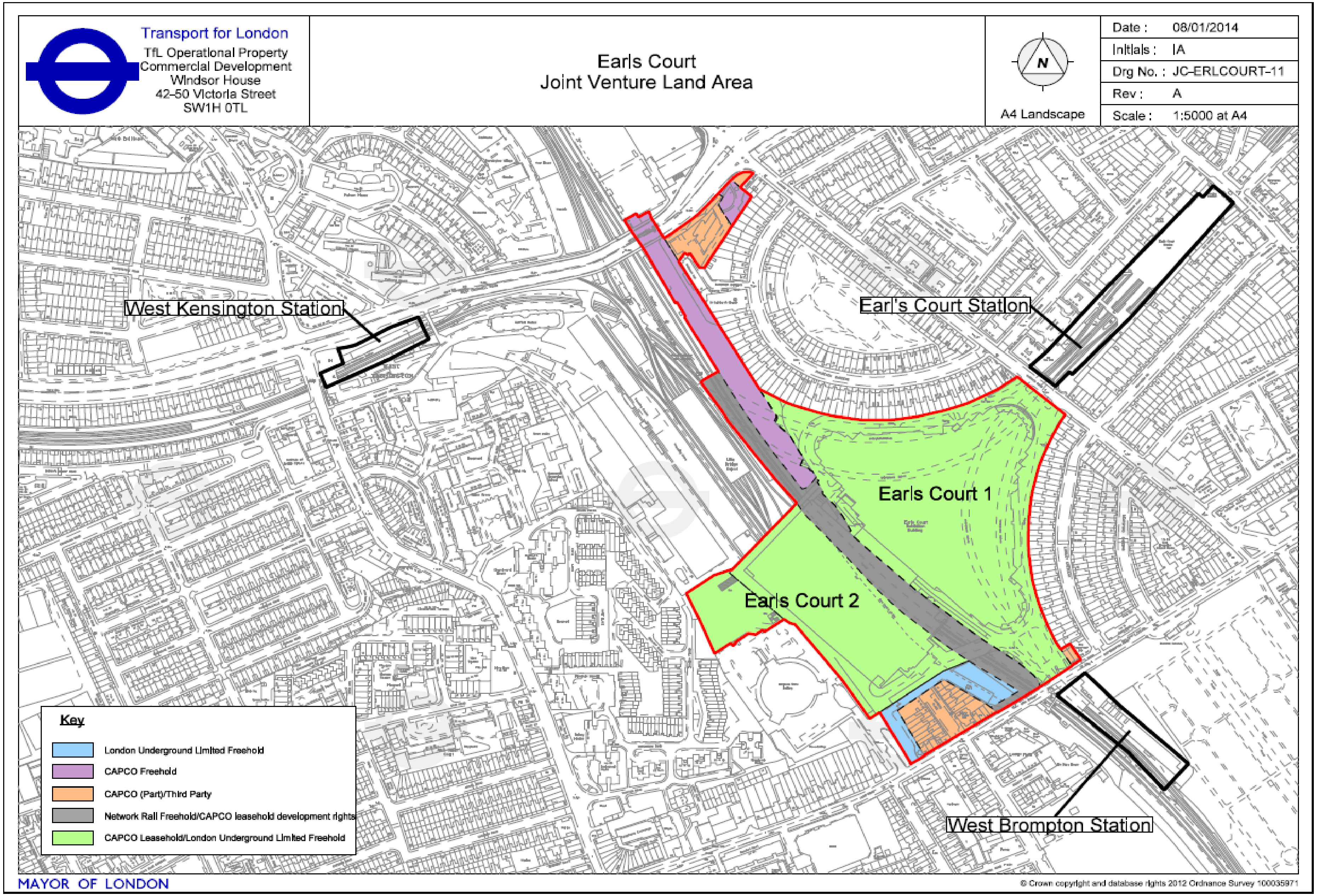
Appendix 1 – Masterplan

For Information Only



Appendix 2 – Earls Court Village Site Plan

For Information Only



Board

Date: **5 February 2014**

Item 23: **Earls Court – Proposed Joint Venture**

This paper will be considered in private

Subject to the decision of the Board, this paper is exempt and is therefore not for publication to the public or press by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial and business affairs of TfL.

1 Summary

1.1 This paper contains supplementary information to the Earls Court – Proposed Joint Venture paper being considered on Part 1 of the agenda.

2 Background

2.1 On 18 July 2013, pursuant to authority delegated by the Board, the Finance and Policy Committee approved the entering into of non-binding Heads of Terms with Capco with regard to the progression of a joint venture arrangement with EC Properties LP limited, a wholly owned Jersey based undertaking of Capco, which own various assets at Earls Court, principally as LU's tenants of the exhibition centres known as EC1&2. The Heads of Terms have informed the development of the detailed legal documentation.

2.2 TfL is now seeking Board approval to enter into a joint venture arrangement (JV) with Capco and/or a wholly owned undertaking of Capco, for the purpose of developing the land currently occupied by EC1&2 together with a small area of additional land belonging to LU and adjoining land currently owned by Capco and/or to be acquired in due course to enhance the development (together the Site), as shown on the attached plan in Appendix 1. The development will be termed Earls Court Village.

2.3 By forming a JV, TfL and Capco will be able to merge their land interests at Earls Court into a single vehicle to promote development. It allows both parties to share in the development process in a flexible and participatory model, which is appropriate for a development of this size, complexity and duration. The JV approach ensures that all receipts following the payment of development costs and fees are distributed between the shareholders on a side by side basis. TfL has been advised by C&W that this approach is the best way for TfL to obtain best value for this significant asset.

2.4 The Board is asked to approve that TfL or any Subsidiaries utilise funding from within the spend to save budget to invest over the duration of the joint venture and that the decision to invest and/or provide guarantees is taken by the Chairman of the Finance and Policy Committee (in consultation with available members of the Committee). The proposed maximum budget for Phase 1 is £150m. Please see paragraph 5.20 below for further details.

2.5 At its meeting on 23 January 2014, the Finance and Policy Committee considered the proposals in this paper and the paper on Part 1 of the agenda and supported the recommendations to the Board. The following issues were discussed:

(a) **Affordable housing provision** – The attached Business Plan refers to 64 affordable units. It was explained at the meeting that the overall Earls Court masterplan includes 22 per cent affordable provision, totalling 1,500 units. The low provision on EC1&2 land reflects, in large part, the long-term growth potential of this part of the site. The level, phasing and location of affordable housing were, however, considered, as was most appropriate, on a site-wide basis, and this has been approved by RBKC, LBHF and the Mayor. The Committee was therefore content with the existing provision.

(b) **Primary Purpose** – It was queried whether the Primary Purpose was too narrowly defined as it relates to commercial matters, when TfL interests are potentially much broader. It was agreed that the Primary Purpose is necessary to ensure the Joint Venture partners have aligned objectives. The Committee noted the risk that should TfL have the ability to impose new non-commercial obligations (or block development until these are agreed by the majority shareholder), funding of the project may be impractical. The Committee also noted that the Primary Purpose offers significant protection to TfL, as it ensures that the Joint Venture Company acts to maximise value for its members.

(c) **Valuation of TfL's Interest** – The Committee noted that the process followed for valuation was an industry standard model, albeit with individual factors subject to negotiation based on the unique elements of this particular scheme. The choice of a 6.5 per cent discount rate reflected the significant risk of the project, including the potential for EC1 to be listed. The discount to value at the end of the lease term for EC1 reflected the fact that in the absence of a comprehensive scheme, the value of any development of EC1 would be impacted by its abutting against the retained EC2. Overall, the Committee accepted that 37 per cent represented good value for TfL's interest at EC1&2 while retaining Lillie Bridge Depot as a future independent opportunity.

(d) **Development Fee** – The three per cent development fee was queried. The Committee noted that three per cent is viewed by TfL's property advisors as an acceptable level for a scheme of this nature, and that Capco is incentivised to keep costs down.

(e) **Resourcing** – The Committee noted the need to ensure TfL is adequately resourced, particularly at the Executive level, given the number of decisions that will be taken at the outset of the Joint Venture. Since the meeting, TfL has met its property advisors and agreed that a full-time team of four is required on the Earls Court project (including the related enabling works on the Lillie Bridge Depot site). These posts are initially being filled through a combination of permanent TfL staff and third-party staff. This team will be augmented by part-time support on project management, finance and planning.

(f) **Accounting treatment** – The issue was raised whether debt on the Joint Venture could, as a result of a future change in accounting standards, impact on TfL's borrowing limits. TfL's Chief Finance Officer (CFO) has since confirmed that under TfL's current accounting policies, investments in joint venture companies are reflected in the Group's balance sheet using the net equity accounting method, which means that any debt in the joint venture company is not shown as part of the Group's borrowings. The CFO has further stated that a new accounting standard dealing with joint arrangements comes into force this year (effective for our year ending 31 March 2015) and under the new standard there are two potential accounting treatments depending on how the joint arrangement is constituted. If a joint venture company is established and the joint venture parties share in the net returns from that company (rather than having an interest in its underlying assets and liabilities), then net equity accounting will apply, in the same way as in TfL's current accounting policy, and any borrowings of the joint venture will not form part of the Group's borrowings. It is anticipated that the joint venture with Capco will be treated this way. The alternative treatment is proportional consolidation, where the Group's share of the underlying borrowing of the joint venture would be included on the Group's balance sheet; this would only arise in specific circumstances, such as if the joint venture was not incorporated, which do not apply to the Earls Court deal. TfL has briefed its auditors, KPMG, on the proposed transaction and its intended accounting treatment. Although a change in accounting standards cannot be ruled out, it would be very unusual for the International Accounting Standards Board to amend or withdraw a recently issued standard. It is therefore expected that the Earls Court transaction will continue to be accounted for using equity accounting, rather than being proportionately consolidated.

(g) **Form of Delegation** – It was noted that the delegation to the Chairman to approve investment of up to £150m should cover potentially investing cash or writing guarantees for equivalent value.

3 The Development

3.1 An overview of the Earls Court Masterplan area and the development of Earls Court Village under the proposed joint venture arrangement between TfL and

Capco has been described in Part 1. The ownership Masterplan for Earls Court and ownership plan for Earls Court Village are attached as Appendix 1.

3.2 TfL and Capco have also prepared an initial Business Plan for Earls Court Village. The Business Plan sets out the proposed development of Earls Court Village, although given the scale of the development initial phases are in greater detail than future phases. It will be approved by parties prior to signing the Members Agreement and then reviewed by the JV Board annually and updated as the development progresses in accordance with the Primary Purpose (see paragraph 4.3 below).

3.3 A draft version of the initial Business Plan is attached as Appendix 2.

4 Commercial Terms

4.1 The JV will be supported by a suite of legal documents, which TfL will enter into following Board approval. These documents include an Implementation Agreement, Business Management Agreement, Joint Venture Agreement (either a Members Agreement or a Shareholders Agreement if TfL is not able to enter into a UK Limited Liability Partnership – see paragraph 4.5 below) and Property Documents.

4.2 A summary of each of these agreements is attached as Appendix 3 and a summary of the key points in the agreements is described below.

Primary Purpose

4.3 The JV must conduct its business in a way that maximises the economic value of the JV for its shareholders by enabling the development of Earls Court Village in accordance with the consented scheme. As TfL has a minority stake in the JV, the existence of a “Primary Purpose” as an effective mission statement helps protect TfL from its majority partner deciding on a course that benefits its own interests rather than that of the JV.

Formation of the company and the partnership

4.4 From the entering into of the project documentation, Capco and TfL will establish a new corporate joint venture in the form of a company limited by shares (JVCo). JVCo will hold a nominal amount of share capital, with Capco receiving 63 per cent of the shares and TfL 37 per cent of the shares.

4.5 It is intended that Capco and TfL ultimately establish a new corporate joint venture constituted as a UK Limited Liability Partnership (LLP) but this will not happen until the conditions detailed in paragraph 4.6 (a) – (c) below have been satisfied and TfL secures the necessary powers to enter into an LLP. If the powers for TfL to enter into an LLP are not obtained then the development of Earls Court Village will be taken forward as a company limited by shares through JVCo.

Satisfaction of Conditions

4.6 Initially JVCo will have no land or other assets and so will not itself be in a position to undertake the development of Earls Court Village, until the following conditions have been satisfied:

(a) in relation to TfL's decision to enter into the legal and other documents necessary to establish the JV, that any period in which a third party can bring a challenge has expired or if a challenge has been brought, that the challenge has been satisfactorily resolved in TfL's favour; and

(b) Capco provides vacant possession of the exhibition centres at EC1&2, which is estimated to be by the end of 2014.

A further condition relating to achieving satisfactory planning consent has already been achieved as the boroughs' decision to grant consent has not been judicially reviewed within the required challenge period.

4.7 Up to the point at which the above conditions are satisfied, the intention is to progress the development on the following basis:

(a) upon the formation of JVCo, Capco and TfL will each grant an option to JVCo to acquire the parties' respective land interests (in the case of TfL this will be the granting by LU of a 999 year lease for EC1&2 and the transfer of small areas of additional land) (the Options); and

(b) JVCo will progress development of the Earls Court Village in accordance with the Business Plan (referred to as "Implementation Works"). Costs incurred during the period of the Implementation Works will be covered by each party in the proportion of their interests. Works are expected to cost around £50m, excluding VAT, and TfL's contribution will be capped at 37 per cent of £50m (or £18.5m). If the costs during this period exceed £50m, the Board of JVCo can decide to continue works only if they are in accordance with the Primary Purpose to add value to JVCo. Capco can fund TfL's portion if TfL chooses not to invest further, with a charge of six per cent per annum.

4.8 If TfL is successful in securing powers[1] to invest via an LLP and all the other conditions listed at paragraph 4.6 are met, Capco and TfL will then establish an LLP joint venture (JV LLP) with the agreed ownership proportions of 63 per cent and 37 per cent respectively. JVCo will have the right to call on TfL to grant the Options which will be assigned to the newly established JV LLP, who will then exercise them. All relevant contracts will be novated to the JV LLP. If the powers for TfL to enter into an LLP are not obtained, then JVCo itself will exercise the Options.

4.9 On exercising the options, the land will be transferred to the JV in exchange for a mixture of equity and loan notes. It is intended that the JV will be capitalised with equity to the value of £120m. This means that the

[1] The aim is for the powers to be secured via TfL Bill, deposited in House of Lords in 2010/11 session.

consideration in return for the transfer of the land from LU to the JV will comprise £44.4m of equity (37 per cent of £120m) and the balance (transfer value less £44.4m) being share loan notes. No cash will change hands.

4.10 On establishing the JV, all constitutional and commercial documents, including the Business Plan will be agreed by shareholders.

Governance arrangements

4.11 Under the terms of the Members or Shareholders Agreement, the JV will maintain a Board for the duration of the agreement. The Board will comprise three TfL representatives (TfL employees or advisers) and four Capco representatives, reflecting the shareholding of each party. The Board will meet quarterly and make strategic decisions with directions given to an Executive Committee, which will be similarly constituted to the Board and will meet on a monthly basis.

Management arrangements

4.12 The JV will appoint Capco as the Business Manager, a role that will be responsible for day-to-day management of the JV and implementation of the Business Plan under the direction of the JV's Board and Executive Committee. Capco will be paid a fee fixed at three per cent of the development costs (excluding land). TfL's commercial advisor, C&W, has confirmed that this fee is in line with industry norms.

Minority protections

4.13 From the establishment of the JV, Capco will control the Board and the direction of the JV. TfL, as the minority shareholder, will have a series of minority protections to help ensure its interests are protected from abuse by the majority shareholder. The main protection TfL has is the ability to challenge the decisions of the Board or Executive Committee being implemented if it is of the view that the decisions do not accord with the Primary Purpose. Ultimately any dispute will be referred to an appropriately qualified independent expert whose decision shall be final. The other minority protections are summarised at paragraph 3.6 of Appendix 3.

4.14 As a shareholder in the JV, TfL will have the ability to access and examine the books, records and accounts kept by the JV. In addition, it will be provided with financial and management information and reports.

Exit strategy

4.15 Both shareholders will have the right to trade their shares at JVCo level subject to a right of pre-emption to the non selling shareholder. TfL only will have the added benefit, as a minority shareholder, to "tag along" rights to require any purchaser of greater than 75 per cent of the shares held by Capco to be forced to purchase TfL's interests if requested by TfL. Paragraph 3.8 of Appendix 3 sets this out in more detail.

5 Financial Analysis

5.1 Following the grant of an unconditional planning consent and the establishment of a vehicle and structure to deliver the planned development TfL estimates that its 37 per cent stake in JV will have a value of £215m.

Options to realise value

5.2 Upon entering into the JV, TfL will have broadly three options to realise the value of its interests. TfL could:

(a) seek to realise the value of its interest 'upfront' by disposing of its shares either to Capco (under their right of pre-emption) or through sale to another third party;

(b) participate in the planned development to the value of the land contributed to the JV. TfL will earn a share of the equity returns equal to the value of its land as a proportion of the total equity investment required to deliver the development (earning the equity rate of return on the value of its land); or

(c) increase its investment in the Earls Court development through providing some of the additional equity investment required to deliver the development and also earn the equity rate of return on that investment.

5.3 The recommendation to the Board is that TfL continues its participation in the development, rather than dispose of its interest upfront, as the expected returns compare well with the level of risk and would be greater than a sale of its interest now.

5.4 If TfL elects to continue to participate in the development, it could sell all or part of its stake at any point, though if TfL did wish to dispose of the investment there will be natural project milestones, such as a major equity raising event or at the end of a phase, at which point the asset may be more saleable.

5.5 The quantum of additional equity investment required to complete the development is uncertain and will depend upon several factors, including:

(a) the cost and phasing of construction works;

(b) sales values and timing; and

(c) the proportion of the development costs which debt providers are prepared to advance to JVCo.

5.6 The agreements specify processes that the JVCo will follow when additional funding is required. JVCo will have a funding advisor (currently expected to be NM Rothschild) who will report on finance available in the market and assist in the process of raising any required finance. Subject to the impact of leverage on the risk profile of the project the assumption is that JVCo's preference will be to raise third party debt and thereby minimise the requirement for additional equity contributions. The funding process provides that if additional equity is required each member can elect whether or not to provide that equity in proportion to their equity interest. If a member is unable or unwilling to invest further in the project then the non-funding member's share of the required capital can be provided by the other member or a third party at a price determined by reference to the net asset value of JVCo or a price resulting from a public tender and bid process.

5.7 The decision on whether or not to increase TfL's exposure to the project will be driven by the availability of funds to invest and TfL's view on the value of the development relative to the value placed on the development by alternative providers of the required capital. These decisions will need to be made at the relevant time, but in principle it is expected that if TfL has the funds available to provide its share of the additional funding required alongside Capco, it is likely to represent good value to do so.

5.8 In addition, receipts could ultimately be received either in the form of financial dividends or TfL could, as a shareholder in JVCo, agree to continue to hold investments in JVCo or acquire investments (by negotiation) from JVCo. TfL is investigating options with Capco to identify assets suitable for such an arrangement in the private rented sector.

Earls Court Village – development appraisal

5.9 Earls Court Village offers a substantial opportunity for TfL to generate large receipts while demonstrating the right kind of commercial behaviours required to deliver its wider property portfolio. TfL has undertaken an appraisal of the development based on the sequence of development set out in the Earls Court Village Business Plan.

5.10 A set of base case assumptions have been made for the purposes of appraising the development:

(a) all sale proceeds and revenues are reinvested in the JV;

(b) third party debt is used to fund the development equating to 60 per cent of the development costs; and

(c) three per cent per annum cost inflation and three per cent per annum value inflation is assumed throughout the development.

5.11 Table 1 shows the potential cash receipts from TfL's shareholding in JVCo (subsequent receipts from any subsequent development of Lillie Bridge Depot would be additional).

Table 1: Scenarios of Net Return to TfL

Net Return to TfL (Share of Revenue less Additional Funding) In nominal, undiscounted terms	**Downside** 1% pa Value Inflation, 3% pa Cost Inflation	**Base Case** 3% pa Value Inflation, 3% pa Cost Inflation	**Upside** 7% pa Value Inflation, 3% pa Cost Inflation
Scenario 1: No future funding provided. TfL interest reduces to 26% in Phase 1, then 19% in Phases 2-4	£311m	£437m	£816m
Scenario 2: TfL provides future funding pro rata to shareholding and maintains 37% interest throughout	£442m	£677m	£1,256m

5.12 The increases in values in the above scenarios (between one and seven per cent inflation) are conservative and compare with a long-running historic growth in values within the RBKC of around 10 per cent per annum.

5.13 Cash flows for the full development for the base case are provided at Appendix 5 and show that by 2024 the JV's development costs of £2,683m will be covered by £4,514m of sales receipts. Assuming that TfL provides future funding required pro rata to its shareholding, its additional funding required would be £226.4m and this would be offset by distributions of £904m, resulting in its total receipts for its interests in Earls Court 1&2 being £677m (Scenario 2 Base Case in Table 1).

Earls Court Village – Phase 1

5.14 Currently it is anticipated that the first phase to be developed will be the south west corner of the Site covering West Brompton Square extending into Empress Place and part of Lost River Park South (as described in the Earls Court Village Business Plan at Appendix 2). It is expected to take five years to complete (to 2019). Phase 1 works will include significant demolition work and infrastructure that is for the benefit of future phases and the effect of delivering this as part of Phase 1 is that the phase offers a limited return when considered in isolation as the 'value' lies in the effect of Phase 1 on the value of the land for future phases. Earls Court Village is estimated to take approximately ten years to build out in its entirety.

5.15 For phases beyond Phase 1, more detailed work is required by JVCo to determine both timing of delivery and the mix of future products (including for residential, the relative ratio of sales and private rental) which has consequential impacts of costs and hence funding requirements and availability.

5.16 Table 2 shows a summary cash flow on the base case for Phase 1 of the development including the additional investment required should TfL wish to fund the additional investment in proportion to its shareholding. To capture the effect of Phase 1 on the value of the land for Phases 2-4 a value for that land has been included in the cashflows in the year ended March 2019. This represents an assumption that the land is sold prior to its development and is a simplification driven by inherent uncertainty over the precise timing of future phases.

Table 2: Cash flows for Phase 1 development for the base case.

Year Ending	**Total**	**Mar 14**	**Mar 15**	**Mar 16**	**Mar 17**	**Mar 18**	**Mar 19**	**Mar 20**
£ millions, outturn								
Development Costs								
JV Pre-Development	(166.5)	(21.1)	(48.2)	(68.5)	(28.6)	-	-	-
Land Assembly	(107.5)	-	(73.1)	(14.4)	(20.0)	-	-	-
Infrastructure	(100.6)	-	-	-	(35.6)	(36.7)	(28.2)	-
Construction	(201.6)	-	-	-	(6.2)	(124.1)	(71.3)	-
Other Dev Costs	(34.0)	-	-	-	(11.5)	(12.3)	(10.1)	-
Financing Costs	(44.1)	-	-	-	(14.2)	(14.1)	(15.9)	-
Total	(654.3)	(21.1)	(121.3)	(83.0)	(116.1)	(187.2)	(125.6)	-
Sales Receipts								
Private Residential	691.1	-	-	-	-	-	620.9	70.1
Other	46.1	-	-	-	-	-	45.6	0.6
Total	737.2	-	-	-	-	-	666.5	70.7
Phases 2-4 Land Value	1,207.5	-	-	-	-	-	1,207.5	-
JV Net Cash Flow	**1,290.5**	**(21.1)**	**(121.3)**	**(83.0)**	**(116.1)**	**(187.2)**	**1,748.5**	**70.7**
TfL Cash Flow								
Additional Funding	(104.3)	(7.8)	(44.9)	(30.7)	(12.2)	(5.2)	(3.6)	-
Distributions	135.0	-	-	-	-	-	108.9	26.2
Share of Ph2-4 LV	446.8	-	-	-	-	-	446.8	-
Net Return *	**477.5**	**(7.8)**	**(44.9)**	**(30.7)**	**(12.2)**	**(5.2)**	**552.1**	**26.2**

* Net Return = TfL share of revenue less additional funding provided

Note: In terms of a comparison with figures presented in the Earls Court Village Business Plan, the figures that have been presented in the Business Plan are in real terms and assume no gearing (0 per cent debt).

5.17 The base case sees TfL's 37 per cent share of the additional investment required for Phase 1 being £104m. However, the actual requirement could be significantly more or less than this if, for example, JVCo can secure a loan against the value of the land or if the debt market is unwilling to provide debt at 60 per cent of cost. If debt is only available for 40 per cent of the costs then

TfL's equity requirement would be £143m.

5.18 The analysis shows that if TfL funds its pro rata share of the additional equity requirement (assuming £104m), and sells its remaining stake in Phases 2-4, its total receipts for its interests in Earls Court 1&2 will be £582m. This net £478m receipt shows a present value of £332m at TfL's standard 6.29 per cent discount rate. This is comparable to the estimated value of TfL's interest in JVCo at inception of £215m.[2]

5.19 It is extremely difficult to model the effect on TfL's returns of not providing the additional funding required as the extent to which TfL is diluted will depend upon the price which the market places on the development at the time. Indicatively, it is estimated that if TfL provides no further equity its interest in the JV would be reduced to 26 per cent by the end of Phase 1.

