The PRT Project

Report and Recommendation to PRT Management

Regarding

Domicile and Governance of

The Joint Venture Entity

Prepared by

ProCorp ASA

Final Report

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1 Executive Summary

1.1 Background and objectives

The PRT (Personal Rapid Transport) JV partners have asked ProCorp to assist them in identifying the most appropriate European country in which to establish the initial JV entity and outline corporate governance and commercial considerations to be addressed in establishing this new entity.

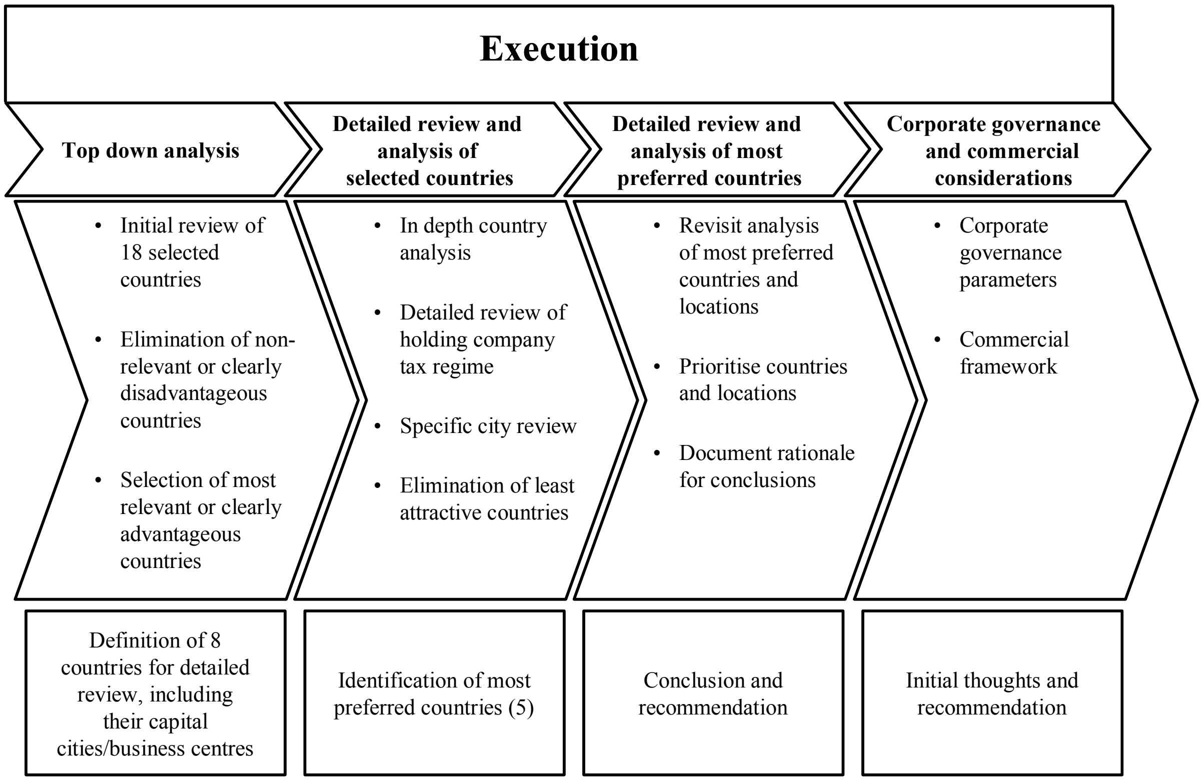
1.2 Approach adopted to research, analysis and conclusions

The figures below illustrate the approach we have adopted in arriving at our conclusions and recommendation.

Figure 1: Illustration of approach adopted: planning phase

	Planning		
Phase	**Preparation**	**Identify research & analysis parameters**	**Identify relevant sources of quality information**
Major activities	• Determine and discuss key assumptions - European domicile - Limited liability company - PRT stakeholders • Understand the purpose and objectives of the JV entity • Understand the probable development paths for the JV entity	• Identify, categorise and prioritise evaluation and selection criteria • Define universe of possible JV entity domiciles	• Reputable sources • Timely information • Ensure diversity of sources and methodologies • Subjective and objective measures • Development of measurement proxies for evaluation criteria
Result	Agreement with PRT management	Agreement with PRT management	ProCorp internal review and screening

Figure 2: Illustration of approach adopted: execution phase



1.3 Preparation phase and initial recommendation

The preparation phase was conducted in cooperation with PRT project management through discussion and review of general documentation. The main results of the preparation phase were reviewed with PRT project management on April 9th before commencing the execution phase of this exercise. These elements were further modified and updated following review of our draft report of April 11th and at a meeting with PRT project management on April 14th.