5.20 JVCo and its members will need to be able to move quickly to secure funding available in the market. This will require members to confirm quickly whether or not they will provide any additional equity that JVCo requires and it is, therefore, proposed that authority to invest further sums in JVCo should be delegated to the Chairman of the Finance and Policy Committee (in consultation with available members of the Committee) up to a maximum investment of £150m. This is expected to be sufficient to fund TfL's share of the additional equity for Phase 1 of the project on the assumption that around 40 per cent debt would be available. While delegated authority is requested now it is not intended that this should create any assumption that the additional investment will be made as this will necessarily need to be considered at the appropriate time.

5.21 Further Board approval will be sought for any investment above the proposed delegated amount or for any investment in phases 2-4. This is not expected until Phase 1 has reached, or is nearing, completion and data is available to ensure the design and programming of future phases is optimised.

Impact on TfL Business Plan

5.22 Based on assumed levels of JVCo debt, as described in 5.20, the funding from TfL required for Phase 1 can be met from within the spend to save budget provided for in the current TfL Business Plan.

5.23 The forecast receipts from ECV, in all scenarios set out in this paper (Table 2 and at Appendix 4), exceed the £212m forecast in the current TfL Business Plan. Further, the current TfL Business Plan assumes receipts between 2019 and 2023, however the JVCo Business Plan assumes ongoing reinvestment of all proceeds, which would reduce the equity investment required by TfL in JVCo but would delay receipts until 2022 to 2024. TfL retains the option to manage receipts from the development, independent of JVCo dividend policy,

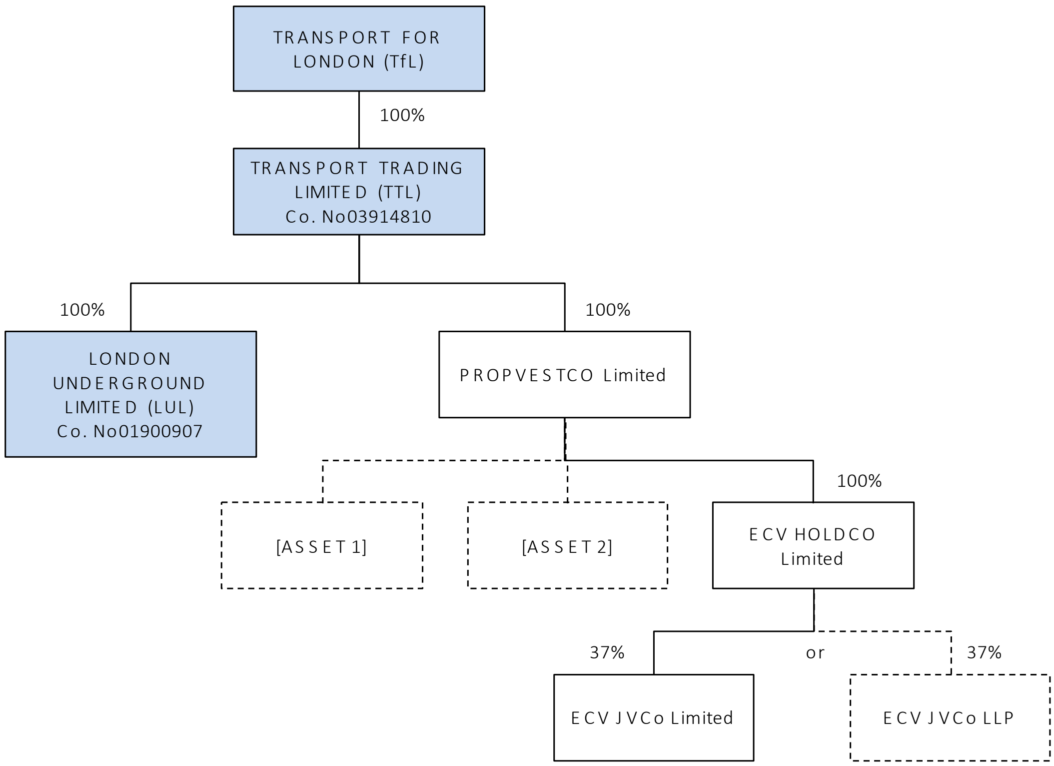
[2] NB this present value calculation is provided to give an indication of the effect of the timing of cashflows on the value of the two scenarios. It is not a property valuation as TfL's standard discount rate does not take account of the risk of the project.

by selling shares in the JVCo or in the HoldCo.

6 Corporate Structure

6.1 It is proposed that TfL establish a double holding company structure to support its investment in the JV as shown in Diagram 1. The first holding company (PROPVESTCO) would be a new wholly owned subsidiary of Transport Trading Limited (TTL) and the second holding company (ECV HOLDCO) would be a wholly owned subsidiary of the newly formed PROPVESTCO. ECV HOLDCO would hold the shares in the JV. It is preferable for tax and accounting reasons that the structure sits below TTL as opposed to LU, where the land holdings currently reside.

Diagram 1: Proposed double holding company structure



6.2 A report setting out the Tax and Accounting analysis is provided in Appendix 5.

6.3 TfL will establish an internal team to manage the JV moving forward as set out in Appendix 6. The exact details of personnel to be involved are not yet decided. The internal team will be supported by C&W and AECOM to provide commercial and technical advice.

7 Due Diligence

7.1 Capco is a mid-sized property investment and development company listed on the London and Johannesburg stock exchanges and a constituent of the FTSE-250 Index. Capco focuses primarily on the retail and residential market segments with a focus on central London.

7.2 TfL due diligence of Capco has highlighted the following points:

(a) Capco’s assets are concentrated around two main estates in central London (Earls Court and Covent Garden), with a focus on retail, exhibition and residential rentals. Capco has reported that assets, valued at £2.1bn, have increased in value by 13 per cent from December 2012 and by 75 per cent from early 2010, when the company demerged from Liberty International. Demand for retail rental space is strong and the key retail asset, Covent Garden, has 99 per cent occupancy. The company has concentrated on its core London portfolio and sold its ownership in non-core assets outside of London and the UK in order to recycle capital;

(b) strong rental demand is ensuring that Capco’s current financial performance is steady. Net asset values have been increasing, partially as a result of property revaluation. The company has reduced debt levels, with £300m of debt repaid in 2013, resulting in lower financing costs. Asset purchase is funded from high cash reserves and proceeds from sale of non-core assets;

(c) Capco’s shares have enjoyed an increase in price since the company became listed in 2010 with shares up 30 per cent over past 12 months. Capco seems to attract institutional investors looking for low risk investment and a steady return. Ten institutional investors hold 51 per cent of the company’s shares;

(d) Capco performs well against its industry peers in London. It has lower debt levels, better profitability and a better return on capital employed;

(e) there are no known material disputes which involve either the company itself or any of its directors or officers. A partner involved in the Lillie Square development (adjacent to the Site), who is a member of the Kwok family, has been charged by the Independent Commission against Corruption (ICAC) of Hong Kong with offences related to bribery and misconduct in public office in China. Capco emphasised that the Lillie Square joint venture is not affected by the legal challenge of the joint venture partner and neither will their involvement in JVCo be impacted; and

(f) there are commercial and reputational risks that Capco faces, however, these are not exclusive to the company and are inherent characteristics of the real estate development industry. Capco has a comprehensive risk management process in place and there are no risks which would pose a reason for material concern.

7.3 The due diligence assessment undertaken is based on published literature and discussions with Capco management and has not raised any material issues which prevent TfL from contracting with Capco. A copy of the due diligence report is attached as Appendix 7.

8 Risks

Market decline

8.1 If values fall, TfL may receive better value for money in disposing of its interest now for a premium. However, market sentiment (see market view in Appendix 3) is of the view that such a fall over nine years is highly unlikely. JVCo would also have the ability to amend its Business Plan and delay projects to transcend an economic downturn.

Complexities in building over TfL assets

8.2 The LU Infrastructure Protection team has been engaged throughout and TfL will protect its infrastructure and assets through a series of standards provisions within the long term lease(s) to be granted to JVCo by LU. LU has the additional right to step in to use the maintenance funds that will be set up to maintain the structures to be built over the operational railway should JVCo or their assignees fail to do so.

8.3 There are changes to the operations of LBD, principally in relation to the temporary access arrangements. There is a risk that these may cause issues as the proposed route is more proximate to local residents. This is being closely monitored by TfL, LBHF and Capco. There have been discussions with the staff at LBD and the trade unions on the same issue, and the proposed temporary arrangements have been accepted.

JV Finance

8.4 The figures within the tables above assume debt finance of 60 per cent loan to cost. TfL’s interest and total return would be reduced if debt was not available in the market. TfL is advised that debt at 60 per cent loan to cost is a realistic scenario and more debt could be available for a development of this size and nature, which would result in a reduced equity requirement and potentially higher returns for TfL. The effective dilution either at Special Purpose Vehicle level or JV level will be determined by the ratio of equity required to JV land value at the time the equity is raised.

Minority shareholder interest

8.5 TfL will hold a minority interest with relative representation on the JVCo Board. However, TfL and Capco’s interests are aligned as both parties want JVCo to maximise economic value and return on their assets and investment, and this is enshrined in the concept of the Primary Purpose. TfL has had and will continue to have input into the establishment of the Business Plan, which will set out the direction of the development of EC1&2 prior to committing to JVCo. LU will be able to object to any changes to the adopted Business Plan if the changes do not reflect the Primary Purpose and could do likewise with the key decisions of the JV.

Legal challenge

8.6 TfL itself could be the subject of a legal challenge in relation to a decision to enter into the proposed JV with Capco. The agreements provide for a long stop date of five years whereby should any legal challenges not be satisfied then TfL and Capco have the ability to walk away from the agreements with no land having been transferred.

s106 Requirements

8.7 LU as a landowner will not have liability for the s106 obligations until it signs a confirmatory deed for the whole or part of its land being brought forward for development. In EC1&2 this will not be signed until the establishment of JV and the commencement of Phase 1 works, which will then take on the liability. LU will retain a residual liability as freeholder should JV not perform its obligations, although it would only be required to step in if the JV lease was forfeited and in this circumstance it would hold an unencumbered freehold of the remaining development land.

Property Acquisition

8.8 Capco has acquired and is in the process of acquiring third party land to maximise the footprint and development value of Phase 1. This third party land is not essential for the development and the base currently consented scheme could be implemented if this land is not acquired. Third party land acquisitions are budgeted for within the cashflow in Table 2 and Appendix 4.

List of appendices to this report:

Appendix 1: Plans

Appendix 2: Business Plan

Appendix 3: Legal Summary

Appendix 4: Cash flows for full development

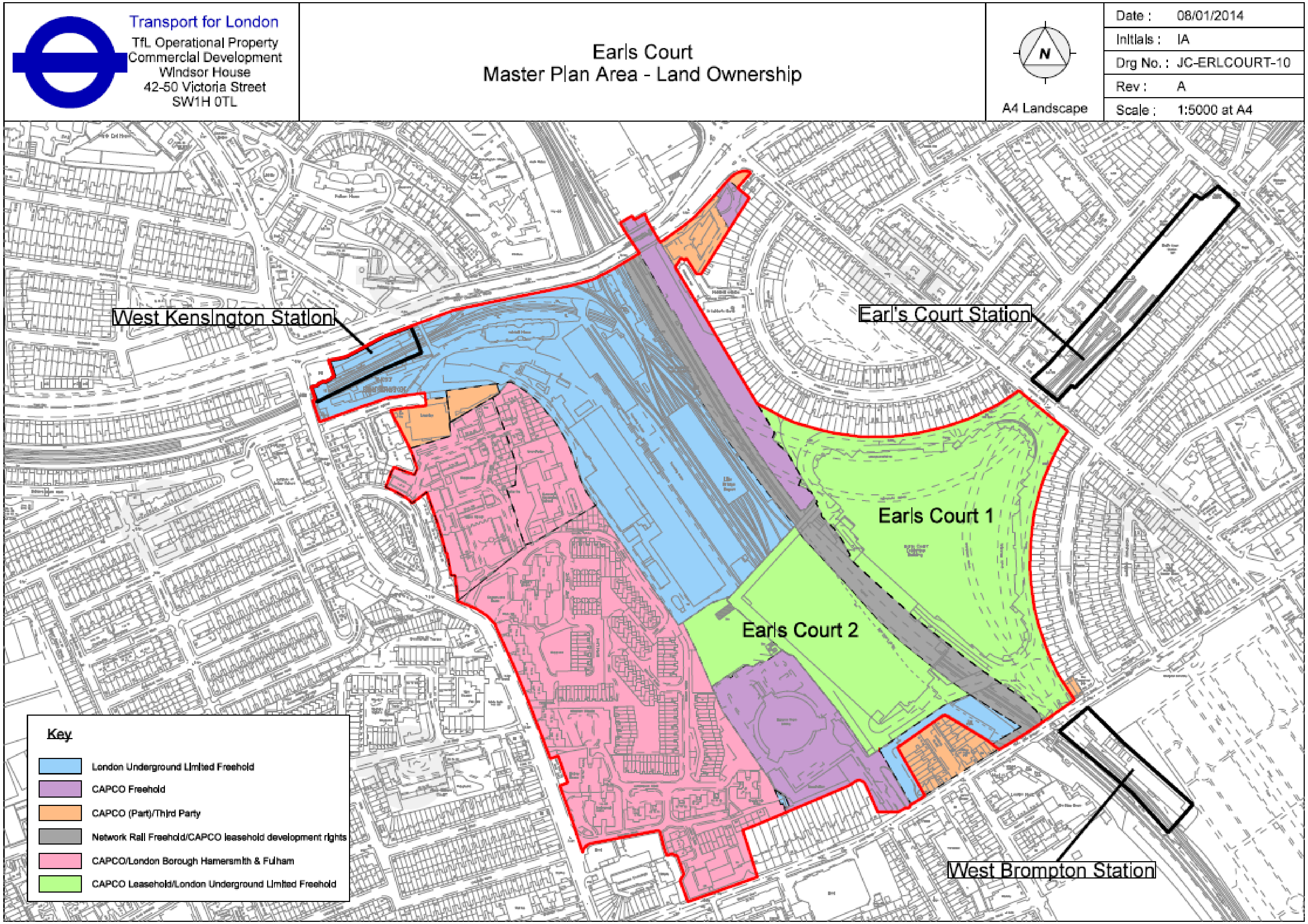
Appendix 5: Corporate Structure, Tax and Accounting Report

Appendix 6: Proposed TfL Structure

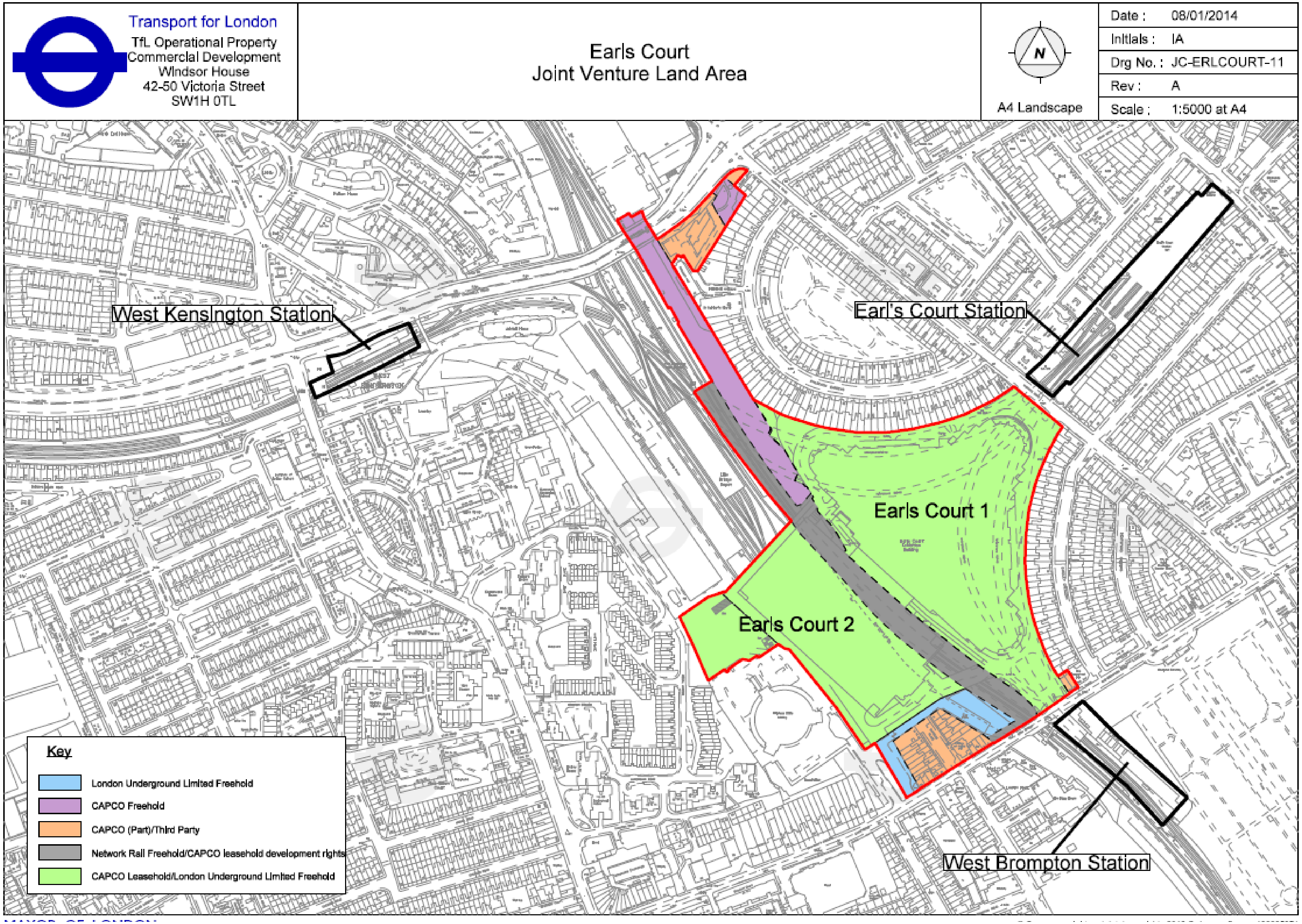
Appendix 7: Capco Due Diligence

Contact Officer: Graeme Craig, Commercial Development Director
Number: 020 3054 3417
Email: GraemeCraig@tfl.gov.uk

Appendix 1 – Plan 1: Earls Court Masterplan Ownership (For information only)



Appendix 1 – Plan 2: Earls Court Village Ownership (For information only)



Appendix 2 – Draft Earls Court Village Business Plan

Enclosed as a separate document

Appendix 3 – Legal Summary

EVERSHEDS

PRIVATE AND IN COMMERCIAL CONFIDENCE
LEGALLY PRIVILEGED

TRANSPORT FOR LONDON / LONDON UNDERGROUND LIMITED
EARLS COURT

This report relates to the proposed Earls Court development on LUL's freehold land extending to approximately 14 hectares alongside EC Properties LP ("Capital & Counties"), the current leasehold owner of the Earls Court buildings all which land is within the proposed Earls Court Village development site.

The intention is to create a development framework between TfL and CapCo as the Landowners to enable the development of the Earls Court Village pursuant to granted planning consents and the associated Section 106 Agreement (the "development"). The legal and commercial documentation is intended to be structured as a corporate joint venture arrangement in which the Landowners will participate by way of pre-agreed interests in a joint venture vehicle. The vehicle will have the benefit of the land necessary to undertake the development on pre-agreed commercial terms.

The suite of documents will enable:

- a suitable agreed form of 999 year leasehold interest to be granted by LUL (in respect of LUL's freehold land) and CapCo (in respect of its freehold ownership in the development area) to a new corporate joint venture vehicle (the "JV"); and

- subject to the planning consents and section 106 agreement becoming unchallengeable and vacant possession of the EC1/EC2 development site being given development to be commenced on the site.

The agreed form 999 year lease to be granted by LUL will contain a comprehensive infrastructure protection regime for LUL's operational assets beneath Earls Court Village, including imposing a requirement on JV to establish a sinking fund to secure the maintenance of any structures constructed over or oversailing LUL's assets.

The land interests (including the surrender of EC Properties' existing leasehold interests) will be available to the JV by way of interlocking option agreements which will be capable of exercise upon unchallengeable planning and vacant possession from EC Properties by a longstop date (the "unconditional date").

The tax treatment of the options is that they will be exercised in consideration of market value requiring a valuation of the land interests at the point of grant of the leases pursuant to the options. As the leases are granted, no payments will be made but the two Landowners (by way of newly established Holdcos for each Landowner) will receive their respective values in JV by way of a combination of loan notes and equity in the JV on the pre agreed basis of **37%** for LUL and **63%** for CapCo.

Prior to the unconditional date, it is intended that the JV will be established and operating to enable the JV partners to progress and participate in the development including in connection with certain initial and agreed “Phase 1 Works” which will be set out in detail in the agreed JV Business Plan. The costs of the Phase 1 Works will be contributed to by the JV partners in the proportions of their interests in JV at the outset. Whilst the Phase 1 Works and subsequent works will continue past the unconditional date, the initial contribution from TfL up to the unconditional date will be capped at 37% of £50m excluding VAT. If the unconditional date never arises, the costs contributed by the JV Partners to the Phase 1 Works will be for their own account.

As the JV is established with all its constitutional and commercial documents (including the JV Business Plan as agreed between the JV partners), the JV will also enter into a number of ancillary documents which complete the development framework approach.

In relation to the establishment of JV, each of TfL and CapCo will create a Holdco which will hold their respective interest in the JV. The governance within the JV is such that there are three tiers:

- the members/shareholders of the JV;
- the Board of the JV; and
- the Executive Committee of the JV.

TfL will have the ability to appoint individuals to sit on the JV Board and Executive Committee but will not be able to control decisions made at that level, due to the minority nature of TfL’s interest in the JV. However, there are a number of key protections for TfL which are set out in the Minority Protections section below.

CapCo, through an operating subsidiary will become the Business Manager for JV to progress for JV the development and business activities of the JV as defined in a Business Management Agreement. The Business Management Agreement is drawn on arms length terms and will require performance by the Business Manager for which services it will receive a specific fee equal to 3% of development costs incurred and defined paid on a quarterly basis (in advance).

To protect LUL’s adjacent operational depot (“LBD”), JV and LUL will enter into a legally binding agreement known as the “LBD Rights Agreement” which will deal with how the ongoing operational use of the LBD can be maintained during and after development of the Earls Court Village development site and to enable the independent onward development of LBD by LUL or as it directs.

The Landowning parties will also enter into a “Landowners Agreement”, the intention of which agreement is to underpin contractual matters as between the Landowners which concern the development of the Earls Court Village site, the development of adjacent Council land under the control of CapCo and the separate future development of LBD by or on behalf of LUL.

We now consider the terms and conditions of the negotiated documents as referred to above.

1. **The Implementation Agreement**

The “Implementation Agreement” between the relevant CapCo companies and LUL and TfL deals with conditionality and a number of key issues which are pertinent to the initial stages of the development as follows:-

1.1 **Planning conditionality** – how CapCo and LUL as Landowners deal with any judicial review challenge arising in relation to the Section 106 Agreement dated 14 November 2013. Since land is not introduced via the option agreements to JV until planning is unconditional, the Implementation Agreement sets out the basis upon which the Landowners and JV will deal with any judicial review challenge arising in the challenge period immediately following the date of the Section 106 Agreement.

1.2 **TfL decision –** how the parties deal with any challenge of TfL's decision to enter into the joint venture arrangement in relation to the development in the challenge period following the making of TfL's decision through its Board. If a challenge is successful then the development will not proceed as a critical condition will not have been met.

1.3 **Phase 1 Works** – in the interim period after JV is established but before the unconditional date TfL and CapCo intend to commence agreed Phase 1 Works to keep with the development programme. These works will be defined and costed in the JV Business Plan and relate to reserve matters approval for the first phase of development pursuant to the planning consents, certain demolition works around the development site and limited building works in accordance with the proposed development programme. The cost of these works will fall on CapCo and LUL and will be invoiced to TfL and CapCo by EC Properties the current leaseholder of the relevant areas of the development site. The cost of the Phase 1 Works to a capped sum of £50m will be borne by LUL and CapCo in their respective interests in JV i.e. 37% for LUL and 63% for CapCo.

The Phase 1 Works will be administrated by JV through a contract with EC Properties as EC Properties is presently the employer of the relevant consultants and contractors for the Phase 1 Works. There will be transparency in relation to invoicing and EC Properties will be able to call for quarterly payments in advance as against the Phase 1 Works programme. In the event that the unconditional date arises then the interests in JV of the JV partners will reflect any enhancement of value brought about by the Phase 1 Works. In the event that the unconditional date does not occur, i.e. because planning or TfL's decision are not unchallengeable, then the cost of the Phase 1 Works would be to the account of each of the contributing parties.

1.4 **LLP conversion** – CapCo and TfL have agreed that their preference would be to incorporate JV as a limited liability partnership (LLP). Presently, TfL does not currently have the power to hold an interest in an LLP and therefore the JV will be established as a private limited company.

The Transport for London Bill contains a proposed amendment to the Greater London Authority Act 1999 which would provide TfL with this power. If and when the Transport for London Bill is passed the parties will transfer all the assets and liabilities of the JV as a private limited company into a newly formed LLP which will then take forward the development on the same terms and with the same rights for its members as the private limited company had. If TfL does not obtain this power then JV will continue as a private limited company.

1.5 **Vacant Possession** – EC Properties/CapCo will agree to give JV required vacant possession to enable the development from the exhibition business by an agreed date in January 2015. Vacant possession by CapCo is a condition of the grant of the leases to JV as the Phase 1 Works could not commence until such time as vacant possession of the exhibition business its given by EC Properties/CapCo. LUL could claim damages against CapCo in the event that vacant possession is not given by the specified date.

1.6 LUL will give vacant possession of the southern section of the LBD by the date of delivery of the “Beaumont Avenue Access” or 31 March 2015 whichever is the later. The Beaumont Avenue Access is based on an agreed LUL specification including an appropriate testing period which must be satisfied before LUL is obliged to give vacant possession. If LUL fails to give vacant possession notwithstanding a satisfactory Beaumont Avenue Access, then CapCo could claim damages against LUL.

1.7 The exercise of the land options – the exercise of the options must be contemporaneous to enable the surrender of the existing EC Properties leasehold interests and the grant of the new forms of 999 year leases of LUL’s freehold and the other acquired freehold interests of CapCo.

2. Business Management Agreement

JV is to engage EC Properties Management Limited (“ECPM”) as Business Manager to progress the development and business activities of the JV.

2.1 **Services** – ECPM is to provide the services identified in the Business Management Agreement. Its primary responsibility is for the management, directing and day to day operation of the business of the JV in accordance with the JV Business Plan and the “Primary Purpose” (see below). ECPM is to have overall responsibility for the co-ordination of third parties, advisers, the professional team and contractors engaged by JV, funders and their advisers. The scope of the services has been developed with Cushman & Wakefield and includes management services in the following categories:

- Business, Funding and Financial Management;
- Managing bank accounts;
- Addressing additional property requirements;

- Statutory consents;
- Surveys, asset and third party agreements;
- Realisation and cost plan;
- Development and design briefs;
- Professional team management;
- Deconstruction and procurement;
- Monitoring of construction and certification;
- Estate management strategy;
- Intellectual property protection;
- Governance compliance and secretariat functions; and
- Insurance.

The management services are to be performed with such reasonable skill care and diligence as is expected of a competent business manager experienced in carrying out services similar to the required services on projects of comparable size, scope type, and complexity.

The Business Management Agreement will govern all services provided by ECPM in respect of which it is to receive its 3% fee.

2.2 **Changes to Services** – either party may propose amendments to the services for approval by the other subject to any additions being within the scope of ECPM's skills and experience.

2.3 **Personnel** – there is to be an agreed team of ECPM personnel allocated to identified key roles and in the event that JV considers there is a failure in performance of those key roles JV will be able to require ECPM to address the issue.

2.4 **JV's obligations** – JV is to:

2.4.1 Where reasonable and lawful, take such steps as shall be within its control or power and co-operate with ECPM to enable the discharge of its obligations;

2.4.2 Unless ECPM's engagement is terminated, or otherwise agreed, not to engage another business manager;

2.4.3 Comply with its obligations under its other agreements with third parties;

2.4.4 Procure that sufficient funds are available in the development accounts in accordance with the budget;

2.4.5 Provide when requested relevant information to ECPM for the reasonable performance of the services; and

2.4.6 Pay the ECPM Fee and reimbursable expenses.

2.5 **Fee and reimbursable expenses** – ECPM is entitled to be paid a fee on a monthly basis. The Fee is calculated as 3% of the Relevant Costs being costs incurred by JV for the purposes of carrying out the Project including construction costs and professional fees.

2.6 **Delegated Authority** – ECPM is to have the delegated authority set out in an agreed Schedule of Delegated Authority. ECPM shall not have any authority to enter into any legally binding agreement on behalf of JV unless authorised in writing by JV.

2.7 **Alienation**

ECPM may in the event of a corporate reorganisation novate the Business Management Agreement to an associated entity provided it maintains the required insurance and has a financial covenant no less than that of ECPM at the date of the agreement otherwise neither party may assign, or sub-contract its rights or obligations under the Business Management Agreement.

2.8 **Collateral Warranties** – ECPM is to provide a collateral warranty in respect of its services to funders and any other party who (like such funders) have or acquire an interest in ensuring ECPM's continued involvement in the event of JV default.

2.9 **Termination**

2.9.1 Either party may terminate in the event of irremediable breach by or insolvency of the other;

2.9.2 JV may also terminate in the event that CapCo or one of its associates does not hold directly or indirectly at least a 15% equity interest in JV, or if there is a change of control of ECPM or its guarantor;

2.9.3 ECPM may also terminate 6 months (or a shorter agreed period) after a change of control in JV; and

2.9.4 Either party may terminate in the event of a sale (or agreement to sell) by JV of the whole or substantially the whole of the Property, or if the JV ceases to carry on business or is wound up in accordance with the JV agreement.

2.10 **Limitation of Liability -** ECPM's liability is capped at:

2.10.1 **£20,000,000** in respect of any single event or single occurrence (or series of events or occurrences) arising out of the same circumstances; and

2.10.2 in any event, **£50,000,000** in aggregate.

We have discussed this with Cushman & Wakefield, and it is considered to be an appropriate commercial cap level, having regard to the nature of ECPM's services and given responsibility for design and construction will sit with the design and construction team engaged by JV.

2.11 **Insurance** – ECPM is, where available at commercially reasonable rates in the market, to take out and maintain for no less than 12 years' professional indemnity insurance with a limit of indemnity in respect of any one claim of not less than £10,000,000 per annum.

2.12 **Guarantee -** ECPM's performance is guaranteed by Capital & Counties Limited.

3. **Joint Venture Agreement**

The JV is the joint venture vehicle that will hold the land interests, carry out the development and deliver the returns to its members/shareholders.

3.1 **Purpose**- the purpose of the JV is to maximise the economic value of the JV for its members/shareholders by enabling the development of Earls Court Village in accordance with the consented planning scheme.

3.2 **Ownership**- the current intention is that TfL will establish a new limited liability company ("TfL Holdco") which will hold TfL's 37% interest in the JV. See below in relation to change of control of TfL Holdco.

3.3 **Funding-** the JV will be funded as follows:

3.3.1 prior to the unconditional date by the members/shareholders via the Implementation Agreement (see above);

3.3.2 on the unconditional date the land interests owned by LUL and CapCo in the development site will be granted by way of 999 year leases to JV by CapCo/LUL pursuant to the Option agreements at their market value in return for the issue by the JV to the members/shareholders of a mix of equity and shareholder loan notes in the proportions 63% to CapCo Holdco and 37% to TfL Holdco;

3.3.3 the intention of the parties is that future funding of the JV and the development will be from the funding market. The JV will appoint a fund raising adviser (a joint decision of TfL and CapCo) who will advise the JV on its funding options and approach to the funding market; and

3.3.4 any decision to raise debt/equity from the market is a decision of the JV Board, taking into account the advice of the fund raising advisor. In circumstances where the JV requires equity funding to sit alongside debt funding or in other circumstances where the JV is unable to raise its required funding from the market, TfL Holdco and CapCo Holdco will have the ability to provide the required funding amount pro rata to their shareholdings in the JV or accept a dilution. Where such funding is not provided then bridge financing can be made available at a 15% rate of interest.

3.4 **Governance**- the JV's governance structure is as follows:

3.4.1 a limited number of fundamental matters will be reserved to the members/shareholders for decision (i.e. minority protections – see below);

3.4.2 all other decisions of the JV will rest with the JV Board. The JV Board will have 7 directors appointed, 4 appointed by CapCo and 3 appointed by TfL giving CapCo appointed directors control of the JV Board. All directors are obliged to act in the best interests of the JV (not their appointing shareholder). The JV Board will meet no less than quarterly or any Director can call a meeting on 2 weeks' notice;

3.4.3 the JV Board will delegate the detailed operation of the JV to the Executive Committee in accordance with the JV's delegation policy. The Executive Committee will have 7 representatives (again 4 appointed by CapCo and 3 by TfL) giving CapCo control of the Executive Committee. The Executive Committee will meet at least every six weeks and the Business Manager will attend all Executive Committee meetings; and

3.4.4 the day to day operations of the JV will be performed by the Business Manager pursuant to the terms of the Business Management Agreement (see paragraph 2 above).

3.5 the business of the JV is to be conducted in accordance with the agreed JV Business Plan. The first Business Plan will be annexed to the JV agreement and, as such, agreed between TfL and CapCo. Where TfL is concerned that subsequent revisions to the JV Business Plan do not meet the Primary Purpose it will have the ability to raise an objection in accordance with the process outlined below.

3.6 **Minority Protections**- as TfL is the minority shareholder and does not control the JV Board it has the following minority protections:

3.6.1 Primary Purpose Objection: This operates at JV Board and Executive Committee levels and is a right for TfL to prevent a decision of the JV Board or the Executive Committee being implemented if it is not in accordance with the Primary Purpose defined as:

"to maximise the economic value of JVCo for its [shareholders] [Members] by enabling the development of Earls Court Village in accordance with the Consented Scheme. In considering the "economic value" regard should be given to the appropriate capital structure of the JVCo in accordance with any current recommendations reported JVCo's appointed Funding Adviser(s)"

In order to use this protection TfL must serve a pre-warning notice prior to the JV Board/Executive Committee and a process is set in train that deals with the management of that process involving escalation to senior executives in both businesses and, if needs be, passing the matter to an expert, whose decision will be final and binding.

3.6.2 Member Protection Matters: There are certain specified member protection matters which cannot be undertaken without 90% or 75% (depending on the matter in question) of the members/shareholders consenting to such activity. Examples of these matters are:

3.6.2.1 admitting a new shareholder to the JV or changing the rights affecting a member's/shareholder's shares in the JV (both requiring 90%);

3.6.2.2 changing the nature of the business of the JV or making a material amendment to the Business Management Agreement (both requiring 75%).

There are certain additional TfL specific matters which require TfL's consent provided that TfL holds at least 10% of the shares – e.g. a decision to change the JV's name.

3.6.3 Board/Executive Committee Appointees: TfL has the right to appoint individuals to the JV Board and to the Executive Committee and, therefore, will have access to JV Board/Executive Committee information/papers.

3.6.4 CapCo Conflict Matters - If the JV Board or the Executive Committee is to make a decision of the JV in respect of the Business Management Agreement then the CapCo appointed Directors/representatives will not be entitled to vote at the relevant meeting. The TfL directors/representatives must make their decision in the best interests of the JV and must act proportionately. CapCo is entitled to appoint an expert to determine whether the TfL appointed Directors/representatives have done so. The expert's decision will be final and binding.

3.6.5 Others:

3.6.5.1 TfL has the right of full access to JV information (see below);

3.6.5.2 as noted above, TfL has the right to participate in funding raising events within the JV to retain its equity position;

3.6.5.3 TfL has the right at any time to sell its interest in JV, subject to the rights of pre-emption described below; and

3.6.5.4 as noted below, TfL has the right to tag along in the event that CapCo wishes to divest itself of more than 75% of its interests in the JV.

3.7 Information Rights

As a shareholder in the JV, TfL will have the ability to access and examine the books, records and accounts kept by the JV. In addition the JV will be required to provide certain information/reports to the TfL Holdco and CapCo Holdco – e.g. balance sheet information; budgets; management accounts etc.

3.8 Transfer of Interests and Impact of Change of Control of TfL Holdco

3.8.1 Inter-group transfers of interest in the JV are permitted. Additionally, TfL Holdco can transfer its interest in the JV where required to do so due to a statutory requirement.

3.8.2 There are restrictions on transferring a JV interests to certain third parties – i.e. to an organisation or individual which has been convicted of criminal activity; or to an organisation or individual substantially involved in gambling, gaming, pornography, the illicit sale of arms etc.

3.8.3 Transfers of interests to third parties in JV are not permitted where such interest represents less than or equal to 10% of an interest in the JV (unless the other party consents to it or unless the disposing party already holds less than 10% in which case the provisions will apply to that party's entire interest).

3.8.4 If TfL Holdco/CapCo Holdco wish to transfer their JV interest (in whole or in part – subject to paragraph 3.8.3) to a third party then they must follow a process which gives the other party (the non transferring member) a right of pre-emption to acquire those shares ahead of a transfer to such third party.

3.8.5 TfL have a right to tag along on a sale to a third party where such third party would end up with more than 75% of the shares in the JV.

3.8.6 Sitting alongside the joint venture agreement, there are certain "change of control" provisions. Change of control will not be prohibited. It will, in the circumstances set out below, trigger CapCo's ability to acquire certain of TfL Holdco's shares in the Earls Court JVCo ("CapCo's Right to Acquire"). TfL will be able to transfer any of its shares in Holdco without triggering CapCo's Right to Acquire provided that TfL retains a majority shareholding interest within Holdco. This means that TfL can transfer up to 49.9% of its shares in Holdco to another non-TfL controlled entity without restriction/impact. Where TfL wishes to transfer a percentage of its shares in Holdco to another non-TfL controlled entity such that TfL ceases to own a majority shareholding interest in Holdco then CapCo's Right to Acquire will be triggered such that CapCo will have the right to acquire a pro rata percentage of Holdco's shares in the Earls Court JVCo at the market price – i.e. if TfL has sold 49.9% and wishes to sell a further 5% then CapCo will have the ability to acquire 5% of Holdco's shares in the Earls Court JVCo (being 5% of 37% and not, for the avoidance of doubt, all of Holdco's shares in the Earls Court JVCo). All provisions are reciprocal in that they will apply equally to the CapCo Holdco.

3.9 **Default -** On a default by either party (after a period to enable remedy) the defaulting party may be bought out of the JV.

4. Existing Earls Court 1 and Earls Court 2 Headleases

LUL will enter into a deed of variation of these headleases with EC Properties under which variations the tenant will be permitted to carry out demolition works at the Earls Court 1 and Earls Court 2 properties. The purpose of the variation is to enable the demolition of the existing structures at Earls Court 1 and Earls Court 2 as part of the proposed Phase 1 Works to be undertaken in advance of the unconditional date.

5. **Options**

JV will enter into a series of option agreements with LUL, EC Properties LP and the other CapCo companies owning land interest in the development site as follows:

5.1 Option between LUL and JV for the grant of agreed form 999 year headleases of the sites of Earls Court 1 and Earls Court 2.

5.2 Option between CapCo entities and JV for the transfer of existing CapCo leasehold land interests within the Earls Court Village development site (where LUL is the freeholder) into JV. This will include various underleases of the current Earls Court premises.

5.3 Option between CapCo entities and JV for the transfer of existing CapCo freehold land interests at the Earls Court Village development site into JV.

5.4 Option between CapCo entities and JV for the assignment of CapCo's leasehold interests in the Network Rail land running between LUL's Earls Court 1 and Earls Court 2 properties and forming part of the site of the Lost River Park at Earls Court Village.

5.5 Option between CapCo and JV enabling JV to call for the grant of agreements for lease from Network Rail of the sites of future leases forming the site of the Lost River Park within the masterplan area.

The Option Agreement for the grant of the new headleases of Earls Court 1 and Earls Court 2 will provide for the parties to the Earls Court 2 headlease to enter into an agreement for lease simultaneously with completion of the new headlease. Under the agreement, JV will commit to grant LUL a lease back of certain air space beneath Earls Court 2 which is currently used for train stabling purposes. LUL may not call for the grant of that lease until five years after the grant of the headlease. LUL may only call for the grant of the headlease at that time if it has confirmed its intention to re-develop the LBD and committed to do so. JV is obliged to grant the lease in any event by an agreed long-stop date. LUL may require JV to construct a structural box around the airspace forming its premises if it has served notice that it is re-developing the LBD. The lease back to LUL will be granted for a term of circa 999 years. It will not contain any restrictions on LUL's ability to dispose of its interest in the premises or any restrictions on the use of those premises, such that they may in the future be used for non-operational purposes.

6. **Headleases**

LUL will grant new 999 year headleases of the Earls Court Village development site land interest in its freehold ownership. EC Properties will grant JV a similar

999 year headlease of land lying to the north east of the West London rail line and north of the existing Earls Court development. Following the grant of this lease the freehold title to this land will be transferred to LUL which will then become the landlord of JV. LUL is acquiring this land interest because it includes the structure of two covered ways over its operational railway in respect of which it wishes to control the maintenance.

7. **Lillie Bridge Depot Rights Agreement**

This document will address changes to the existing access and servicing arrangements to LBD to accommodate the carrying out of the development of Earls Court Village and its future developed use whilst protecting LUL's requirement for two means of vehicular access to LBD to be maintained. The agreement provides for new access arrangements to be phased in over a testing period at the end of which LUL will decide (making its decisions based upon objective agreed criteria) whether the arrangements are acceptable to LUL from an operational perspective.

8. **Landowner's Agreement**

This agreement will refer to the current Section 106 liabilities and obligations to be undertaken and paid for by the Landowners in the Earls Court masterplan area. A schedule of the Section 106 obligations broken down to indicate the extent of the obligations and costs for the Landowners across each development plot of the development site pursuant to the current S106 Agreement will be attached.

The Landowners Agreement will also indicate the outline agreed approach to service charge and maintenance and repair costs for the development and how individual Landowners will be obliged to contribute to ongoing costs of repair and renewal on a fair and proportionate basis in compliance with prevailing legislation. The Landowners Agreement will also refer to, and acknowledge the fact that, the contracting Landowners are committed to the development and no ransom situations will arise by or on behalf of any of the Landowners to ensure equality and transparency as the development is progressed across the master plan area.

The Landowners Agreement will also provide a framework for the grant of rights over the various Landowners' sites and for the release of existing rights which may constrain development on another Landowner's site.

9. **Network Rail Lease**

The existing lease of Network Rail land at Earls Court 2 will be assigned to JV with an Asset Protection Agreement which regulates any works undertaken in the vicinity of Network Rail's adjoining railway interests. The lease comprises part of the site of the Lost River Park. Under the lease the tenant is required to establish a service charge sinking fund for the maintenance and renewal of the raft structure over the Network Rail railway. JV will seek to recover contributions to the cost of the sinking fund from other land owners within the master plan area and JV will bear any part of the service charge it cannot recover.

10. **Network Rail Framework Agreement**

EC Properties has entered into a framework agreement with Network Rail under which EC Properties is granted a call option to draw down agreements for lease in tranches of land oversailing the West London railway line on which to construct rafts for the Lost River Park. The JV will have the benefit of these options, but will have the responsibility of making overage payments of 5.55% of the residual value of the JV development as set out in the Framework Agreement.

EC Properties (or JV) has an option until March 2023 to call for a lease of the proposed site of the Lost River Park lying to the north east of Lillie Bridge Depot if it has entered into a sale agreement with LUL for the sale of the northern part of the Lillie Bridge Depot site. If the option has not been exercised by 2023 it will fall away and Network Rail will be free to deal directly with LUL. It is not anticipated that Lillie Bridge Depot will come forward for development before 2023.

Appendix 4

Summary cash flow under the base case for the full development

Year Ending	Total	Mar 14	Mar 15	Mar 16	Mar 17	Mar 18	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23	Mar 24
£'million, outturn												
Development Costs												
JV Pre-Development	(166.5)	(21.1)	(48.2)	(68.5)	(28.6)	-	-	-	-	-	-	-
Land Assembly	(150.5)	-	(73.1)	(14.4)	(20.0)	-	-	-	(43.0)	-	-	-
Infrastructure	(640.2)	-	-	-	(35.6)	(36.7)	(61.3)	(135.6)	(192.4)	(125.5)	(53.2)	-
Construction	(1,205.0)	-	-	-	(6.2)	(124.1)	(71.3)	(98.1)	(461.0)	(355.3)	(89.0)	-
Other Dev Costs	(341.7)	-	-	-	(11.5)	(12.3)	(51.2)	(91.4)	(97.8)	(56.2)	(21.1)	(0.1)
Financing Costs	(179.3)	-	-	-	(14.2)	(14.1)	(24.8)	(24.1)	(39.4)	(38.7)	(22.4)	(1.7)
Total	(2,683.2)	(21.1)	(121.3)	(83.0)	(116.1)	(187.2)	(208.7)	(349.0)	(833.6)	(575.7)	(185.6)	(1.8)
Sales Receipts												
Private Residential	4,052.1	-	-	-	-	-	620.9	70.1	323.5	1,394.3	1,471.4	171.8
Other	462.0	-	-	-	-	-	45.6	0.6	36.7	59.9	307.3	12.0
Total	4,514.1	-	-	-	-	-	666.5	70.7	360.3	1,454.1	1,778.7	183.8
JV Net Cash Flow	**1,830.9**	**(21.1)**	**(121.3)**	**(83.0)**	**(116.1)**	**(187.2)**	**457.8**	**(278.3)**	**(473.3)**	**878.4**	**1,593.1**	**182.0**
TfL Cash Flow												
Additional Funding	(226.4)	(7.8)	(44.9)	(30.7)	(12.2)	(5.2)	(3.6)	(16.0)	(106.0)	-	-	-
Distributions	903.8	-	-	-	-	-	-	-	-	379.1	456.7	68.0
Net Return*	**677.4**	**(7.8)**	**(44.9)**	**(30.7)**	**(12.2)**	**(5.2)**	**(3.6)**	**(16.0)**	**(106.0)**	**379.1**	**456.7**	**68.0**

* Net Return = TfL share of revenue less additional funding provided

Note: In terms of a comparison with figures presented in the Earls Court Village Business Plan, the figures that have been presented in the Business Plan are in real terms and assume no gearing (0% debt).

Appendix 5

Corporate Structure, Tax and Accounting Report

Legal Structure for Holding Earls Court Joint Venture Vehicle – Tax & Accounting Analysis

1 Background

As TfL do not yet have the powers to enter into a Limited Liability Partnership (LLP), the preferred vehicle for the Earls Court Joint Venture, the intention is to establish a Joint Venture Company (ECV JVCo) in the short term. This company will be a company limited by shares. It is intended that a TfL subsidiary will acquire £37 of the £100 equity in ECV JVCo.

ECV JVCo will hold an option to acquire the relevant TfL and Capco land interests. The intention is that if TfL obtain the powers to establish an LLP, the option to acquire the land will be assigned to the newly established ECV JVLLP, who will exercise the option. If the powers are not obtained, then ECV JVCo itself will exercise the option.

On the exercise of the option the land will be transferred in exchange for a mixture of equity and loan notes. It is intended that ECV JVCo/ECV JVLLP will be capitalised initially to the tune of £120m meaning that the consideration for the transfer of the land from LUL to the joint venture vehicle will be in exchange for £44.4m equity with the balance being loan notes.

2 Preferred structure for holding the TfL joint venture share

There are three main options for holding the shares in ECV JVCo and any partnership share in a future ECV JVLLP.

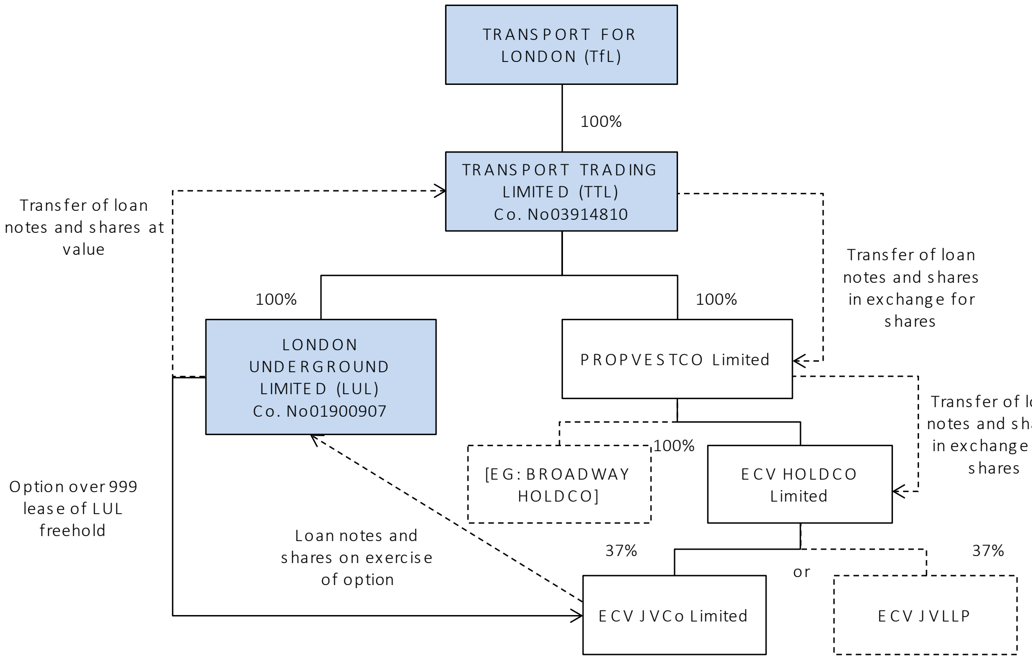
1. London Underground Limited (LUL) (the current land owner) or another existing group company holds the shares directly. This is not desirable commercially and is not being considered.