1.3.1 Key assumptions

The key assumptions agreed with PRT management were as follows.

The initial JV entity will be:

- Based in Europe
- Organised as a limited liability company
- Evaluated based on consideration of all PRT stakeholders, where the JV entity partners are the most important

1.3.2 Purpose, objectives and possible development path

A description of the purpose and objectives of the JV entity and possible development path is included in chapter 4 and chapter 5 of this report.

The most important elements can be summarised as follows:

Activities

- Continued development of PRT concept, systems and technologies
- Design and engineering
- International project management
- International marketing and sales activities
- Participation in realisation of international PRT projects in accordance with PPP policies
- Headquarters for management (over time)

Assets and Related Income

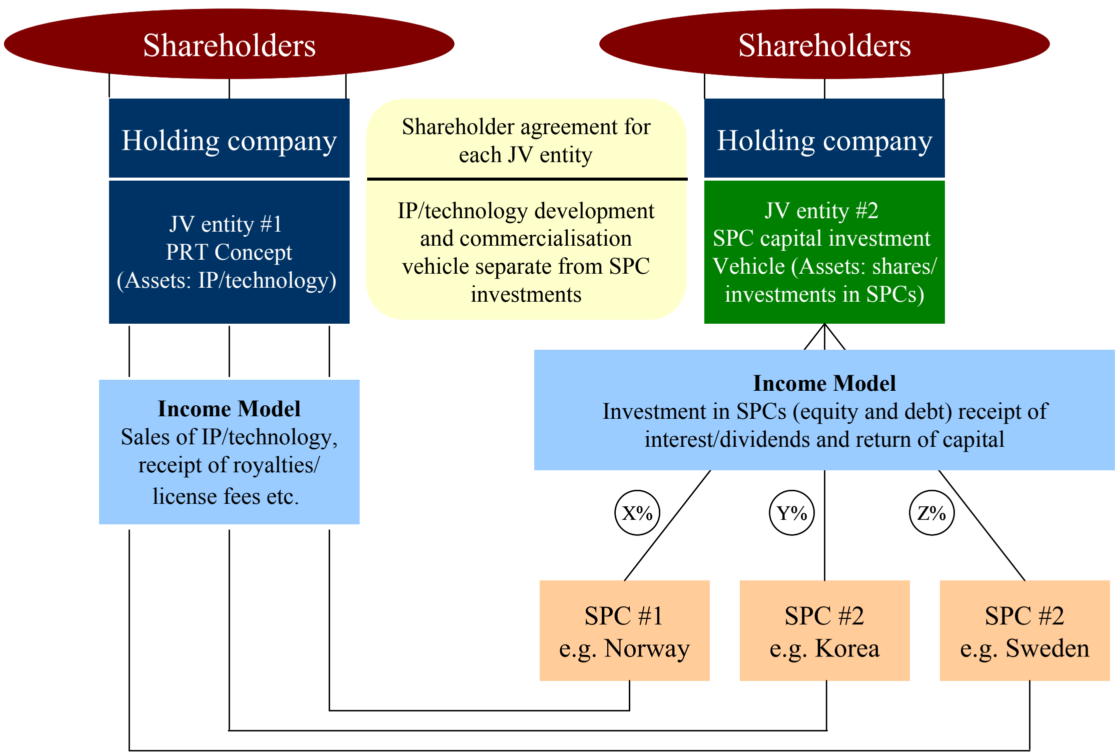
Assets	Related Income
• Intellectual property rights (IPR) for the PRT concept • Related technology, systems, patents, trademarks, know-how etc.	License fees, royalties, commissions and consultancy fees
• Investments in SPCs at various key levels for accounting and tax purposes (from equity investments <20%, to associate companies >20% <50%, to subsidiaries >50%) using both equity and debt instruments	Dividends and interest income

1.3.3 Recommendation: Overall organisation of business activities

Following our initial evaluation in the planning and preparation phase we have recommended to PRT project management that the intangible assets and related income aspects of the PRT concept should be organised in a separate JV entity from the direct investments in the SPCs. They are in practice two separate businesses. This is because these two groups of assets and related income represent very different management, legal, capital, tax, accounting and financial risk considerations (See below for illustration)