2. Establish a new holding company as a subsidiary of Transport Trading Limited (TTL) to hold the shares (ECV HOLDCO). It is regarded as preferable for commercial reasons that the structure sits below TTL as opposed to LUL.

3. As per option 2 but interpose an additional holding company above ECV HOLDCO (PROPVESTCO).

Currently Option 3 is considered to be the preferred option, since it provides additional flexibility to accommodate future plans to sell off all or part of the interest in the Earls Court joint venture.

The proposed structure is illustrated below:



3 Commercial rationale for double holding company structure

There are two main commercial benefits to using a double holding company structure:

1. The specific terms of the agreements with Capco mean that Capco has pre-emption rights over ECV HOLDCO's shareholding in ECV JVCo. There is a further restriction that means that only 49% of the shares in ECV HOLDCO can be traded by its shareholder.

2. The idea of holding all property development opportunities and potentially property investment under one Property Company is being considered. It is possible that PROPVESTCO could be used in future for this purpose, with further project specific holding companies being established underneath it alongside ECV HOLDCO.

There is a possibility that for commercial reasons some of the shares in a future property company could be held outside the group. If ECV HOLDCO were a direct subsidiary of TTL the restriction on the trading of its shares to 49% could mean TTL would be unable to transfer it to the Property Company with other development opportunities.

This means that whatever the future structure for property development within the group, the insertion of an additional holding company between TTL and ECV HOLDCO at this stage ensures maximum flexibility in the future.

4 Tax implications of proposed structure

Step 1 – Formation of PROPVESTCO and ECV HOLDCO

- There are no direct tax implications to establish the companies, except the requirement to notify HMRC and file corporation tax returns for the companies in the future.
- PROPVESTCO and ECV HOLDCO, as wholly owned subsidiaries of TTL, should immediately be added to the TTL VAT Group. This will ensure that any transactions between LUL, PROPVESTCO and/or ECV HOLDCO are disregarded for VAT purposes.
- No Stamp Duty will arise on the formation of the companies.

Step 2 – Purchase of equity in ECV JVCo

- ECV HOLDCO will acquire £37 of the share capital of ECV JVCo, representing a 37% holding.
- There will be no VAT or direct tax consequences of this step.
- No stamp duty will be payable as the value of the transaction is under £1,000.

Step 3 – Grant of option from LUL to ECV JVCo

- LUL will grant an option to ECV JVCo to acquire the land interest, at market value, for £1. There are no direct tax consequences of the grant of the option.
- The intention is for LUL to have already VAT opted to tax the land interest, to safeguard VAT recovery on an estimated £3.6m (net value) of project costs.
- LUL to issue a VAT invoice to ECV JVCo for £1 plus VAT.
- To the extent that the option itself has any value SDLT will arise, however as it is intended for the options to be market value options they will have limited value and no SDLT should arise.
- The option itself is a capital asset therefore if the option were transferred to ECV JVLLP it would be a capital disposal by ECV JVCo. However, the structuring of the options as market value options with no value themselves means that there should be no material tax implications if the option is transferred to ECV JVLLP.

Step 4 – Exercise of option by ECV JVCo or ECV JVLLP

- ECV JVCo or ECV JVLLP exercise the option to acquire the land at market value in exchange for loan notes and equity, issued to LUL.

- A capital gain will arise in LUL on the exercise of the option as LUL is disposing of the land interest. If the joint venture vehicle is a company then 100% of the arising capital gain will be taxable. If the joint venture vehicle is a LLP only 63% (i.e. the proportion actually disposed of) will be taxable. It is expected that this capital gain will be sheltered from tax by group relieving current year losses from elsewhere in the TTL tax group.

- Since LUL will have VAT opted to tax the land interest it will need to issue a VAT invoice to ECV JVCo/ECV JVLLP. The value will need to be determined, but most likely be based on open market value.

- ECV JVCo/ECV JVLLP is expected to be registered for VAT and able to fully reclaim VAT charged by LUL.

- LUL and ECV JVCo/ECV JVLLP are expected to agree the timing of the invoicing to ensure that the VAT payment does not represent a cashflow cost to either organisation.

- SDLT will be payable on the exercise of the option. In summary, the SDLT charge will arise in ECV JVCo/ECV JVLLP and will not be impacted by the TfL internal holding structure.

- No stamp duty will be payable in respect of the equity received by LUL as this will be a new issue of shares.

Step 5 – Transfer of loan notes and equity

- The loan note and the equity issued by ECV JVCo or ECV JVLLP to LUL should be transferred to TTL at market value. The consideration can be left outstanding on inter-company account.

- TTL will then transfer the loan notes and equity to PROPVESTCO in exchange for shares in PROPVESTCO. PROPVESTCO will then transfer the loan note and equity to ECV HOLDCO in exchange for shares in ECV HOLDCO. The face value of both share issues should be equal to the market value of the loan note/equity transferred.

- Assets are transferred intra-group at no gain/no loss for capital gains tax purposes and so no capital gains will arise on the intra-group transfers.

- Furthermore, the transfer of the loan notes should be exempt from capital gains tax as Qualifying Corporate Bonds.

- If the joint venture vehicle is a company, the transfer of the shares in ECV JVCo in exchange for shares in PROPVESTCO and ECV HOLDCO will be exempt from capital gains tax as a ‘share for share exchange’. This means that for example TTL’s shareholding in PROPVESTCO will ‘stand in the shoes’ of their original shareholding in ECV JVCo, meaning that they assume the base costs and purchase date of the ECV JVCo shares for capital gains purposes.

- The issue of loan notes and equity from ECV JVCo or ECV JVLLP to LUL should be treated as outside the scope of VAT and should not impact on ECV JVCo or ECV JVLLP's ability to reclaim VAT input tax.

- The subsequent transfer of loan notes and equity from LUL to TTL will be disregarded for VAT purposes since LUL and TTL form part of the same TTL VAT Group. Similarly the transfer of loan notes and equity from TTL to PROPVESTCO (and the issue of shares in the other direction) will also be disregarded for VAT purposes since PROPVESTCO will form part of the same TTL VAT Group.

- There are no stamp duty implications on the transfer of the loan notes. Stamp duty is payable on transactions in shares, however group relief is available for intra-group transfers and so no stamp duty charge should arise.

- SDLT can arise on the transfer of a partnership interest where the partnership holds properties, however SDLT group relief should be available on any intra-group transfers.

Step 6 – Operation of ECV JVCo/ECV JVLLP

- If the joint venture vehicle is a LLP, ECV HOLDCO will be taxed each year on their share of the partnership profits. It is expected that current year losses will be available to group relieve from elsewhere in the TTL Group. This is the same position as if the share of partnership profits were being received directly by LUL, as although LUL has brought forward losses they would not be available to offset against this income as they arose on a different trade.

- If the joint venture vehicle is a company it will be taxed on its own profits. It is probable that if it is a trading company, TTL Group will be able to surrender current year losses to cover 37% of the profits by way of consortium relief. An agreement will need to be put in place with Capco to ensure TTL Group is adequately remunerated for the losses surrendered.

- It is likely that ECV JVCo will distribute its profits by way of dividends. These dividends should be treated as tax free by ECV HOLDCO.

- Dividend income received by ECV HOLDCO can be treated as outside the scope of VAT since it does not represent consideration for any supply of goods or services.

- Any dividends or partnership share of profits received can be distributed up the company chain to TTL by way of tax exempt dividends. The existence of an additional holding company will not impact on this, to the extent that there are no losses which trap the onward declaration and payment of a dividend.

Step 7 – Transfer of PROPVESTCO outside the TfL group

- In the event that for commercial reasons in the future, some of the shares in PROPVESTCO were transferred outside the TTL Group, certain tax implications would arise.

- A capital gain would arise on the disposal. The quantum of the capital gain would depend on the value of the shares sold and the base cost that TTL has in PROPVESTCO. The transfer of the loan notes in exchange for shares in PROPVESTCO will have created base cost for tax purposes in the hands of TTL, which can be offset against the consideration received on disposal of the shares.

- The capital gain arising may be exempt under the Substantial Shareholdings Exemption (SSE). This would apply if PROPVESTCO was the holding company of a trading group (including property development), and TTL had held its shareholding in PROPVESTCO for at least 12 months. If PROPVESTCO is considered to have a substantial level of activities that are not trading activities (including property investment) this relief will not be available and the gain will be taxable. Depending on the quantum of the gain, this could potentially be sheltered from tax by group losses.

Timing of PROPVESTCO establishment

It is possible for ECV HOLDCO to be established initially, with PROPVESTCO being established at a later date. Provided that this reorganisation is structured as a share for share transaction, i.e. TTL exchanges their shares in ECV HOLDCO for shares in PROPVESTCO, for tax purposes the shares in PROPVESTCO will 'stand in the shoes' of the shares in ECV HOLDCO. This means that, for reliefs such as SSE, the holding period of the shares in PROPVESTCO will be aggregated with the holding period of the shares in ECV HOLDCO. Therefore any future disposal of PROPVESTCO could potentially qualify for SSE even if the actual shares in PROPVESTCO were held for less than 12 months.

This also means that no direct tax implications e.g. capital gains, would arise on the insertion of a second holding company.

5 Tax implications conclusion

There should be no adverse VAT or direct tax consequences of using a double holding company structure compared to either a single holding company or holding the shares directly via an existing subsidiary.

PROPVESTCO and ECV HOLDCO should be added to the TTL VAT Group as soon as possible following their incorporation.

Both the value and timing of VAT invoices from LUL to ECV JVCo/ECV JVLLP will need to be agreed.

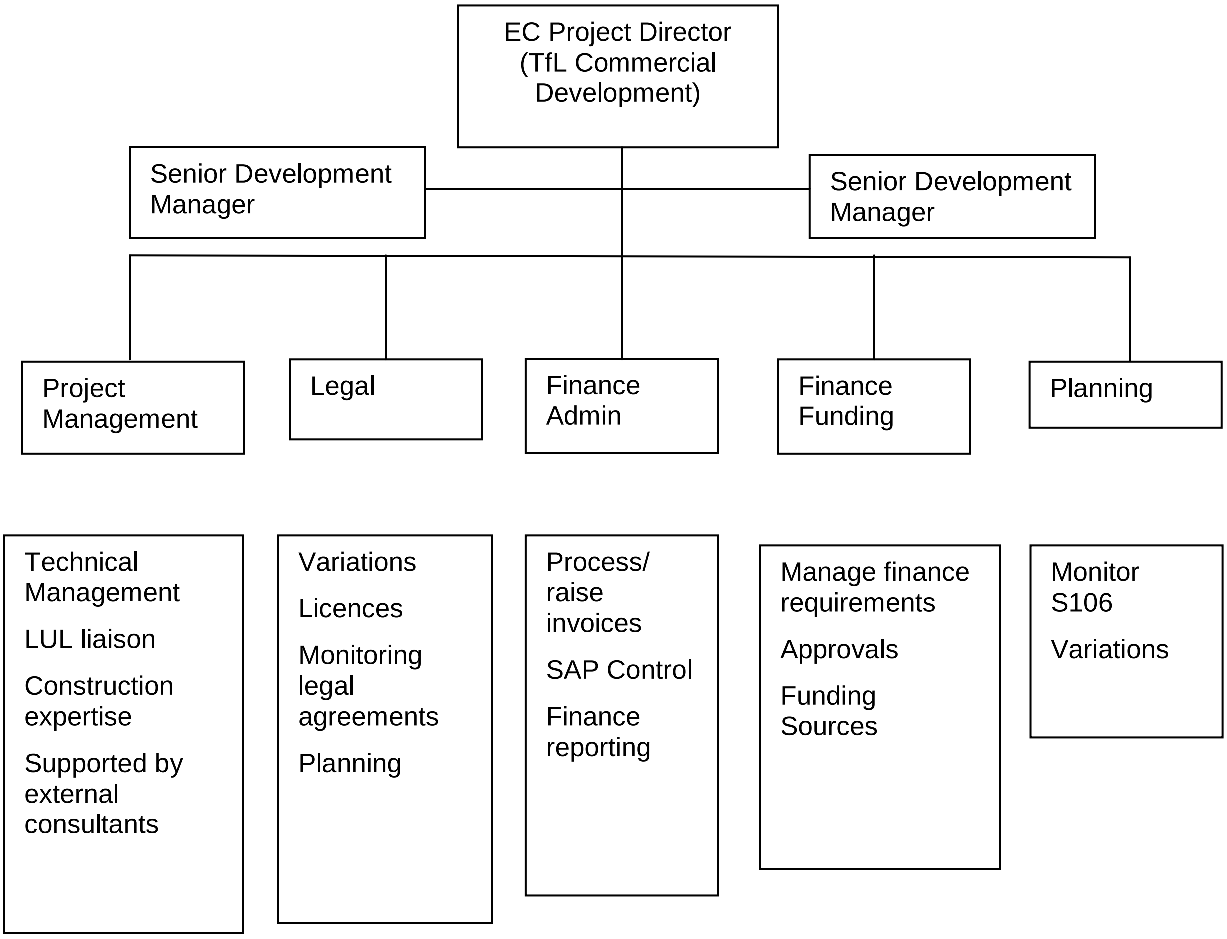
Appendix 6

TfL Proposed Structure

JV Board TfL Members - 3 TfL employees/ advisors

Project Executive - 3 TfL employees/ advisors

Team Structure (Draft)



External Support – Cushman and Wakefield – Commercial Property

- AECOM – Technical/ Construction/

Appendix 7

Due Diligence

Due diligence report on Capital and Counties Properties PLC in respect of joint venture arrangements with Transport for London on Earl's Court redevelopment

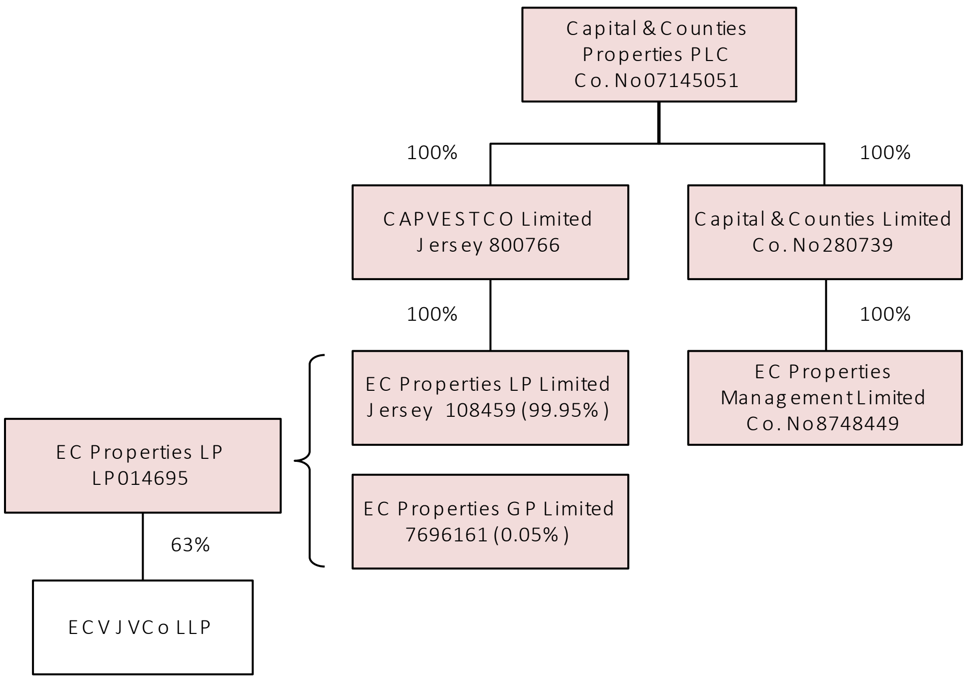
1 Introduction

The following paper sets out TfL's due diligence on Capital and Counties Properties PLC ("Capco") and its relevant subsidiaries, including EC Properties LP Limited which is to be a party to the proposed joint venture with TfL to facilitate the development of Earls Court Village.

2 Relevant Capco Company Structure

TfL is seeking Board approval to enter into a joint venture arrangement with EC Properties LP. EC Properties LP is the beneficial owner of Earls Court Village assets and is a wholly owned subsidiary of Capvestco Limited, which in turn is a wholly owned subsidiary of Capital & Counties Properties PLC – see current company structure below.

Capvestco Limited also wholly owns other Jersey subsidiaries which are the limited partners in limited partnerships which beneficially own other assets at Earls Court, including Lille Square and Empress State, as well as Covent Garden.



3 Executive Summary

Below is a brief summary of the main areas examined for this due diligence and key points:

- Major asset valuation – Capco's assets are concentrated around three main estates in central London, with a focus on retail, exhibition and residential rentals. The assets value has increased by 13% from December 2012 and by 75% from early 2010, when the company demerged from Liberty International. Demand for retail rental space is strong and the key retail asset, Covent Garden, has 99% occupancy. The company has concentrated on its core London portfolio and sold its ownership in non-core assets in order to recycle capital.

- Financial position and performance – high demand is driving a good financial performance – rental revenue is steady. Net assets value is increasing, partially as a result of property revaluation. The company has low levels of debt, which means lower financing costs. During the course of 2012, £300 million of debt has been repaid. Asset purchase is funded from high cash reserves and proceeds from sale of non-core assets. Ratio analysis over the past 3.5 years shows consistent financial performance.

- Market performance – Capco's shares have enjoyed an increase in price since the company became listed in 2010. Shares are trading at +30% to the price a year ago. Market analysts advise investors to hold their investment in the company. Capco attracts institutional investors looking for low risk investment and a steady return. Ten institutional investors hold 51% of the company's shares.

- Peer review – Capco performs well against its industry peers in London. It has lower debt levels, better profitability and a better return on capital employed.

- Legal compliance – there are no known material disputes which involve either the company itself or any of its directors or officers. It has become known that a joint venture partner on the Lillie Square development, who is a member of the Kwok family, has been charged by the Independent Commission against Corruption (ICAC) of Hong Kong with offences related to bribery and misconduct in public office in China. Capco emphasised that the Lillie Square joint venture is not affected by the criminal charges of the joint venture partner and neither will involvement in JVCo be impacted.

- Risk management – there are a number of commercial and reputational risks that Capco faces, however these are not exclusive to the company and are inherent characteristics of the real estate development industry. Capco has a comprehensive risk management process in place and there are no risks which would pose a reason for material concern.

4 Company Overview

Capital & Counties Properties PLC (Capco) is a property investment and development company listed on the London and Johannesburg stock exchanges and a constituent of the FTSE-250 Index.

Operations

Capco focuses primarily on the retail and residential market segments with a focus on central London. Its portfolio of property investments is concentrated in West London and the West End and comprises c2.7 million square feet of real estate.

Capco is organised into three operating divisions:

- Covent Garden;
- EC Properties; and
- Venues.

The “EC Properties” division includes the development opportunities at Earls Court, Lillie Square and Empress State, while the “Venues” division includes Earls Court & Olympia.

It currently employs around 330 staff. Its Head office is in London (Grosvenor Street, London W1K 4QZ).

Valuation

Capco’s property assets are valued at around £2.1 billion, a rise of 13% since December 2012, and it has a market capitalisation of around £2.7 billion (as at 10 January 2014).

5 Major Assets

Covent Garden

The core Covent Garden estate was acquired in 2006 with a view of repositioning it as a world-class retail, leisure and residential destination. At the end of financial year 2012 Capco owned 62 buildings and over 898,000 square feet of lettable space in Covent Garden, including the London Transport Museum. The footfall is strong with 44 million visitors annually and the estate maintains 99% occupancy. The area continues to attract premium retail brands.

In 2012, Capco completed £89 million of acquisitions, comprising of the Wellington Portfolio, 17-18 Floral Street, 25-29 Henrietta Street and 14 Garrick Street. In January 2013 the company acquired a 125 year lease over 38 Kings Street and submitted a series of planning applications to Westminster City Council for a mixed-use development on the site.

Earls Court

Earls Court represents a long-term strategic land management and development opportunity for Capco. The company's interests in the site cover 23 acres and comprise the leasehold interests of the Earls Court Exhibition Centres and the freehold of the Northern Access Road. In March 2013 Capco reached an agreement with Network Rail on the air rights above the West London Line where it runs within the Earls Court Opportunity Area (ECOA). In April 2013 the Secretary of State for DCLG gave consent to the Conditional Land Sale Agreement (CSLA), which gave Capco the option to acquire approximately 22 acres of land in the ECOA.

Lillie Square (formerly Seagrave Road)

In March 2012, the Seagrave Road project received formal planning consent from the London Borough of Hammersmith & Fulham (LBHF) and in August 2012, Capco entered into a 50:50 joint venture with the Kwok Family Interests (KFI) to develop the site into a residential-led scheme. The site is currently used as a car park for the Earls Court Exhibition Centre. The joint venture is now at the stage of finalising the design of the scheme and preparing for the sales and marketing launch alongside the construction contracts.

Empress State

Since the demerger from Liberty International, Capco held 50 per cent stake in the Empress State building, which is adjacent to the company's property interests in Earls Court. In May 2013, Capco acquired the remaining 50 per cent of the Empress Site Limited Partnership, from Land Securities Group Plc (Land Sec) Group PLC for the total cost of £117 million.

Venues

Capco's exhibitions, conference and events business currently operates from the Olympia venue. This now incorporates Olympia London's ancillary assets, principally its marshalling area. Capco will be submitting a series of planning applications in the coming months to gain permission for improvement works on the site.

As part of the Earls Court Village development, the Earls Court venue will be demolished and there is speculation that the Olympia arm would be sold-off.

6 Financial Assessment

Financial position

As at the mid-year point, 30 June 2013, Capco's net assets stood at £1.7 billion. This is a £253 million increase on the position at the end of the last financial year (31 December 2012). This is largely due to gains on asset revaluation and acquisition of 100% control over former joint venture with Land Sec.

The company has 754.3 million of ordinary shares outstanding, which equals to £188.6 million of share capital. In September 2012, Capco completed a placing of 68.4 million of new ordinary shares. Company's retained earnings are £1.5 billion. On 30 June 2013, the company's cash reserves stood at £126.7 million as compared to £184.5 million for the six month period to 30 June 2012. The decrease in cash is mainly due to property acquisitions and investment in long-term assets at the beginning of 2013.

Capco's long-term borrowing stands at £270 million and shorter-term borrowing at £138 million, which given its net assets of £1.7 billion, mean that the company has low gearing. This is a result of Capco pursuing a policy of reducing its total debt throughout 2012 in order to reduce the costs of borrowing and extend the weighted average debt maturity. A total of £300 million worth of debt has been repaid in 2012. At the same time, the company has agreed a new five year £119 million facility to refinance the existing debt secured on the Empress State Building following the purchase of the 50% share from Land Sec.

The company reported compliance with all of its debt covenants. It has a policy of minimising interest rate risk and uses interest rate swap arrangements on all of its debt.

Financial performance

In the six months to 30 June 2013, Capco's revenue from continuing operations was £54.5 million, an increase of £2.5 million on the comparative six month period in the previous financial year. Rent receivable and venue income reduced by £0.3 million from £45.7 million in six months to 30 June 2012 to £45.4 million in six months to 30 June 2013. The reduction in rents is attributable to the sale of properties within the Great Capital Partnership (GCP) and the weaker performance of the venues business. The reduction has been partially offset by increased income from Covent Garden.

Profit before tax mid-year stood at £211.1 million, which is an increase of £133.6 million on a comparative six month period in the previous financial year. The rise in profit is largely attributable to gains on revaluation across all of Capco's investment property portfolio.

The company's underlying net finance costs for the six month period fell to £10.7 million from £13.7 million in 2012. The reduction reflects the impact of various debt prepayments and repayments together with the benefit of refinancing in a historically low interest rate environment.

The company's cashflow items are typically operating cashflow, dividend payments and capital transactions. In the six month period to 30 June 2013, Capco's net cash decreased by £57.8 million, which is a further £21.5 million decrease on the comparative six month period in the previous financial year. During the six month period Capco completed property acquisitions in its Covent Garden estate, and incurred development expenditure in respect of Earls Court and Lillie Square, which explains the decrease in cash reserves.

Ratio analysis shows that Capco has strong profitability, good return on capital employed and low gearing. Key financial information and ratio analysis for the company are shown in Appendix A.

Market performance

Capco shares started trading in May 2010 at the price of 124 pence. Between 2010 and today, the share price has been steadily increasing. Capco's current share price (18 December 2013) is 322.6 pence – an increase of 30.1% on a year ago and 160% increase on the opening price.

Financial Times presented a consensus forecast amongst 13 polled investment analysts on Capco's shares, advising investors to hold their position in the company[3].

Auditors view

Capco's auditors, PricewaterhouseCoopers LLP, consider that the company's annual accounts show a true and fair view of the state of the company's affairs for all years since its demerger from Liberty International plc in 2010.

7 Peer Review

Capco is part of the real estate development and operations industry sector. The largest companies in this sector are Land Sec and British Land Company Plc (British Land). Their property portfolio is not as focussed on London as Capco's, although they do have a strong presence in the capital.

Land Sec has interest in other UK cities – Portsmouth, Bristol and Cardiff. It also owns 24 shopping centres and 19 retail parks. British Land focuses on UK retail and London office properties. The company owns 90 retail park properties, 99 superstores, 12 shopping centre and 10 department stores. Given the breadth of business interest, both Land Sec and British Land are significantly bigger than Capco, both in terms of asset valuation and turnover.

Real estate operators that focus primarily on London and are of similar size to Capco are:

Derwent London Plc

- A real estate investment trust (REIT) focused on the central London commercial property market. The company owns a portfolio of commercial real estate predominantly in central London. West End accounts for 76%, the City borders 21% and the remaining 3% is in Scotland, on the northern outskirts of Glasgow. The company was established in 1984.

[3] Source: FT.com - http://markets.ft.com/research/Markets/Tearsheets/Forecasts?s=CAPC:LSE

Great Portland Estates Plc

- A property investment and development company focused on central London commercial real estate, primarily office and retail. 81% of company's portfolio is in the West End with the remainder in the City, Midtown and Southwark. The company was established in 1957.

Shaftesbury PLC

- A REIT focused on investment in properties with primarily commercial uses and their improvement through refurbishment and active management. The company owns a portfolio of commercial and residential space in London and was established in 1986.

Capco compares favourably with these companies as shown in the table of key financial information in Appendix B. Capco is a mid-sized company in terms of its portfolio floorspace, market capitalisation and net assets held – bigger than Great Portland Estates and Shaftersbury, but smaller than Derwent London. Land Sec and British Land are shown for reference only as the breadth of their business is not directly comparable to Capco's.

Capco holds significantly less debt than its peers and consequently has a much lower gearing. It also achieves a much higher return on capital employed than other London-focused companies, which suggests better profitability and efficiency with which its capital is being used.

8 Main Shareholders

As at 2 December 2013, 10 institutional shareholders held 51.35% of all traded shares in Capco. The breakdown of the ownership is shown in Appendix C.

The main shareholders are represented by large independent asset managers, investing on behalf of corporates, pension funds, sovereigns and individual clients. There is a significant pension funds' presence in the investor base and Governments of Norway, Singapore and South Africa have direct investments. This type of shareholders looks for low risk investment opportunities and a steady return. Their shareholdings suggest that Capco is perceived as a stable company to invest in.

Capco has 756.7 million of ordinary shares in issue. Over the four months to December 2013 two of its biggest shareholders, BlackRock and Coronation Asset Management disposed of 28.7 million shares, however their combined shareholding of 183.2 million shares still represents the largest portion held by any other investor. Disposals may be due to reprioritisation of investors' portfolio and are not necessarily a sign of loss of confidence in Capco as an investment asset. Company's share price remains strong.

9 Capco History

Capco became an independent property investment and development company following its demerger from Liberty International PLC in May 2010. The demerger transferred Liberty International's central London-focused property investment and development division to Capco. The rest of the Group's interests, comprising predominantly the UK shopping centres business, were transferred to Capital Shopping Centres Group PLC which changed its name to Intu Properties PLC in February 2013.

Liberty International began life in the UK in 1980 as the international arm of Liberty Life Association of Africa Limited, the South African financial services company founded by the businessman Donald Gordon in 1958. The Company developed into an investor in life assurance businesses in the 1980s and divested its remaining life assurance interests (a 29% holding in Sun Life) in 1991. In 1992 it merged with Capital & Counties, a shopping centre developer and secured itself a listing on the London Stock Exchange.

Prior to the demerger of Liberty International in 2009 the company was made up of two distinct businesses – Capital Shopping Centres and Capital & Counties, with a total real estate investment value of £6.2 billion. The prime UK regional shopping centres business accounted for £4.6 billion (74%) of company's asset value and Capital & Counties' central London assets accounted for £1.6 billion (26%).

On 31 December 2009, Liberty International transferred £1.2 billion worth of assets to Capco:

- Covent Garden Market (£548 million);
- Earls Court & Olympia (£340 million);
- 50% interest in the Empress State Building (£94 million Capco's share);
- 50% interest in GCP, a joint venture with Great Portland Estates plc (GPE), focused predominantly on the West End, particularly Regent Street and Piccadilly (£247 million Capco's share);
- Investment in two Chinese real estate investment funds (£46 million).

Since the demerger, the fair value of company's assets has risen to £2.1 billion – a 75% increase.

The table below shows the asset valuation over time.

Asset Valuation (£m)	On demerger	2010	2011	2012	2013 (interim)
Covent Garden	548	640	808	952	1,101
Earls Court*	340	138	195	336	417
Empress State	94	103	103	110	234
Olympia & Peripheral assets*	-	136	160	171	194
Seagrave Road	247	104	116	104	125
GCP/China	46	260	241	48	-
Total	**1,275**	**1,381**	**1,623**	**1,721**	**2,071**

* On demerger, valuation of Earls Court included Olympia and peripheral assets. Separate valuation for these properties at the demerger date is not available.

With respect to individual assets, from 2010, Capco pursued the strategy of positioning Covent Garden as a prime central London retail and leisure destination. The company continued to expand the estate through acquisitions and attract new upmarket tenants to achieve higher rental levels. Acquisitions and redevelopments were paid for by the company's cash resources, additional share placings and new debt facility arrangements with the lenders.

Earl's Court and Olympia represented a redevelopment opportunity for Capco and the company sought planning consents for both sites. Redevelopment plans for the Olympia Exhibition and Conference were approved by LBHF in October 2010 and works on expanding the exhibition space and reconfiguring the centre to be more efficient for servicing were completed in December 2011.

Capco was granted outline planning consent for the Earls Court Masterplan following the signing of the Section 106 agreement between LBHF, London Borough of Kensington & Chelsea (LBKC), London Underground Ltd, Transport for London and Capco. The company has also exercised its option under the Conditional Land Sale Agreement (CLSA) which it entered into with LBHF in January 2013 in relation to LBHF's land within the redevelopment area, which means that Capco can draw down this land in phases for development.

Throughout 2010 and 2011 GCP sold its non-core assets to 3rd party buyers and returned the sale proceeds to the JV partners. In 2012, a number of properties owned by GCP were sold to GPE, which effectively meant a sale of Capco's 50% stake in these assets to its JV partner, allowing GPE to expand its non-JV property portfolio. GCP's asset sales culminated in the disposal of its final asset, Park Crescent West, in June 2013, effectively marking the end of the JV arrangement.

In 2012, as part of the strategy of focusing on core assets, Capco exited the Chinese market by selling its last investment in the Chinese real estate funds, Harvest Capital and China Resources.

10 Disputes and Legal Compliance

Legal compliance of senior management

The list of Capco and Capco Companies' directors, as supplied by Capco, is provided in Appendix D. This list excludes the names of those appointed as directors of Earls Court & Olympia Group Pension Trustees Limited and the trustees of The Earls Court & Olympia Charitable Trust.

Capco has confirmed that it has not received any formal notification that any Capco appointed director or officer has been convicted of conspiracy, corruption, bribery, fraud or money laundering.

Legal compliance of company

Capco confirmed that it has procedures in place to comply with the Bribery Act 2010. The company implemented an Anti-Corruption and Bribery Policy on 1 July 2011. A copy of the policy is available on the company's website[4].

Capco also maintains a Gifts and Hospitality Policy and has procedures in place to comply with the UK Money Laundering Regulations. As part of Capco's internal control and risk management systems customer due diligence checks are carried out alongside specific due diligence by appointed lawyers in respect of joint venture parties.

The Board of Capco has the overall responsibility for the Bribery Policy and Capco's Chief Executive is responsible for the Bribery Policy's implementation and compliance. Capco also operates a whistleblowing helpline, which can be used to report any concerns relating to possible malpractice.

Disputes

In 2011, Capco entered into a joint venture arrangement on Lilly Square with the Kwok Family Interests (KFI). Two of Kwok family members have since been charged by ICAC, in their capacity as co-chairmen of Sun Hung Kai Properties, with offences related to bribery and misconduct in public office.

Capco emphasised that the Lillie Square joint venture is not affected by the criminal charges of the joint venture partner and neither will involvement in JVCo be impacted.

11 Risk Management

Commercial risks

Capco's investment is concentrated in London, which means that the company is exposed to economic and market conditions that affect the residential and commercial real estate in the capital. In the event of a

[4] www.capitalandcounties.com

continued economic uncertainty the company may struggle to let vacant space, with a knock on effect on revenue and profit. At present, the demand for London property is strong and house prices have seen significant rises. Future increases in interest rates may have some impact on the demand for space from both commercial and residential tenants.

A rise in interest rates could also have a negative impact on Capco's borrowing costs, however given its current low levels of gearing and relatively low debt servicing costs, the company appears to be less prone to financing risk than its industry peers. Dun & Bradstreet, the provider of business information for risk management, evaluated Capco's creditworthiness and awarded the company a risk score of 1. This represents the lowest possible risk of company failure, and provides an additional level of independent assurance that Capco is a low financial risk partner.

The biggest development risk identified by both Capco and market analysts was the inability or delay in securing a planning consent for the Earls Court redevelopment proposals due to political or legislative reasons. This risk fell away when both LBHF and LBKC granted planning permission on the site and the Mayor of London gave his consent for redevelopment in earlier this year.

Reputational risks

The market analysts consider that a reputational risk for Capco is if the company was to sell too many residential units at Lillie Square and Earls Court to foreign buyers as an investment, thereby failing to create a sense of community early on.

Appendix A – Financial analysis of Capco

Key Financial Information

	Int. Jun-13 £m	Dec-12 £m	Dec-11 £m	Dec-10 £m
Revenue	32	115	108	114
Gains on revaluation	198	214	123	135
Net Profit Before Tax	211	246	162	133
Net increase / (decrease) in cash	(52)	95	(99)	163
Total Debt	408	348	553	665
Tangible Net Worth	1731	1478	1108	883

Ratios

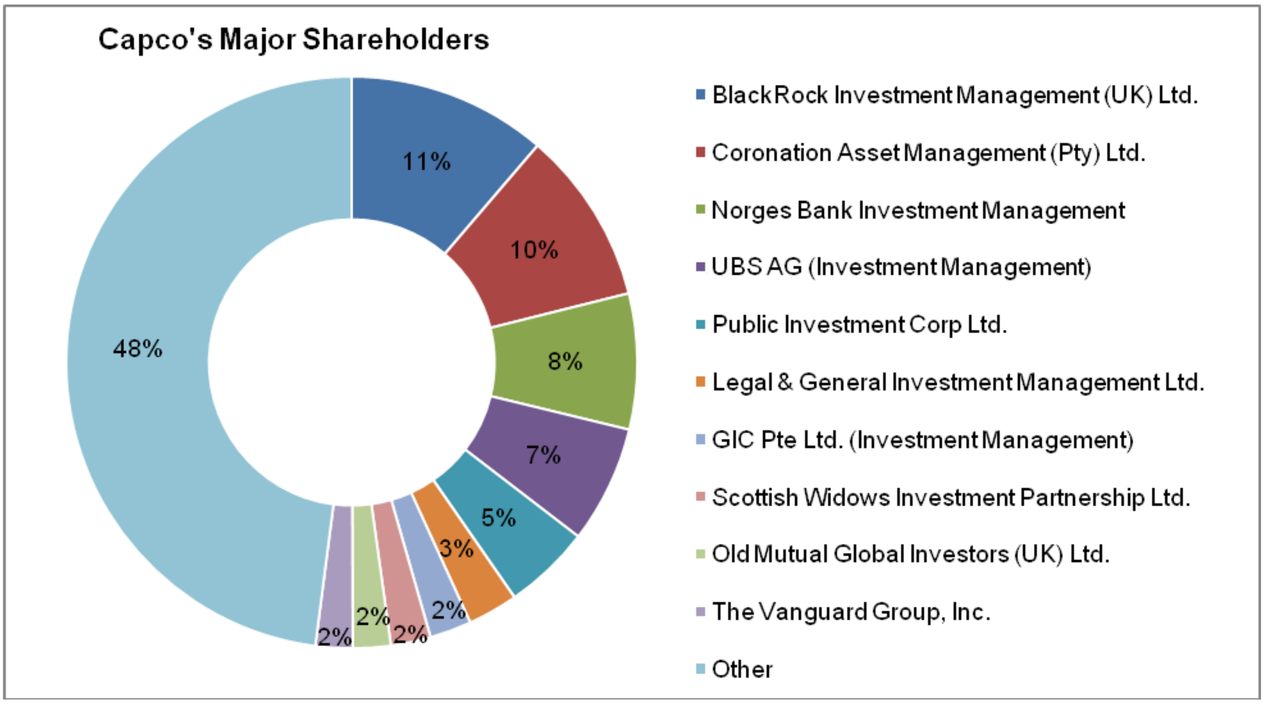
	Int. Jun-13 £m	Dec-12 £m	Dec-11 £m	Dec-10 £m
Current ratio	1.41	1.99	1.06	2.74
Gearing ratio (%)	19%	19%	33%	43%
Debt to earnings ratio	1.92	1.29	2.81	3.72
ROCE (%)	10%	13%	10%	9%
Profit Margin (%)	54%	68%	77%	65%
Earnings per share	27.7pence	34.1 pence	23.9 pence	21.2 pence

Appendix B – Industry peer review

Extracts from Annual Reports for y/e 31 December 2012 and 31 March 2013	**CAPCO**	**Derwent London**	**Great Portland Estates**	**Shaftesbury**	***Land Sec***	***British Land***
Portfolio (sqft)	2.7m sqft	5.4m sqft	2.3m sqft	1.55m sqft		
Market Capitalisation (£m)	2,470	2,490	2,010	1,530	*7,390*	*6,010*
Revenue (£m)	115	151	69	87	*737*	*329*
Gain on revaluation (£m)	214	174	97	90	*197*	*88*
Net Profit Before Tax (£m)	246	228	181	95	*533*	*260*
Net increase/(decrease) in cash (£m)	95	0.9	2	3	*12*	*(2)*
Total Debt (£m)	408	879	706	562	*3,315*	*2,134*
Tangible Net Worth (£m)	1,478	1,918	1,538	1,119	*7,487*	*5,687*
Current Ratio	2.0	0.7	0.7	2.5	*0.7*	*0.7*
Gearing ratio (%)	19%	31%	31%	33%	*31%*	*27%*
Debt to earnings ratio	1.92	3.2	3.6	3.7	*5.1*	*7.3*
ROCE %	13%	8%	8%	6%	*5%*	*3%*
Profit margin (%)	54%	68%	74%	71%	*84%*	*88%*
Earnings per share	34.1 p	227.76p	56.3p	37.1p	*68.4p*	*31.7p*

Appendix C – Capco ownership breakdown

Shareholders	% holding
BlackRock Investment Management (UK) Ltd.	11%
Coronation Asset Management (Pty) Ltd.	10%
Norges Bank Investment Management	8%
UBS AG (Investment Management)	7%
Public Investment Corp Ltd.	5%
Legal & General Investment Management Ltd.	3%
GIC Pte Ltd. (Investment Management)	2%
Scottish Widows Investment Partnership Ltd.	2%
Old Mutual Global Investors (UK) Ltd.	2%
The Vanguard Group, Inc.	2%
Other	48%
Total	**100%**



Appendix D – Capco's directors and officers

Chairman

- Ian Durant

Non-Executive Directors

- Ian Henderson
- Andrew Huntley
- Henry Staunton
- Andrew Strang
- Demetra Pinsent
- Graeme Gordon

Executives

- Ian Hawksworth
- Soumen Das
- Gary Yardley
- Company Secretary
- Ruth Pavey

Others

- William Black
- Beverley Churchill
- Sarah-Jane Curtis
- Yvonne Denyer
- Andrew Hicks
- Gavin Mitchell
- Nigel Nathan
- Jill Pett
- Balbinder Tattar
- Simon Riley (director of Jersey registered Capco companies only)
- Rupert Walker (director of Jersey registered Capco companies only)
- Michael Vaughan-Johns (appointed as an alternate director to certain Jersey registered companies only)

Strictly Private and Confidential

Commercial in confidence

DRAFT

Earls Court Village

Business Plan v17

14 January 2014

ROTHSCHILD

Confidentiality

The entirety of this document is commercially sensitive to Capco and JVCo and its disclosure is likely to prejudice the commercial interests of Capco and/or JVCo. The document is provided to [shareholders / Members] on a confidential basis and should not be disclosed to any third parties without JVCo written consent.

[To be reviewed when FOI protocol finalised]

Contents

Appendices

1. Introduction

1.1 Purpose

The Purpose of this document is to set out the initial business plan for JVCo (the “Business Plan”). JVCo is the joint venture between Capital & Counties Properties PLC (“Capco”) and Transport for London (“TfL” note in this document this term refers to both TfL and its subsidiary entities) (together the “Parties”) established to enable the Parties to profit from facilitating the development of the Earls Court Village (“ECV”) as described in sections 2 and 4 of this Business Plan.

1.2 Approval

The Business Plan will be approved by the Parties prior to the signing of the Members Agreement (expected in February 2014) and subsequently will be adopted by the Board of JVCo. The Board will monitor progress against the Business Plan on a quarterly basis and the Business Plan will but updated, as appropriate, but at least annually.

1.3 Limitations

Due to the scale and long-term nature of the development together with the inherent difficulties of making detailed long-term projections regarding the real estate market this Business Plan will be subject to change over time. Furthermore it should be noted that this initial Business Plan covers the anticipated first phase of the scheme in considerably more detail than later phases. All details on later phases, including related development appraisals are included in this document for illustration only.

1.4 Related documents

This Business Plan is not intended to provide a standalone overview of all of the details relating to the governance of JVCo and the roles of its members and other stakeholders. This document should therefore be read in conjunction with the following documents:

- The Members Agreement
- The Business Management Agreement
- The Implementation Agreement
- The Financial Models
  - DFBC6 v23 – ECV JVCo (Ph 1 5 Dec 2013)
  - DFBC6 v23 – ECV JVCo (Ph 2-4 5 Dec 2013)
- The Property Documents

2. Background

2.1 Earls Court Opportunity Area

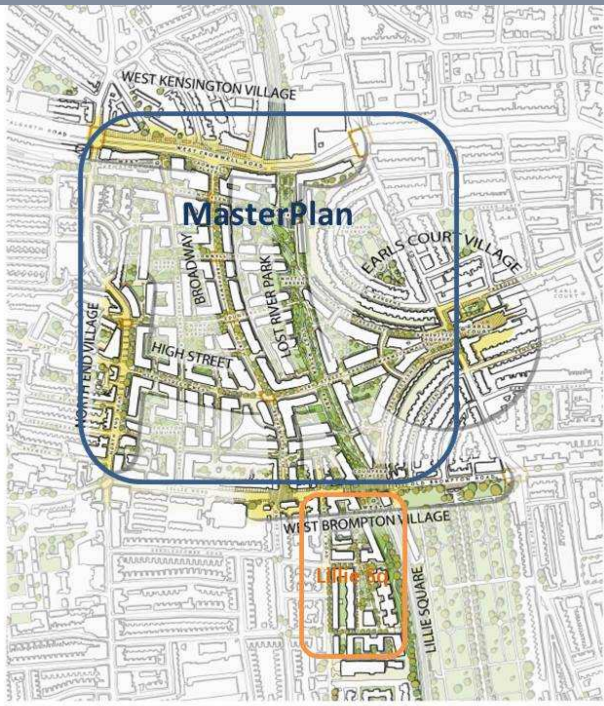
The Earls Court Opportunity Area ("ECOA") is one of the largest regeneration projects in London and received Town Planning Permission on 14 November 2013 from both the London Borough of Hammersmith & Fulham ("LBHF") and the Royal Borough of Kensington & Chelsea (RBKC").

The ECOA covers approximately 77 acres of land spanning two boroughs (LBHF and RBKC) and currently comprises six main landholdings:

- The Earls Court Exhibition Centres long leasehold interests which are owned by Capco subsidiaries. TfL is the freeholder of the Earls Court Exhibition Centres;
- The Seagrave Road car park owned by Lillie Square LP (which is a joint venture between Capco and the Kwok Family Interests);
- The West Kensington and Gibbs Green housing estates owned by LBHF – Capco has an option, which it has exercised to draw this land down over time;
- The strip of land through which the West London Line ("WLL") runs, owned by Network Rail. Capco has an option to drawdown 999 year air rights above the line to enable a raft to be constructed over line on which the Lost River Park will sit;
- The Empress State Building owned by Capco; and
- The Lille Bridge Deport owned by TfL.

Within the ECOA, seven acres on the former Seagrave Road Car Park (known as Lillie Square) are currently being developed by Capco in a joint venture with the Kwok Family Interests. The remaining c.70 acres are the subject of the Earls Court Master Plan.

Figure 1. The ECOA



The Earls Court Masterplan (the "Masterplan"), as shown in Figure 1 above, covers 10.1 million square feet of space and was designed by Sir Terry Farrell who was inspired by the best of London to create 'Four new Urban Villages and a 21st Century High Street.' The Masterplan sets out a proposal for 6,775 new homes, 12,000 new jobs as well as new open green space, health facilities, new schools, community and cultural space and improvements to the transport and infrastructure of the local area.

2.2 Earls Court Village

The development, that is the subject of this Business Plan, is Earls Court Village ("ECV"). The site on which ECV will be developed represents a c.26.5 acre area within the ECOA, covering that of the EC1 and EC2 leases (the location of the existing exhibition halls) together with the Blue Car Park (BCP), the Northern Access Road site (NAR), Cluny Mews, 348/350 Old Brompton Road and Empress Place and the air over the Network Rail land (together the "Site"). The Site shown in Figure 3.

The vision is to create a grand, elegant residential area which is entered through two main entrances Brompton Square and Exhibition Square (located in close proximity to West Brompton and Earls Court Stations respectively). It will be characterised by sweeping crescents of townhouses to the north and south, and contemporary mansion blocks referencing the surrounding Victorian and Edwardian architecture forming the more sedate, eastern end of the 21st century High Street which links into the broader ECOA site.

Figure 2, below, sets out the currently envisaged schedule of accommodation for Earls Court Village.

Figure 2. Schedule of accommodation (sq. ft.)

	GEA	GIA	NIA	Units
Private Residential	2,854,000	2,659,000	2,184,000	1,617
Affordable Residential	74,000	71,000	58,000	64
Retail	172,000	152,000	137,000	
Hotel	45,000	43,000	43,000	
Leisure	39,000	35,000	28,000	
Cultural & Community	60,000	57,000	52,000	
Offices	303,000	293,000	234,000	
Total	**3,547,000**	**3,310,000**	**2,736,000**	**1,681**

GEA – gross external area; GIA – gross internal area; NIA – net internal area

Figure 3. The Site

Notes

With the exception of some elements of Cluny Mews, Empress Place and 348/350 Old Brompton Road, all land interests of the Site are under the Parties' control. In the event that JVCo is not able to make the land acquisitions required for Empress Place an amended scheme such as the scheme in the existing consent will be considered.

2.3 JVCo

2.3.1 Form of JV

It is intended that JVCo will be constituted as a UK Limited Liability Partnership (LLP). Its members will be EC Properties LP Limited ("EC Properties"), a wholly owned subsidiary of Capital & Counties Properties PLC and [TfL Subsidiary], a wholly owned subsidiary of TfL, (together the "Parties").

An LLP has been selected as it is recognised that it is likely to be the preferred vehicle for potential future financers. The formation of JVCo as an LLP is however subject to TfL gaining the necessary constitutional powers to allow it to own an interest in an LLP. Therefore JVCo will initially be established as a limited company on signing of the Members Agreement ("Signing"). As and when TfL gains the power to invest in an LLP, assuming this happens prior to Completion (as described below) an LLP will be formed by the Parties which will draw down the land from the Parties and any relevant contracts will be novated from the limited company to the LLP.

2.3.2 Drawdown of land and Completion

As shown in Figure 3, the Parties currently own the vast majority of the land required for this development. Subject to the satisfaction of certain conditions including those listed below these land interests will be injected into JVCo ("Completion");

- the existing planning consents becoming free from challenge through judicial review; and
- the Parties delivering vacant possession of their respective interests.

This Business Plan including the description of the scheme and the financial analysis assumes that the acquisition of certain third party land interests at Cluny Mews, Old Brompton Road, and Empress Place is achieved. In the event that this is not achieved some degree of revision will be required to this Business Plan.

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2.3.3 The Primary Purpose

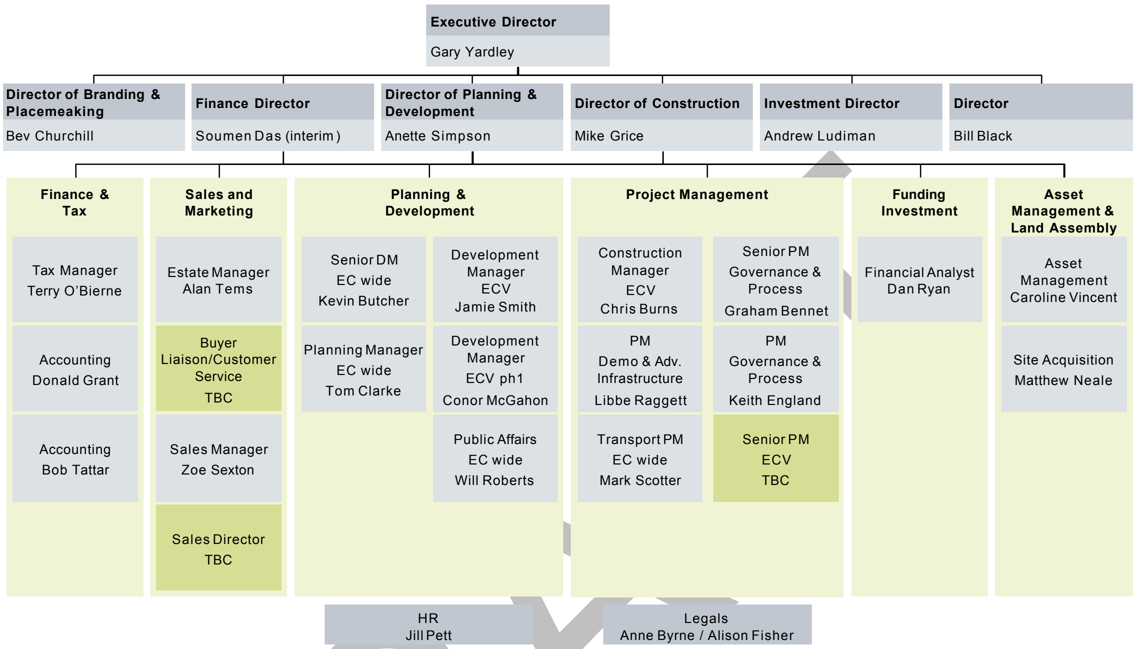
As set out in the Members Agreement the objectives of JVCo shall be exclusively commercial in nature and JVCo will conduct its business in accordance with the Primary Purpose which is; "to maximise the economic value of JVCo for its Members by enabling the development of Earls Court Village in accordance with the Consented Scheme. In considering economic value, regard should be given to the appropriate capital structure of JVCo in accordance with any current recommendations reported by JVCo's appointed Funding Adviser(s)".

2.3.4 Management of JVCo

Under the terms of the Members Agreement, JVCo will maintain a Board for the duration of the agreement. The Board will manage the JVCo and be responsible for overseeing the implementation of the Business Plan. It will meet quarterly. The Board will be supported by an Executive Committee which will be responsible for the management of the JVCo. It is intended that the Executive Committee will meet monthly. All actions and decisions made by the Board and the Executive Committee will be in accordance with the Primary Purpose.

Capco will be appointed as Business Manager under the terms of the Business Management Agreement. As Business Manager it will be responsible for the day–to-day implementation of the Business Plan under the direction of JVCo's Board and the Executive Committee.

The diagram below illustrates Capco's initial proposed resourcing for the ECV development.



3. Market overview

3.1 London residential market overview

The London market has been characterised by a chronic shortage of supply for many years. This was exacerbated by the financial crisis and downturn which caused a sharp decline in the construction starts. Pressure on supply is augmented by a relatively rigid planning regime and a lack of available development sites in locations of peak demand.

Running alongside this has been sustained population growth which was highlighted by the 2011 census. It revealed that the population of London increased by 12% throughout the preceding decade and the Office of National Statistics (ONS) expect this to continue. ONS has reported that London, estimated to have a 2010 population of 8.0m will grow to 9.1m by 2020 and exceed 10 million at the end of 2030 making it the fastest growing city in Europe.

This population growth can largely be attributed to London's status as the "engine-room" of the UK economy, which has driven economic growth and created 200,000 jobs in 2012, accounting for a third of the total increase in UK employment. The city benefits from being a global finance and insurance hub but is also now seeing significant growth in the Technology, Media and Telecommunications (TMT) sectors. Notably, international occupiers such as Google and Amazon have chosen London to house new global campuses, reflecting the pool of available talent. Oxford Economics forecasts annual employment growth of 1.4% over the next four years in Central London and it is this which is attracting both domestic and migrant workers to the city.

The perception of London as safe haven for global capital has also continued to drive foreign investment in the capital. In the 12 months to June 2013, 49% of all sales over £1 million in prime central London went to foreign buyers by nationality (although only 28% of buyers were non-resident in the UK)..

Residential schemes such as One Hyde Park which achieve headline grabbing record prices tend to be confined to the traditional 'Prime Central London' market in Knightsbridge and Belgravia. However, prices formerly reserved to this area of London are increasingly being delivered in a wider market, A recent report by CBRE has suggested that the confidence at the very top end of the market is "rippling out into the wider fringes of prime" and the £2,000 psf price bracket has "stretched into new territories and is continuing to push its boundaries" at a rate of 350 metres per year. Evidence of this is already apparent in the areas around PCL including Bayswater (The Lancasters), the City (Heron Plaza) and Fitzrovia (The Middlesex Hospital site).

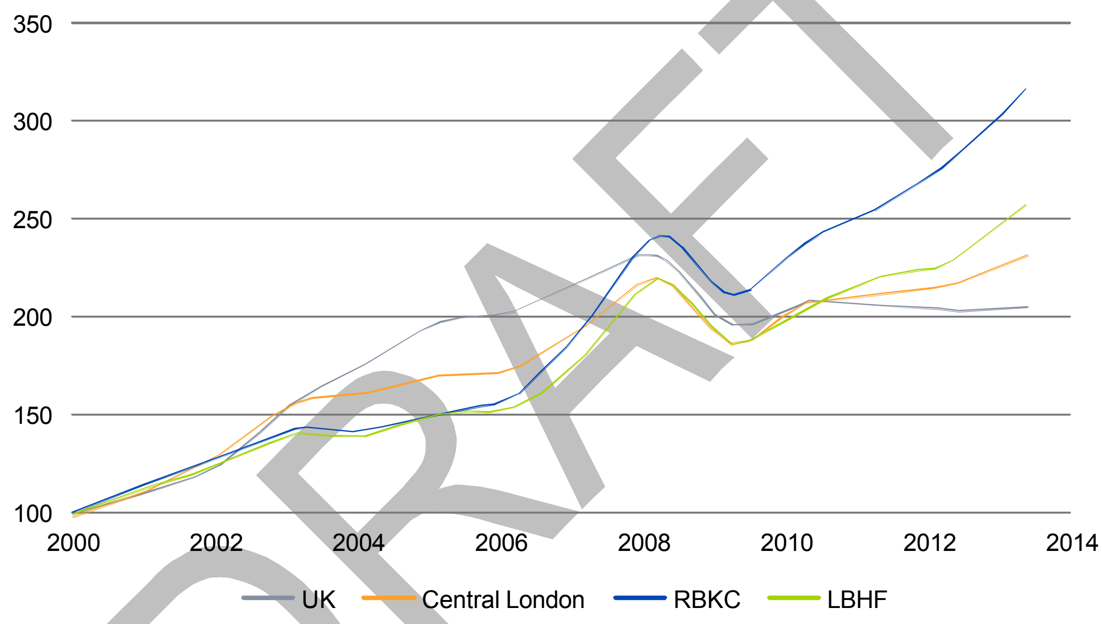
The opportunity at Earls Court Village sits across the borough boundary between Kensington & Chelsea (RBKC) and Hammersmith and Fulham (LBHF). The former comprises London's strongest and highest value housing market, together with aforementioned areas of Westminster. Peak pricing in RBKC exceeds £4,000 psf and, whereas such pricing is currently confined to 'needles' of value around areas of high amenity (such as on park and river fringes), there is a well-established sentiment for pricing above £2,000 psf in less prime areas. By contrast the predicated blended pricing at Earls Court is below £1,500 psf (at current prices as shown in Appendix C) , with this in itself representing a premium over the existing tone. There is therefore shown to be considerable room for growth.

3.1.1 Historic growth

Relative to other asset classes, the UK housing market has historically been robust and only suffered one significant year of negative growth throughout the worst prolonged global recession in decades. Since 2000, Land Registry data shows that average values in the UK have grown by an average of 5.7% annually. The market in Central London has significantly outperformed this and recovered quickly from the 2007/2008 crash and values have risen on average annually by 6.6% since 2000.

Within London, the LBHF and RBKC markets have been particularly strong performers and have grown by 7.4% and 9.2% annually on average. Indeed, average values in RBKC have more than trebled over the 13 years from the turn of the century. The robustness of the market is particularly significant for the redevelopment of Earls Court as it is a predominantly residential scheme in a strong performing part of London.

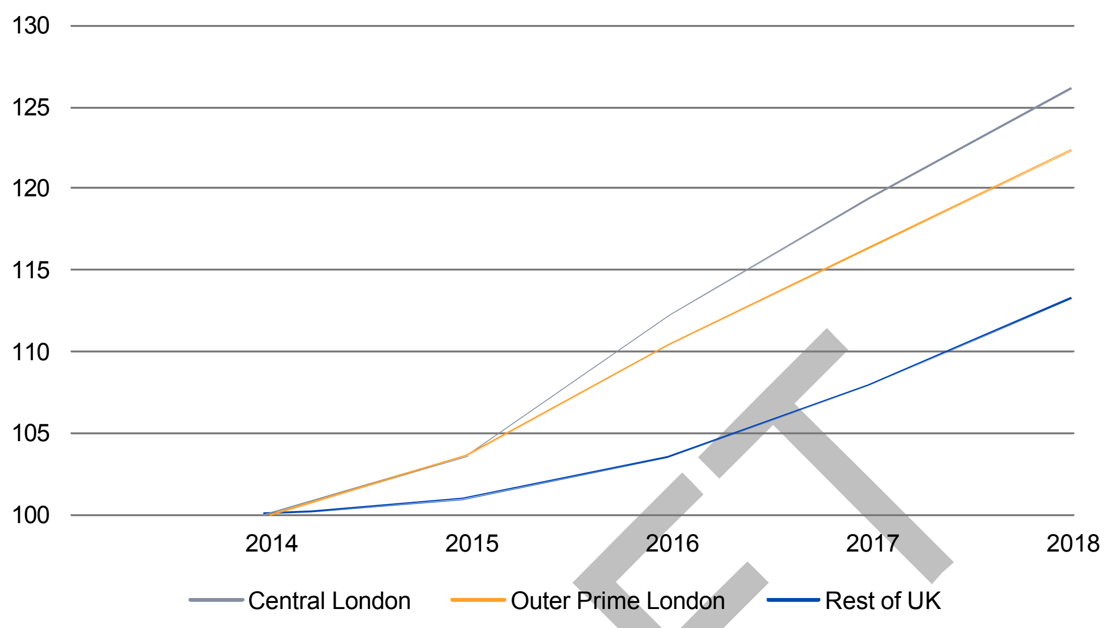
Figure 4. Average House Price Growth since 2000 (£GBP, Source: Land Registry) Index, January 2000 = 100



3.1.2 Future growth forecasts

Savills have forecast significant growth in capital values in London and a strong recovery throughout the UK housing market from 2014. They anticipate that Central London prices will grow twice as quickly as the wider UK at an average annual rate of 5.9% between the end of 2013 and 2018.

Figure 5. Savills Residential Growth Forecasts (Jan 2014 = 100)



By way of a comparison, CBRE has forecast that areas undergoing substantial redevelopment such as Paddington and Earls Court could reach the £2,000 psf pricing bracket within five years. Assuming an estimated value of £1,500 psf today, this would equate to average year on year growth of 5.9% which is broadly in line with the Savills Central London forecasts.

3.2 Development debt funding

Since the onset of the financial crisis development funding across all real estate sub-classes has been significantly restrained. This is especially when compared to the period leading up to 2007/08 as lenders have both sought to reduce their overall exposures to real estate but also to reduce their overall risk profile. Development of any kind has been deemed to be higher up the risk spectrum than other activities.

However, in recent months increased competition between lenders to finance completed assets has reduced returns from such lending and has led to an increased appetite for development activity as lenders seek increased returns from other lending options. Debt is now available for high quality schemes and loan to cost ratios of around 50% to 60% can be achievable. In all cases lending decisions are situation specific.

Debt market conditions at the time that JVCo seeks funding will be an important consideration for the Board and the Funding Adviser(s) when forming their views on the appropriate capital structure for JVCo and the funding strategy together with the Funding Adviser(s).

4. Development plan

4.1 Development strategy

It is currently anticipated that Earls Court Village will be developed in four core phases (broken into six / seven sub-phases) as set out in the figure below. Plans for the development of NAR, Cluny Mews and BCP are currently being prepared with the intention that these sites be developed in additional phases. Note, the phases will not necessarily be developed sequentially.

Figure 6. Proposed phasing of development

The shorter-term priorities are;

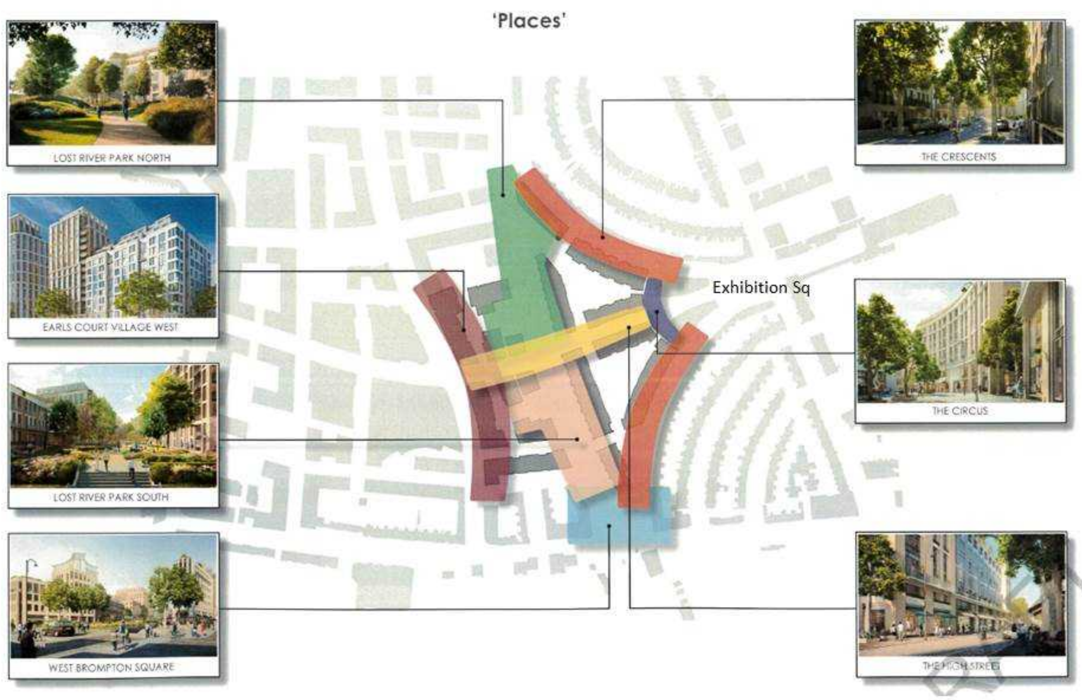
- to gain consents to the Reserved Matters to secure detailed planning approval for Phase 1
- to undertake the demolition of the exhibition halls; and
- to undertake the development of the first phase.

At the appropriate time JVCo will decide whether to retain or sell assets as they are developed. Having proved land values and profited (whether realised or unrealised) from value uplifts in Phase 1, JVCo will then decide if and how it will participate in further phases in line with the Primary Purpose. There are a range of options with respect to further phases which include borrowing against assets developed in phase one, or selling assets and recycling capital to fund the development of subsequent phases by JVCo, or alternatively selling, or JV-ing, the land on which further phases will be located to other parties or a combination of the options.

4.2 Earls Court Village

Earls Court Village is to be developed as a number of discrete areas or 'places', each with its own distinct characteristics. These areas are distinct from the phasing of development. The table below describes the various areas proposed within Earls Court Village. Images of the various parts of the Village are contained in Appendix A.

Figure 7. Overview



Place	Location

West Brompton Square

A new tree-lined London square surrounded by neighbourhood shops and cafes at the exit of West Brompton Tube Station. With seasonal planting, an expansive lawn and water features it will be the heart of the new West Brompton village.

In the current financial modelling West Brompton Square is included in Phase 1.

ROTHSCHILD

Place	Location

Lost River Park – South

The entrance to the Lost River Park will be located at the top of the steps at the far end of West Brompton Square. A beautiful new landscape designed by RHS Chelsea Flower Show gold medallist Andy Sturgeon. The park opens into a new garden lined with elegant restaurants and cafes where visitors and residents can dine in the park.

In the current modelling Lost River Park South is included in Phases 1 and 2.

Lost River Park – North

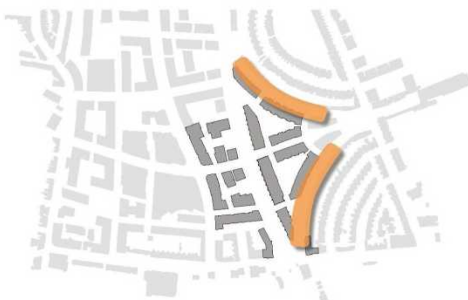
The northern section of the Lost River Park will be characterised by a more informal landscape, compared to the southern section, which offers opportunities for children to play, quiet contemplation and meandering paths.

In the current modelling Lost River Park North is included in Phase 3.

The Crescents

The two crescents will reference traditional streets in Kensington & Chelsea with grand townhouses and elegant mansion buildings creating a beautiful residential address.

In the current modelling the Crescents are included in Phases 2 and 3.

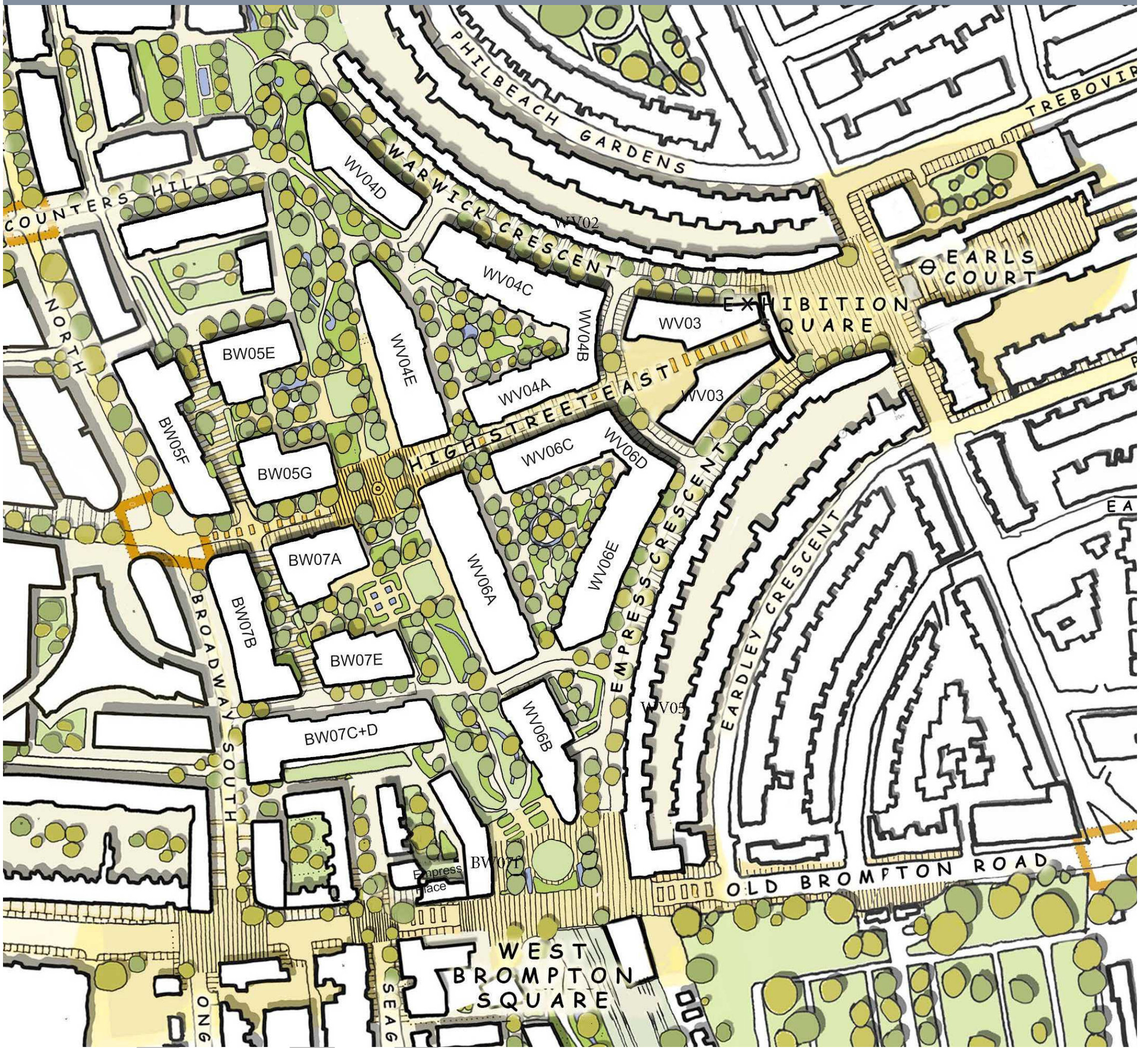


Place	Location
Earls Court Village West This classic, tree-lined boulevard recalls the great metropolitan developments of the 19th century. A pair of grand, statement buildings will stand at the intersection with The High Street creating a gateway for this first major phase of the development. In the current modelling Earls Court Village West is included in Phases 2 and 3.	
The High Street and Circus The dramatic curves and symmetrical facade of The Circus frame Exhibition Square and will herald the entrance to the High Street. A boutique hotel, independent retail, leisure and culture will create an intimate and welcoming new destination for Earls Court. In the current modelling the high Street is included in Phases 2 and 3 and The Circus is included in Phases 2, 3 and 4.	

Detailed plans for Exhibition Square, located adjacent to Warwick Road / Earls Court Station, are currently being considered.

Within this Business Plan certain building references are used, these are set out in the plan below.

Figure 8. Indicative building references



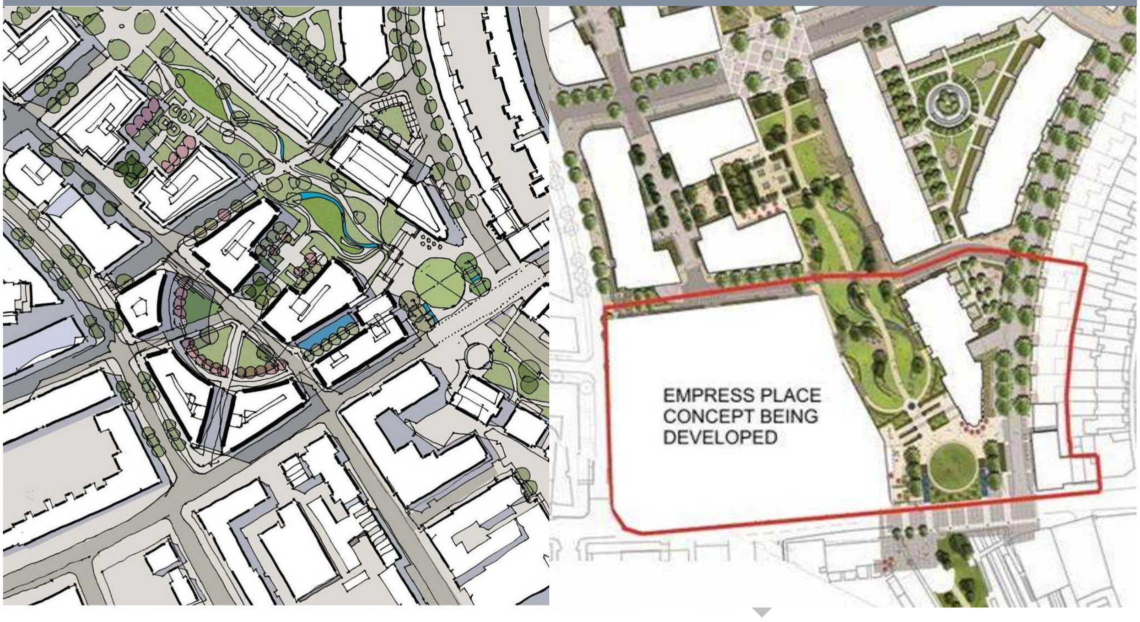
4.3 Phase 1

The first phase to be developed will be the south west corner of the site being West Brompton Square extending into Empress Place (conditional on gaining planning permission and certain site acquisitions) and part of the Lost River Park South. This has been selected for a number of reasons primarily being:

- The location is in close proximity to West Brompton Station and the Lillie Square development, which is currently being progressed by Capco in a joint venture with the Kwok family Interests. It is hoped that these factors will help to establish values that can then be 'dragged' across the site as further phases to the north are opened up;
- The majority of the new heavy infrastructure works (excluding demolition and Lost River Park South) are contained within later phases, the early development of this part of the site will enable proceeds to be generated that could be rolled over into the more infrastructure 'heavy' areas of the site; and

- The areas identified as Phases 2 and 3 contain a higher proportion of the higher value stock; establishing the place and proving sales prices for the scheme elsewhere should enable the maximisation of values for these later phases.

Figure 9. Phase 1



Initial aspirational option for Empress Place within Phase 1

Figure 10. Phase 1 schedule of accommodation (sq. ft.)

	GEA	GIA	NIA	Units
Private Residential	543,000	512,000	397,000	323
Retail	56,000	53,000	47,000	
Total	**599,000**	**565,000**	**444,000**	**323**

It is expected that scale of Phase 1 will be as set out in the table above. In the event that JVCo is not able to make the land acquisitions required for Empress Place an amended scheme such as the scheme in the existing consent will be considered. It is also noted that JVCo may be able to use CPOs to facilitate the acquisitions. Furthermore, changes to the scale or breakdown of use may be made (in accordance with the Primary Purpose) for commercial or other market related reasons.

4.3.1 Phase 1 Work Programme

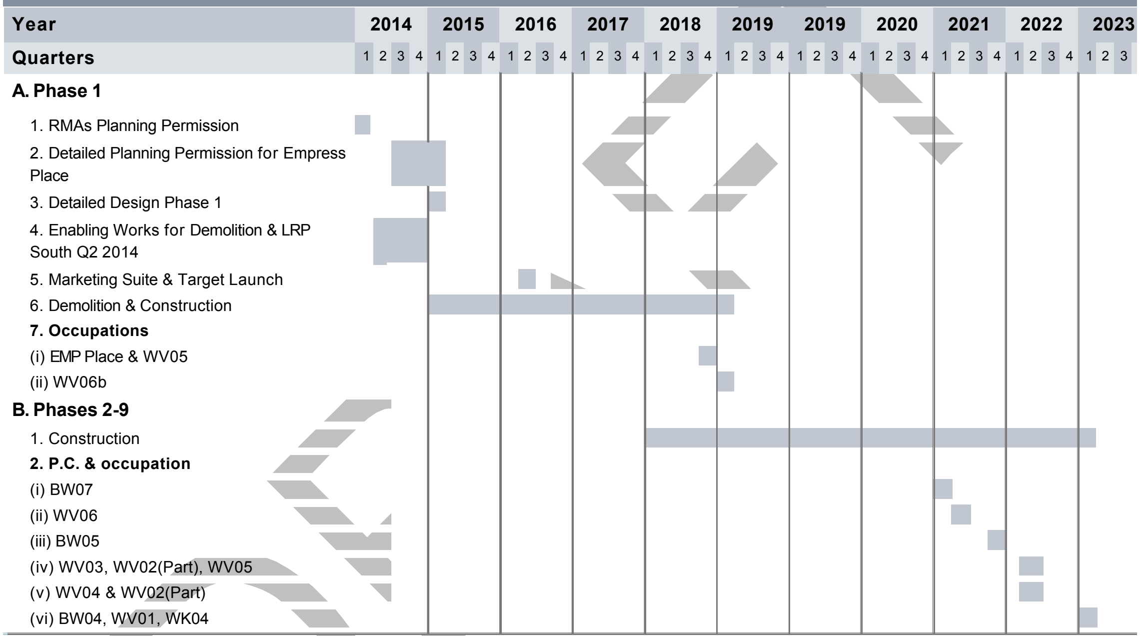
The work programme for Phase 1 is expected to be as follows:

- Following submission of the RMA's and 'slot-in' application (regarding Brompton Square) in November 2013 it is anticipated that permission will be granted by April 2014.
- Town Planning for the extended Empress Place element of Phase 1 will be progressed during 2014 for submission following the RMA's and 'slot-in' permissions, and after the local elections in May 2014. Site assembly for the extended Phase 1 will be progressed during this period.
- Engagement and negotiations will progress from 2014 with adjacent occupiers to reach agreements for neighbourly matters such as Rights of Light, Party Walls, Crane Oversailing, etc.
- Detailed design and procurement for demolition and preparatory works will progress early in 2014, including discharge of planning conditions; securing Network Rail, TfL and Borough approvals (including S.61 & S.80 notices).
- Preparatory Works to Beaumont Ave and Mund St will take place during first half of 2014 to facilitate TfL Vacant Possession ("VP") of the Lillie Bridge Depot area below EC2. The street works will be undertaken by LBHF Highways Department.
- TfL are working towards VP of the Depot area below EC2 and it is expected that it will take place in three stages; June 2014 for the car park to the south, and stores area under the deck, of EC2; Dec 2014 for the area of TfL road one adjacent to the WLL; March 2015 completion of VP of the full area below EC2. The TfL VP dates enable preparation works for removal of Bridge 19 (which spans the WLL) at the Christmas 2014 Possession Period, and commencement of EC1 & EC2 demolitions at the beginning of 2015.
- It is expected that Capco will give VP of EC1 & EC2 to enable the demolitions to commence at the beginning of 2015.
- There are a number of surveys and condition monitoring required in preparation for the works, both for rail asset protection and to neighbouring properties. Additionally some works will be necessary to the Warwick Road apron. These surveys and works are likely to continue into 2015 and 2016.
- Initial S.106 financial contributions will commence during 2014, continue during 2015 and throughout the development.
- Payments to utilities suppliers for initial terminations, diversions and new supplies are likely to commence during 2014, then continue during 2015 and 2016.
- Subject to market testing currently underway for works to construct the Lost River Park south structure across the WLL there may be some preparatory works alongside the WLL during 2014, with structural works likely to commence and continue during 2015 and 2016, The relevance of this is to establish the interface for commencement of the Phase 1 buildings.
- During 2015 and 2016 de-construction and demolition of EC1 & EC2 will progress down to the lowest slab level.
- During 2015 the RMA and Detailed Planning Applications for WV03 and the Blue Car Park will be progressed.

- Phase 1 detailed design, planning permission and procurement will progress during 2015 in preparation for commencement of construction in 2016.
- Community Infrastructure Levy ("CIL") payments become due upon commencement of demolitions.
- Construction works to Phase 1 are scheduled to commence during 2016, and will follow a period of demolition of existing structures.
- Initial completions and occupation is being targeted late 2018, with overall completion of Phase 1 early 2019.

Set out below is a high level timetable setting out the expected timing of the key events for the development of Phase 1.

Figure 11. Expected programme timetable



The above schedule assumes that JVCo's formation and the First Funding Event are completed around the end of 2014. In the event that these matters have not been completed some of the later items will need to be pushed back.

It should be noted that the Business Plan and supporting Financial Models are based on the assumption that Phase 1 will be developed between 2015 and 2019, and that Phases 2 to 9 will be developed between 2018 and 2023. Whilst this is the basis used for the Financial Models there is significant scope for structuring the delivery of the development to best suit JVCo's strategy, objectives, the market for delivery flow of residential units, and financing. The initial design of ECV has provided for infrastructure and basements supporting phases and plots to be brought forward in a flexible way to allow a variety of phasing approaches which will be reviewed from 2014

A more detailed timetable is set out in Appendix D.

4.4 Future phases

Detailed work programmes for further phases and the BCP, NAR and Cluny Mews will be drawn up at the appropriate time. It is currently anticipated that the total scale of the remaining phases will be as set out below.

Table 1. Phases 2-9(sq. ft.)

	GEA	GIA	NIA	Units
Private Residential	2,312,000	2,146,000	1,787,000	1,294
Affordable Residential	74,000	71,000	58,000	64
Retail	116,000	99,000	89,000	
Hotel	45,000	43,000	43,000	
Leisure	39,000	35,000	28,000	
Cultural & Community	60,000	57,000	52,000	
Offices	303,000	293,000	234,000	
Total	**2,949,000**	**2,744,000**	**2,292,000**	**1,358**

Table 2. Indicative Phase 2(sq. ft.)

	GEA	GIA	NIA	Units
Private Residential	989,000	922,000	770,000	530
Retail	67,000	56,000	51,000	
Leisure	29,000	25,000	20,000	
Cultural & Community	8,000	8,000	7,000	
Total	**1,093,000**	**1,011,000**	**848,000**	**530**

Table 3. Indicative Phase 3(sq. ft.)

	GEA	GIA	NIA	Units
Private Residential	1,177,000	1,086,000	902,000	542
Retail	26,000	21,000	19,000	
Cultural & Community	4,000	3,000	3,000	
Total	**1,207,000**	**1,110,000**	**924,000**	**542**

Table 4. Indicative Phase 4(sq. ft.)

	GEA	GIA	NIA	Units
Hotel	45,000	43,000	43,000	
Leisure	10,000	10,000	8,000	
Cultural & Community	48,000	46,000	42,000	
Total	**103,000**	**99,000**	**93,000**	

Table 5. Indicative Phase 8&9(sq. ft.)

	GEA	GIA	NIA	Units
Private Residential	146,000	139,000	114,000	113
Affordable Residential	74,000	71,000	58,000	64
Retail	22,000	22,000	19,000	
Offices	303,000	291,000	234,000	
Total	**545,000**	**523,000**	**425,000**	**177**

The numbers associated with the phases do not follow sequentially and are the names of phases and should not therefore be read in a numerical context.

Any decision by JVCo to participate in any development beyond Phase 1 will be taken at the appropriate time in accordance with the Primary Purpose.

5. Investment appraisals

5.1 Development appraisals

The table below shows a development appraisal for the whole site. This shows gross development value of c.£3.6 billion (the vast majority of which come from private residential). Total costs of c.£2.1 billion comprise primarily construction and infrastructure costs.

The value of land currently held by the Parties which is to be injected into JVCo at completion is not included in the appraisals below. The cost of third-party land acquisitions are included in the Model (those sites that have been acquired are shown in Appendix B), together with an additional allowance for profit share payments in respect of the draw-down of Network Rail air rights and SDLT payable by JVCo.

The appraisal summary is therefore based on JVCo's anticipated future cash flows (being high level costs and revenues). The table also shows the ungeared IRR based on the underlying cash flow of the appraisal

The appraisal applies no growth applied to revenues or costs, returns are therefore real rather than nominal.

Figure 12. ECV development appraisal

Phases 1-9	NIA ('000 sq ft)	(£'000)	NIA (£ psf)
Private Residential	2,184	3,229,172	1,478
Affordable Residential	58	13,147	226
Offices	234	152,215	650
Retail	137	87,821	643
Other Income (Leisure, Hotel, Parking, Ground Rents, etc)	123	107,802	
Total	**2,736**	**3,590,157**	**1,312**
3rd Party Land (inc acquisition costs)		138,298	(51)
Construction Costs		986,734	(361)
Capex 2014-2016 (incl initial fees, demolition, LRP South, excl £30m Construction)		159,094	(58)
Remaining Infrastructure (inc S.106)		529,792	(194)
Other Costs (Prof Fees, Dev Contingency, Business Mgt Fees)		283,658	(104)
TDC (excl Finance)		**2,097,576**	**(767)**
Ungeared IRR% (real pre-tax)		**27.4%**	

The cash profit c.£1.5bn represents a profit on cost of c.70%

5.1.1 Phase 1 development appraisal

The table below sets out the development appraisal for Phase 1 of ECV. This includes the demolition costs (c.£32m) and construction of the southern section of the Lost River Park (c.£18m) which relate to the entire site as they are required to be spent at this time. The inclusion and timing of this spend reduces the returns from Phase 1.

Figure 13. ECV Phase 1 development appraisal

Phase 1	NIA ('000 sq ft)	(£'000)	NIA (£ psf)
Private Residential	398	593,648	1,492
Retail	47	29,576	629
Other Income (Leisure, Hotel, Parking, Ground Rents, etc)		10,184	
Total	**445**	**633,408**	**1,423**
3rd Party Land (inc acquisition costs)		103,298	(232)
Construction Costs		178,137	(400)
Capex 2014-2016 (incl initial fees, demolition, LRP South, excl £30m Construction)		159,094	(357)
Remaining Infrastructure (inc S.106)		90,000	(202)
Other Costs (Prof Fees, Dev Contingency, Business Mgt Fees)		30,433	(68)
TDC (excl Finance)		**560,962**	**(1,261)**
Ungeared IRR% (real pre-tax)		**5.3%**	

The IRR improves significantly over the subsequent phases (partly due to the fact that these costs will already have been incurred, resulting in the overall IRR of 27% (real, pre-tax) for the whole site as shown above). If an exercise is run to allocate only the relevant proportion of these costs to Phase 1 then the Phase 1 IRR increases to approximately 20% (real, pre-tax). The cash profit c.£70m represents a profit on cost of c.13%.

The detailed assumptions behind the appraisals are set out in Appendix C.

6. Funding Strategy

6.1 Funding requirements

The current modelling shows a peak funding requirement for Phase 1 of £538m in Q3 2018 (this is pre-funding costs (i.e. assumes no gearing) and assumes all proceeds are re-invested in the scheme – a distributions policy will be adopted at the appropriate time). The peak funding requirement (on the same basis) for the whole Site is £757m in 2020. These figures exclude the land to be injected by the Parties on completion but including the cost of third party land acquisitions.

6.2 Funding initial works

The Parties have agreed to fund the first £50m required by JVCo (the "Completion Loans") this will primarily be used to:

- fund the Reserved Matters Applications;
- planning for Phase 1;
- commence the demolition of the exhibition halls, it may be necessary for further funds to be committed from September 2014 in order to progress demolition beyond the removal of Bridge 19; and
- if necessary, support the defence of any judicial reviews that arise.

If required further funding may be provided in accordance with the Members Agreement.

6.3 Further funding

When it becomes clear that Completion is close the Funding Adviser(s) will be appointed to review the business plan and advise the Board on the funding requirement for JVCo, the appropriate capital structure for JVCo and the funding options that exist in the market at that time.

It is expected that prudent third-party debt will be used, subject to the Board's assessment of the risks in doing so, and its availability on terms that are acceptable to the Board and are accretive to Members' returns.

In the event that, for reasons of risk, the Board considers it imprudent to raise third-party debt to meet the full funding requirement, or insufficient third-party debt is available to meet the funding requirement or the terms of the debt available are not acceptable to the Board, the Members will first be invited to provide the balance of funding pro-rata to their holdings, or third-party equity may be sought

6.4 Funding beyond Phase 1

The funding of subsequent phases will be addressed at the appropriate time and will depend on a number of factors.

7. Financial projections

7.1 Annual budgets

As part of the annual business planning process the Business Manager will prepare for approval by the Board financial projections including a quarterly cash flow statement, profit and loss account and balance sheet on a quarterly basis for the forthcoming financial year and on an annual basis for the subsequent three years. The analysis set out below only presents the first three years of operations which assumes that planning consents have been received in sufficient time for construction to commence in 2016. Given current uncertainties regarding timing of such consents it is not currently considered appropriate to make projections beyond this time.

JVCo's financial year will have a December year end.

7.2 Accounting policies

At the appropriate time (likely shortly after completion) the Board will approve the accounting policies to be followed by JVCo. Such accounting policies will be; based on the then prevailing GAAP, appropriate for the final form of JVCo (LLP or company limited by shares) and tax legislation.

7.3 Development cash flow projections[1]

Table 6. Development cash flow 2013-2016 (£'000s)

		2013/2014[1]	2015	2016	Total
ECV	Town Planning & Legals	11,325			**11,325**
	Design Studies, Programme & Phasing	8,000	3,400	4,400	**15,800**
	Judicial Review	1,000	250	250	**1,500**
	Rail Asset Protection / Monitoring	419	311	347	**1,077**
	WV03 & BCP Planning		2,000		**2,000**
	Surveys	300		670	**970**
	Warwick Apron Works	600			**600**
	Track Suppression	950	1,600	800	**3,350**
	Utilities / Substation	1,000	5,000		**6,000**
Phase 1	Town Planning & Legals	3,100	125	75	**3,300**
	Estate Management			150	**150**
	Beaumont Avenue	150			**150**
	Demolition Design fees & Surveys	2,040	1,150	360	**3,550**
	EC1&EC2 Demolition	2,010	22,349	7,511	**31,870**
	Design Fees (NAR & LRP South)	615	400	80	**1,095**
	LRP Site Preparation & Structure	2,939	15,050	11	**18,000**
	NAR Construction (Incl Tesco Licece Works)	250	3,000		**3,250**
	Ph 1 Design Fees	2,000	4,571	7,000	**13,571**
	Ph 1 Construction			30,180	**30,180**
S.106 & CiL	S.106 Obligations	1,575	574	574	**2,723**
	CiL		3,800	3,800	**7,600**
3rd Party Payments	NR Overage			2,500	**2,500**
	Rights of Light	4,090	1,190		**5,280**
	Party Wall, Crane Oversiling & Compensation	100	150	150	**400**
Sales & Marketing, Comms & PR		1,630	1,425	1,005	**4,060**
Contingency		2,169	4,976	4,490	**11,634**
Management Fees	Business Management Fee	1,388	2,140	1,931	**5,458**
	Admin allowance and funding fees	1,400	1,400	1,400	**4,200**
Sub total pre land acquisitions		*49,050*	*74,861*	*67,683*	***191,594***
Sub total (cumulative)		*49,050*	*123,911*	*191,594*	
Land Assembly[2]		70,943	805	16,050	**87,798**
SDLT			13,000		**13,000**
Total		119,993	88,666	83,733	**292,392**
Total (cumulative)		*119,993*	*208,659*	*292,392*	

Notes

1 The 2013 and Q1 2014 costs are primarily for design and other work related to the Reserves Matters Approval applications and will be 'rolled' into JVCo on completion. JVCo will reimburse Capco on completion for 2013 costs, hence the above presentation of 2013 and 2014 together

2 Land acquisition costs relating to assets already acquired are set out in Appendix B. Total cost above shows initial acquisition cost plus 6% p.a. holding cost payable to Capco from the unconditional date to date at which funds are paid

The above table sets out the cash flow projections for JVCo, from 2013 to 2016. During 2013, 2014 and 2015 these costs are primarily in respect of planning and demolition related works, however if completion is delayed certain costs will be capable of being deferred. The projected cash flow to the end of 2014 provides for:

- detailed design and others works to be undertaken to enable the reserved matters applications to be made;
- planning applications to be made with respect to Empress Place; and

[1] Excludes rental income – see 7.3.1

- Sufficient progress to be made in respect of demolition works aimed at ensuring that the Exhibition Halls will not be capable of being listed when the certificate of immunity from listing expires in January 2016.

Within the table:

- ECV covers
  - Town Planning & Legal costs, to secure the Reserved Matters and Slot-in Applications for ECV (excluding WV03, Blue Car Park, NAR, Cluny Mews and extended Empress Place). It should also be noted that detailed planning has already been secured for the town houses in WV02 & WV05
  - Design Studies, Programme & Phasing ongoing in the period 2014 – 2016 for the wider JVCo ECV area
  - Judicial Review represents the potential costs of supporting the relevant local authorities in the potential defence of the planning decisions
  - Rail Asset Protection / Monitoring relates to Network Rail and TfL Assets, along with condition monitoring for neighbouring properties
  - WV03 & BCP Planning, is for design, planning consultancy and legal costs for the future RMA and detailed planning applications in connection with WV03 and the Blue Car Park
  - Surveys, is an allowance for essential survey and investigation works that will inform the detail design works
  - Warwick Apron works is the cost of limited initial works to the existing apron
  - Track Suppression, is a provision for payments to Network Rail and TfL for works to the existing rail to contribute towards mitigation of vibration and noise potentially affecting the proposed residential uses
  - Utilities / Substation, represents up-front payments to utility providers to allow for securing capacity in their network
- Phase 1 covers
  - Town Planning & Legal costs, are for the new detailed application for the extended Phase 1 which includes the full area of Empress Place
  - Estate Management, is for professional advice prior to setting up the estate management company
  - Beaumont Avenue, is for works to the access for TfL to the Lillie Bridge Road Depot site. Note the works within the depot that will be carried out directly by TfL are not currently in the capex budget, but will be included in a future version
  - Demolition design fees & Surveys, are for consultancy services from designers and the demolition contractor for EC1 and EC2 demolition works
  - EC1&EC2 Demolition, is for the de-construction and demolition of Bridge 19 (which spans the WLL), EC1 & EC2 down to the lowest slab level
  - Design Fees (NAR & LRP South), are for consultancy services from designers and the contractor for the construction of the NAR access road and the southern section of the Lost River Park

– LRP Site Preparation & Structure, is an allowance for construction activities during 2014 to 2016 to create the southern section of the Lost River Park which will provide the amenity and civic space for Phase 1

– NAR Construction (Incl Tesco licence Works), is for the site access road below the A4 and includes the preparatory works undertaken in 2013 in connection with the Tesco licence

– Phase 1 Design fees, are an allowance for the professional teams design work towards construction

– Phase 1 Construction, is an allowance for initial construction activities during 2016.

Table 7. Development cash flow 2014 (£'000s)

		2014				
		Q1	**Q2**	**Q3**	**Q4**	**Total**
ECV	Town Planning & Legals	11,325				**11,325**
	Design Studies, Programme & Phasing	2,600	750	2,325	2,325	**8,000**
	Judicial Review	250	250	250	250	**1,000**
	Rail Asset Protection / Monitoring	105	105	105	105	**419**
	WV03 & BCP Planning					
	Surveys	75	75	75	75	**300**
	Warwick Apron Works	150	150	150	150	**600**
	Track Suppression	238	238	238	238	**950**
	Utilities / Substation				1,000	**1,000**
Phase 1	Town Planning & Legals	1,087	671	671	671	**3,100**
	Estate Management					
	Beaumont Avenue		150			**150**
	Demolition Design fees & Surveys	1,000	347	347	347	**2,040**
	EC1&EC2 Demolition			500	1,510	**2,010**
	Design Fees (NAR & LRP South)	154	154	154	154	**615**
	LRP Site Preparation & Structure			1,107	1,832	**2,939**
	NAR Construction (Incl Tesco Licece Works)	250				**250**
	Ph 1 Design Fees	500	500	500	500	**2,000**
	Ph 1 Construction					
S.106 & CiL	S.106 Obligations	394	394	394	394	**1,575**
	CiL					
3rd Party Payments	NR Overage					
	Rights of Light	1,023	603		2,465	**4,090**
	Party Wall, Crane Oversiling & Compensation	25	25	25	25	**100**
Sales & Marketing, Comms & PR		408	408	408	408	**1,630**
Contingency		542	542	542	542	**2,169**
Management Fees	Business Management Fee	455	311	311	311	**1,388**
	Admin allowance and funding fees	350	350	350	350	**1,400**
Sub total pre land acquisitions		*20,929*	*6,021*	*8,450*	*13,650*	***49,050***
Sub total (cumulative)		*20,929*	*26,950*	*35,400*	*49,050*	
Land Assembly[1]					70,943	**70,943**
SDLT						
Total		20,929	6,021	8,450	84,593	**119,993**
Total (cumulative)		*20,929*	*26,950*	*35,400*	*119,993*	

Notes

1 Land acquisition costs relating to assets already acquired are set out in Appendix B. The total cost above includes the cost incurred to date, the estimated cost to be incurred in 2014 plus a 6% p.a. holding cost payable to Capco from the unconditional date (or acquisition dated for assets not acquired prior to the unconditional date) to the date at which funds are paid

The table above shows the quarterly development cash flows for 2014. Total cash costs to end 2014 (excluding land assembly) are projected to be £49.1 million which will be funded by the Completion Loans.

It is anticipated that Capco will continue to make acquisitions of third-party land interests for injection into JVCo at the appropriate time.

The above costs exclude the costs for TfL's works adjacent to Ashfield House for access to Beaumont Avenue and their access point to Mund Street, as at the time of business plan they require more assessment.

7.3.1 Property income

Following completion JVCo will benefit from the income generated by certain properties

- 1+2 Cluny Mews, currently expected to generate net rental income of c.£438k per annum for 2014, 2015, and 2016; and
- The Northern Access Road, currently expected to generate net rental income of c.£1.2m in 2014 and £1.5m in 2015 and 2016.

These revenues are expected to continue to be received by JVCo until such a time as these assets are redeveloped.

The benefits to JVCo of these revenues will be taken into account when the funding requirements of JVCo are considered.

The other properties that will be injected into JVCo are assumed to become vacant by the end of Q2 2015. Assuming they are injected with effect 1 January 2015 and contribute six months' net rental income this would total approximately £250k.

Potential for other sources of income may be explored as the project progresses.

7.4 Profit and loss account and balance sheet

It is expected that in the first at least two years following signing, including the pre-completion period, the vast majority of JVCo's activities of JVCo will be capital expenditure on the Site, the costs of which are expected to be capitalised. For the initial years the only items expected to appear on the profit and loss account of JVCo are the Business Management Fee and other minor costs such as audit and valuation fees and rental income which is not material in the context of the development of ECV.

Until such a time as there is a full view on long-term capital structure it is not possible to project a full P&L or balance sheet. Furthermore, at this time it is not considered to be appropriate to make projections regarding land revaluations, therefore no projected profit and loss account or balance sheet are included at this time. However, these primary financial statements will be included within the budgeting process as soon as appropriate.

8. Taxation

In all situations JVCo will seek to comply with all relevant tax legislation as efficiently as possible. To reduce risk of uncertainties, advance rulings in respect of various key tax matters will be sought from HMRC as appropriate.

8.1 Corporation tax ("CT")

The tax position of JVCo will ultimately depend on whether the final legal form is a limited company or an Limited Liability Partnership ("LLP").

An LLP is considered transparent for UK tax purposes and therefore, in the event TfL receives the necessary consent, it will be the Partners themselves that will be subject to UK tax and not the LLP. However, the LLP will be required to file annual Partnership Tax Returns, the basis of which will be used by the partners to complete their respective filing requirements. Outsourcing the tax compliance of the LLP to a 3rd party advisor is an option that will be considered.

8.2 VAT ("VAT")

The VAT recoverability position will be dependent on the type of activities carried on by JVCo and will need to be assessed and agreed prior to completing the acquisitions.

As both partners have opted / intend to opt to tax their respective land interests prior to transferring them into JVCo, VAT will be charged at 20% (standard rate of VAT) on the acquisitions by the LLP. However, where the target properties are occupied at this date it is possible the acquisitions will qualify as a 'Transfer of a Going Concern' ("TOGC") and therefore no VAT will be charged. Based on the VAT recoverability position, it is more than likely JVCo will register for VAT and will opt to tax all of the target properties upon acquisition.

All construction costs incurred by JVCo on the development of residential units will be zero-rated for VAT purposes. Professional fees (e.g. surveyors, consultants) will be subject to VAT at the standard rate (currently 20%) unless these services are provided under a Design & Build contract, in which case some of the professional costs will be zero-rated in line with the underlying construction costs.

JVCo will incur VAT at the standard rate on the construction costs of developing any commercial units within the development. Professional fees will also be subject to VAT at the standard rate.

On the basis JVCo will be carrying on VATable activities it should be entitled to recover the VAT on all of the above costs. As the initial stages of development will be very cash intensive it should be possible to transfer from quarterly to monthly VAT returns so as to speed up the recovery of VAT and aid cash flow.

8.3 Stamp Duty Land Tax ("SDLT")

Similar to the CT position mentioned above, the SDLT liability of JVCo will ultimately depend on whether the final legal form is a limited company or a LLP.

As the initial property transfers into JVCo/JVLLP are 'transfers between connected parties' for SDLT purposes, actual consideration will be ignored and the tax payable by the JV entity will be based on the Market Value of the target properties at date of transfer and will be payable within 30 days of completion or substantial performance, whichever the earlier

The apportionment of the SDLT liability between the partners is dependent on how the JVCo is established. However, it is envisaged that both partners will agree a fair and reasonable apportionment of the SDLT liability prior to completion.

9. Risk management

A formal risk register will be adopted at the outset by the Board and will be proactively re-assessed and re-evaluated at least annually as the development of Phase 1 progresses.

Table 8. Risk Register

Risk	Comment / mitigations
Delay caused by Judicial Review process	▪ Implementation programme funding provides cash to work through any required JR process
EC1 is listed following expiry of COIL	▪ Would likely prohibit development of EC1 ▪ COIL protection until Jan 2016 which is sufficient time to execute work and avoid the risk
Unsatisfactory outcome from JR process	▪ JVCo will not be formed until any JR issues are resolved ▪ Implementation programme funding provides cash to work through any potential planning related JR process
Negative effect of economic conditions on realisation values	▪ No current irreversible commitment to commence development, such a decision will be taken against the market background at the time ▪ Pre-sales will be considered which could provide some degree of pricing certainty up front
Negative effect of economic conditions on funding	▪ Failure to secure funding would delay development / impact on overall corporate business plan ▪ Funding for implementation phase to be provided by Members / Shareholders ▪ No current commitments that could force a funding requirement ▪ Option to delay development ▪ Flexibility within Funding Process for Members / Shareholders to provide funding if attractive funding is not available in the market ▪ Market place being made aware of huge development opportunity. Demonstrate a viable, attractive scheme
Planning consents delayed or unacceptable due to change in LBHF political scenario	▪ Outline consents already received ▪ JVCo formation conditional on receipt of satisfactory planning permissions
Programme slippage and loss of Network Rail possessions	▪ Delay to construction delivery and increased costs impacting on liability ▪ Limited mitigation except possession work should ideally be off the critical path

Risk	Comment / mitigations
Delay in VP	▪ Delay to project delivery / increased costs ▪ VP is a specific condition in the Members' Agreement at specific times ▪ Progress private treaty deals and LBHF commitment to CPO Empress Place properties
Delay in obtaining TfL and Network Rail approvals and possessions	▪ Would result in delay to construction start and could increase costs ▪ Early engagement with Network Rail & TfL to agree design and construction method statement ▪ TfL will be a [shareholder / member of JVCo]
Failure or delay to entering into third party agreements (ROL, party wall, crane oversailing etc)	▪ Delay to project delivery / increased costs ▪ Early engagement with third parties to enable sufficient time to negotiate. In addition investigate S237 with LPAs
Early demolition and enabling works causes unacceptable risk to neighbours	▪ Potential for delay and JVCo reputation in the community ▪ Regular meetings with neighbours group established. JVCo to work with reputable contractors. Community liaison strategy to be put in place
Health & Safety during De-construction and Construction	▪ Potential danger to site personnel and the general public ▪ Suitable arrangements to be put in place by JVCo

10. Sustainability

10.1 True sustainable approach

It is intended that the development of ECV will implement a range of best-practice measures, and will exceed current policy requirements for CO2 emissions reduction.

Dwellings are designed to be inherently energy efficient. The focus has been on a fabric-first approach, to ensure that the demand for energy associated with space heating, space cooling and lighting is minimised, before the selection of efficient building services. It is anticipated that ECV will achieve a 6% reduction in CO2 emissions by passive design and energy efficiency measures. At the appropriate time the Board will consider the use of a district energy network to provide space heating and hot water to all end-users connected to centrally managed energy centre(s) which would include high efficiency gas boilers and Combined Heat and Power (CHP) engines. The CHP engines would produce low-carbon heat and electricity, offsetting the carbon-intensive grid electricity, and could achieve a further reduction of 35%. Renewable energy will be generated on-site by roof-mounted photovoltaic panels. These are anticipated to reduce CO2 emissions by a further 1%. Thus, the overall CO2 emissions reduction will be 42% beyond the Building Regulations, exceeding current Greater London Authority adopted policy (40% reduction).

ECV will be measured against the Code for Sustainable Homes (CfSH) and BREEAM environmental assessment methods.

Dwellings are expected to achieve a CfSH ‘Level 4’ rating, and achieve credits in all categories. Measures include:

- Water efficient fixtures and fittings will be provided to minimise the demand for water;
- Materials selected in reference to the BRE ‘Green Guide to Specification’ to minimise their environmental impact;
- Achieving maximum credits for waste management, encompassing operational waste management (including composting of organic waste), and construction waste management. Consideration is being given to the implementation of a vacuum waste system to simplify waste separation and collection;
- Ensuring adequate daylight is provided to living rooms to minimise the demand for electric lighting, and maximise connection with the outdoor environment;
- Achieving ‘Lifetime Homes’ for all dwellings;
- Achieving maximum credits under ‘management’ by providing home user guides, working to the ‘Considerate Constructors Scheme’, minimising construction site impacts, and ensuring high levels of security; and
- Improving the ecology and biodiversity of the site by introducing new habitat zones such as parks and living roofs.

Commercial spaces will be designed to ensure BREEAM ‘Very Good’ can be achieved through base-build works, allowing tenants to strive for ‘Excellent’ where this is feasible.

11. Consultation

11.1 Engaging with local stakeholders and strategies

Throughout the development and planning process EC Properties LP (Capco's current landholding entity) ("ECP") has been committed to proper and extensive collaboration with as many stakeholders as possible. It has tried to set a new benchmark for comprehensive, inclusive, honest and transparent community and stakeholder consultation and engagement. ECP has committed fully to this process and the depth of resources has led to a sophisticated and comprehensive process. It is intended that following completion of the transaction JVCo will continue to follow the same approach to the same high standards.

The objective of the engagement process (as initially set out in the Collaboration Agreement between the three landowners ECP, LBHF and TfL) was to establish whether a comprehensive redevelopment of the whole ECOA including the three land ownerships would bring sufficient benefits to justify the inevitable change that would result and bring substantial benefits to the area.

This community engagement process was defined by the Community Engagement Strategy produced in October 2009 and presented to both LBHF and RBKC planning teams, as well as the landowners, for their commitment. ECP believes it has exceeded expectations. This strategy defined the engagement process up to the submission of the applications and has since then been revisited and redefined to address future engagement about the increasing detail of the Reserved Matters and Planning Conditions. Separate strategies have been developed for addressing the detail of demolition and construction.

Furthermore, ECP is, and following completion JVCo will be, committed to an on-going process of engagement continuing throughout development process and this is now being implemented with regard to the Reserved Matters applications. New engagement vehicles are being developed to ensure high levels of community engagement through demolition and construction and throughout the management of the Earls Court estate. ECP / JVCo aims to create new standards for involving the widest group of stakeholders in shaping the development over time.

11.2 Engaging with local communities

A regeneration project of this scale has implications for communities far wider than just the specific "red line" planning application boundaries. In recognition of this, the community engagement programme identified at its outset five main communities that should be provided with the opportunity to influence the development of the scheme.

The communities are contained within an area bounded by:

- North: Minford Gardens / Sinclair Gardens / Brooke Road
- West: Shepherd Bush Road / Brooke Green / Hammersmith Cemetery / Queens Club
- South: Dawes Road / Fulham Road (including Fulham Broadway)
- East: Redcliffe Gardens / Earls Court Road

These are predominately W14 postcodes with portions of SW5 (Earls Court) and SW6 (Fulham)

The five communities are defined as:

- Earls Court (residential area between Warwick Road and Earls Court Road to west of Warwick Road)

- Olympia (north of A4)
- North Fulham (west of North End Road)
- South of Lillie Road / South Brompton (south to Fulham Broadway)
- The Earls Court site, which includes West Kensington Estate; Gibbs Green Estate; Dieppe Close as well as Earls Court Exhibition Centre and Lillie Bridge Depot

Figure 14. Communities

11.3 Realising Innovative and effective approaches to deliver tangible impacts

In October 2009 the ECP defined its approach to community engagement. The purpose of the strategy was to clearly outline its aspirations to undertake a widespread, diverse and multi-functional programme of engagement, with key stakeholders throughout the planning and development process. It was recognised that the strategy will evolve and develop over time.

To date the ECP has had ambitions and commitment to create best practice and move forward community engagement for major urban regeneration projects. It was therefore important for all to be able to understand the ECP's aspirations and the means by which they could be achieved; this was pursued in the first stage of the engagement programme and has continued since.

The approach of the community engagement process identifies a range of mechanisms by which communication and dialogue can be implemented. It makes clear that the first stage of any sustainable engagement is to ensure that there is understanding of the purpose and process as well as the final development proposals. It is a necessary starting point to give information in order that an understanding can be established and hence a dialogue can be initiated.

The engagement strategy that has been implemented can be best summarised as:

Figure 15. Business plan

INFORMATION is required to gain understanding	▶	UNDERSTANDING brings opinion and confidence to enter into dialogue	▶	DIALOGUE is a two-way process; less controlled by one party, which can open up opportunities for long-term participation	▶	PARTICIPATION enables participants to influence the process and the outcome	▶	OWNERSHIP is the ultimate objective, that develops through the process of dialogue, influence and participation.

The different strands of activity that have marked the engagement process to date have as their objective and purpose the establishment of a framework by which the community can participate in the future of Earls Court.

11.3.1 A Multi-layered approach

The community engagement programme to date has reflected the key milestones within the development of the project. Each “layer” has been designed to solicit views and comments from the community on the process of developing the emerging development proposals (the Farrell’s Masterplan). The engagement programme has also been used to explain the process that is being undertaken in creating the plan for the ECOA. There has, therefore, been a strong educational component in the definition of the stages and the means that information has been presented. Similarly, each stage has been rooted in achieving the aims as identified at the start of the process in October 2009 and shared with the planning authorities.

The Five Layers:

- Meeting and briefing community organisations and leaders, introducing the Earls Court Project team and explaining how local residents could be involved in the planning process. The objective is to open up a dialogue with the community; in essence to lay a foundation for future communication by establishing a basis of trust and openness
- Public drop-in sessions designed to open up the dialogue to the wider community, explain the vision of the Earls Court proposals and understand the concerns and aspirations of individuals
- Launch of the Masterplan / development proposals
- Public sessions that concentrated on specific elements that inform the Masterplan process
- Post planning engagement with community stakeholders and the wider public on increasing levels of detail, building on the established dialogue and relationships that have been established over the preceding engagement process

Throughout the engagement process there has been a wide range of issues raised. Many of these relate to aspects of detail; some of which were beyond the scope of the outline planning applications and are now addressed as the detail for each phase of the project and Reserved Matters are developed.

It is intended that, where appropriate, JVCo will continue to follow this approach.

11.4 Planning related

The objective of the community engagement programme has been to ensure that all within the community have the opportunity to understand and to influence the developing proposals prior to the submission of the planning applications (i.e. the programme has been integral to the planning strategy). With the exception of wider community activities such as the three year Primary school Project the programme has been designed to address key milestones within the development and planning strategies.

The approach adopted has led to a range of mechanisms by which communication and dialogue have been implemented. The heart of any meaningful engagement is to ensure that there is understanding of the purpose and process as well as the final development proposals. Throughout the process different layers of activity have been established, all of which have proved positive and all of which have influenced the development proposals.

11.4.1 Stakeholder briefings

Since the outset of the project, it has been recognised how important it is to develop and maintain relationships with key individuals and organisations within the community or the local political landscape.

Key to successful engagement is the ability to develop a partnership approach built on trust and understanding with key stakeholders that signposts the way forward and develops greater dialogue. From the outset ECP has been committed to open discussion and engagement with local communities. During the process over 150 community organisations and politicians have been contacted, met, presented and listened to. Their views and comments have informed not only the development proposals but also the process by which the ECP has and will progress the development in the future. Throughout, records have been kept of the specific events or meetings to facilitate review and enable views of others to influence the design and development process. The consultation has been an evolving process with differing degrees of involvement across the stakeholders.

11.4.2 Public Exhibitions and Drop-ins

Throughout the process, there have been regular community drop-in sessions; widely publicised within the community, both in the local press and more recently by the distribution door to door of invitations to over 20,000 households.

The sessions themselves had a similar format in that there was an informative, easily accessible display of key information that related to the particular stage in the planning and development process. These were designed to be understood on their own; and specific attention was made to ensure that the language and concepts used could be easily comprehended; technical jargon was avoided even when outlining complex concepts.

11.4.3 The Website – www.myearlscourt.com

There were two major drivers for the creation of a project website:

- The construction and creation of a whole new urban neighbourhood in Earls Court will affect many different communities.
- We live in a digital age when Facebook and other social networking websites are changing the way we communicate and consume information.

The website www.myearlscourt.com was created as an essential tool to engage with all communities living in the area in an open and transparent way, with regular content updates about developments in the Masterplan, public consultation events and education workshops with local schools.

Throughout the engagement, many thousands of local people have been consulted and much positive feedback and input has been given, as well as concerns and issues about the emerging development proposals and accompanying strategies. These have heavily influenced the content of the planning applications and the amended applications as well as informing specific strategies (e.g. Housing, Sustainability, Transport etc.).

It is intended that, where appropriate, JVCo will continue to follow this approach.

11.5 Communications and marketing strategy

The strength of the approach adopted is that there is close integration of the different disciplines involved in the development and planning process and in particular the wider communication strategy. Initially, this was typified by the close working arrangements established with the development team the communication specialists, Edelman and the community engagement professionals. Throughout there has been a holistic approach that has sought to integrate the community engagement into the wider communications and planning strategies. This has included close working with partners in particular LBHF and TfL.

This was expanded to include the design process and other consultancies leading on the development of key strategies that support the development proposals. This has enabled a free flow of information throughout the project and created the ability for issues raised during the engagement process to be fed directly into the design process. This will continue throughout the future design development of the project.

11.6 Transportation related

The issue of transport has been fully integrated into the engagement process and has been covered alongside a range of other strategies that have informed the Masterplan and planning submission. There has not been any dedicated engagement that has specifically concentrated on transportation

Appendices

A. Images of the development

Figure 16. West Brompton Square

Figure 17. Lost River Park South

Figure 18. Lost River Park North

Figure 19. The Crescents

Figure 20. Broadway

Figure 21. The High Street and Circus

B. Land acquisition cost summary

The table below shows the costs incurred to date in acquiring third-party land interests.

EMPRESS PLACE WEST SIDE	NET PRICE	COSTS	GROSS PRICE
8a (Lwr Gnd & Gnd Flr Flat)	540,000	43,200	583,200
8b (1st/2nd Flr Flat)	700,000	49,000	749,000
16-18	4,800,000	336,000	5,136,000
EMPRESS PLACE EAST SIDE			
9	1,300,000	106,775	1,406,775
11	995,000	79,600	1,074,600
13	1,650,000	132,000	1,782,000
15	1,175,000	47,700	1,222,700
17 (Lwr Gnd Flr Flat)	450,000	27,000	477,000
17 (Gnd Flr Flat)	420,000	25,200	445,200
TOTAL EMPRESS PLACE:	**12,030,000**		**12,876,475**
2 - 14 LILLIE ROAD			
2-4 (FH & Gnd/Bmt)	650,000	55,000	705,000
4 (2nd & 3rd Flr Flat)	500,000	35,000	535,000
6	2,300,000	155,000	2,455,000
8	1,500,000	76,600	1,576,600
10 (F/H & resi uppers)	1,200,000	95,000	1,295,000
10 (LLH Gnd & Bmt)	920,000	65,000	985,000
12	690,000	48,300	738,300
16 - 26 LILLIE ROAD			
16 (FH & Gnd/Bmt)	375,000	22,500	397,500
16 (1sf Flr Flat)	450,000	27,000	477,000
16 (2nd Flr Flat)	362,500	25,815	388,315
18	170,000	10,200	180,200
26 (Gnd + Bmt)	900,000	54,000	954,000
TOTAL LILLIE ROAD:	**10,017,500**		**10,686,915**
344-350 OLD BROMPTON RD			
348 F/H & Ground Floor Commercial	812,500	66,000	878,500
348 (Lwr & Gnd Flat)	1,047,500	83,800	1,131,300
350 F/H & Ground Floor Commercial	812,500	66,000	878,500
350 (1st Flr Flat)	430,000	25,800	455,800
350 (2nd/3rd Flr Flat)	805,000	64,400	869,400
TOTAL OLD BROMPTON RD:	**3,907,500**		**4,213,500**
Total Net Cost			**27,776,890**
Total Fees			**5,528,140**
Total Gross Cost			**33,305,030**

C. Business plan assumptions

Construction Costs
(Current Day ungrown)

Phase 1	**£ psf NIA**	**£psf GIA**
Residential	432	335
Retail	135	121
Overall	400	315

Revenue
(Current Day ungrown)

Phase 1	**£ psf NIA**
Residential	1,494
Retail capitalised	624

Construction Costs
(Current Day ungrown)

Phase 2-9	**£ psf NIA**	**£psf GIA**
Residential	389	323
Affordable Residential	238	197
Retail	153	137
Hotel	250	250
Leisure	268	215
Culture & Community	249	226
Offices	241	193
Overall	352	295

Revenue
(Current Day ungrown)

Phase 2-9	**£ psf NIA**
Residential	1,475
Affordable Residential	226
Retail capitalised	654
Hotel capitalised	844
Lesiure capitalised	197
Cultural & Community	84
Office capitalised	650

Resi sales	
Phase 1	36mth pre pc with 60% at PC ave 95 units pa
Phase 2-9	24 mth pre pc with 60% at PC ave 285 units pa

Private Car spaces		
Phase 1	40,000	space
Phase 2-9	50,000	space
Residential ground rents		
Phase 1-9	400	@ 6%
Funding / Finance		
Phase 1-9	6%	
Business Manager Fee		
Phase 1-9	3%	
Profit on Cost		
Phase 1-9	20%	
Prof Fees		
Phase 1	4%	Note Capex picks up early fees
Phase 2-9	8%	Note Capex picks up early fees
Resi Service Charge		
Phase 1-9	£3.50 psf	
Marketing Costs		
Phase 1-9	£5 psf	
Construction Contingency		
Phase 1-9	5%-10% Incl	
Development Contingency		
Phase 1-9	2%	
Insurance		
Phase 1-9	1%	
Letting Fee		
Phase 1-9	10%	
Residential Sales		
Phase 1-9	1%	

D. Works programme

See following page.

CAPCO

JVCo 2013 - 2016

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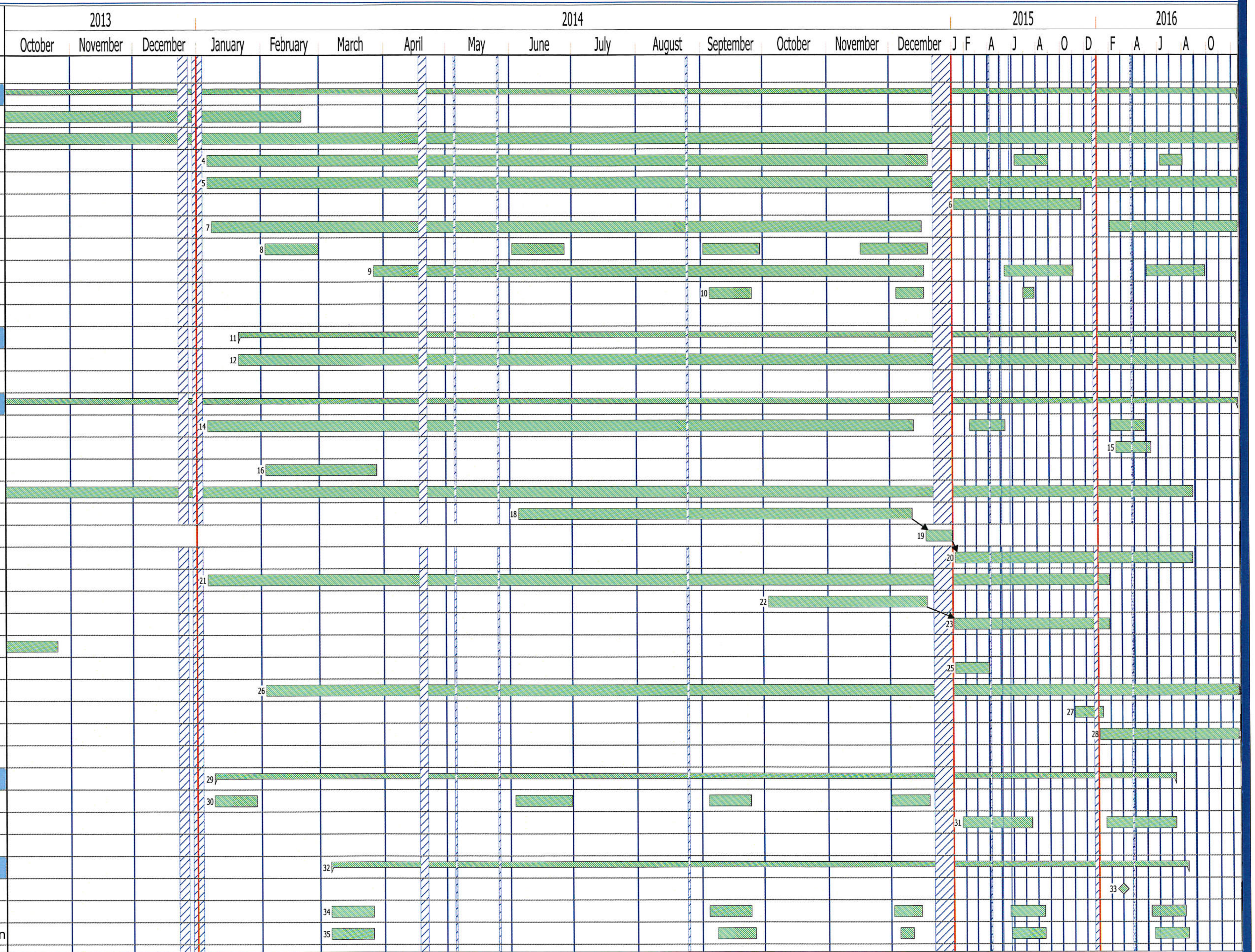
Line	Name
1	**ECV**
2	Town Planning & Legals
3	Design Studies, Programme & Phasing
4	Judicial Review
5	Rail Asset Protection / Monitoring
6	WV03 & BCP Planning
7	Surveys
8	Warwick Apron Repairs
9	Track Suppression
10	Utilities (2014) / Substation (2015)
11	**Sales & Marketing, Comms & PR**
12	Sales & Marketing, Comms & PR
13	**Phase 1**
14	Town Planning & Legals
15	Estate Management
16	Beaumont Avenue
17	Demolition Design fees & Surveys
18	EC1&2 Pre-demolition Wks
19	Remove Bridge 19
20	EC1&EC2 Demolition
21	Design Fees (NAR & LRP South)
22	LRP Site Preparation
23	LRP South Construction
24	Tesco Licence Works
25	NAR Construction
26	Ph 1 Design Fees
27	Empress Place Demolitions
28	Ph 1 Construction
29	**S.106 & CIL**
30	S.106 Obligations
31	CiL
32	**3rd Party Payments**
33	NR Overage
34	Rights of Light
35	Party Wall, Crane Oversiling & Compensation



Comments	Issued	Revised	Programme
			00001