PRT Concept JV	Direct Investment JV
• Limited capital requirement • Limited financial risk • Competence intensive • Limited project (SPC) risk	• Significant capital requirement • Significant financial risk • Capital intensive • Significant project (SPC) risk • Need to consolidate individual SPC investments for accounting/tax purposes
• Need to tailor PRT concept and investment participation separately for each SPC • Related income from assets treated differently for tax purposes in different jurisdictions • Different development paths probably with different shareholders/stakeholders in each JV • Company activities require different management and operational competences	

Set out below is an illustration of our suggested structure for the commercial roll out of the PRT concept:



Notes regarding recommendation:

1. Establish separate JV entities for
   a. PRT concept and related IPR (JV entity #1) and,
   b. capital investments in SPCs (JV entity #2).
2. The PRT concept/IPR JV entity #1 should be established first.
3. The SPC investment JV entity #2 may be established in connection with the first SPC (e.g. Fornebu). This SPC will also provide the template in terms of specific corporate governance and commercial considerations to be addressed in practice, also for other SPCs.
4. In order to regulate the relationship between the shareholders in the two separate JV entities, separate shareholder agreements need to be established (also because there may be different shareholders in the two entities over time). Each of the shareholder agreements should make reference to the other JV entity and the relationship that exists between them.
5. Both JV entities are likely to be international holding companies, but with different objectives and content over time:
   a. JV entity #1 because it will manage income flows from a whole variety of countries/companies and need a corporate structure to make this as tax efficient as possible.
   b. JV entity #2 because it will in addition to the requirements of JV entity #1 be an infrastructure investment group with significant capital flows from investment activities/operations worldwide.

   As a result the group legal structures in the two JV entities are likely to be very different over time.
6. There will also probably need to be an agreement between the JV entities in order to regulate coordination of activities in respect of individual SPC projects.

The analysis and results set out below are primarily focussed on the initial JV entity (#1) established to develop and commercialise the PRT concept. Many of the factors being considered will be the same for both entities, however prioritisation may be different.

1.4 Identify research and analysis parameters and relevant sources of information

There have been three key parameters which have formed the framework for the research and analysis presented in this report.

1.4.1 Identification of the relevant countries to be considered in this exercise

18 countries were identified and agreed for the initial review, being the current member states of the EU and EEA, excluding Iceland, plus Switzerland.

We have not included typical “European” tax havens and mail box company locations (also referred to as “Offshore or Shell companies”) in domiciles such as the Dutch Antilles, Jersey, Guernsey and Isle of Man in our research universe. The PRT project managers underlined the need for integrity and a robust long term solution. Such tax havens are under increasing pressure for transparency and current advantages in terms of taxation may be illusory in the long term.

We have also assumed that the JV entity will be a real business entity with headquarter activities including management, although significant parts of the organisation may be employed or contracted to work in various international locations related to SPC projects.

In our opinion, separation of legal domicile and business activity is an unnecessarily complicating factor. It is also our view that credibility as a PPP participant in SPCs is increased by fronting the PRT concept through a mainline country and real organisation.

1.4.2 Development of relevant evaluation and selection criteria

Based on our own knowledge and experience and the approaches adopted by a variety of professional and government bodies, we created a universe of possible evaluation and selection criteria. These were then structured, organized under generic categories and prioritised in broad terms as follows:

1. Commercial reputation for the purposes of the stakeholders
2. Practicality in terms of JV operations
3. Cost of operations
4. Impact of taxation
5. Stability of regulatory and business regime
6. Other factors

Examples of these criteria are discussed in more detail in chapter 7.

This prioritisation reflects ProCorp's recommended priorities. The JV partners may on reflection wish to prioritise otherwise, which may possibly impact the final conclusion reached. We have included in this report and appendices most of the basic information we have utilised, allowing the JV partners the freedom to prioritise differently if necessary.

1.4.3 Identifying and qualifying relevant sources of quality information regarding the selected countries and the evaluation and selection criteria

Over and above our own knowledge and experience, information researched and analysed has been primarily drawn from:

- International bodies such as the OECD, World Economic Forum, IMD etc.
- National governmental bodies, such as statistical offices, tax and finance authorities
- Authoritative reference sources such as the European Tax Handbook (2002)
- Leading European/international professional services firms, particularly with reference to tax, legal and cost issues, such as KPMG, Deloitte Touche Tohmatsu, PwC, Jones LaSalle etc.
- Reputable international survey organizations, for example with respect to different aspects of international business locations, such as Healey and Baker
- Government and private body guidance on PPP practices

We have attempted to ensure that all reference sources are reputable and that the information presented is relevant for the purposes of this report. Given the time and resource constraints imposed on this assignment, it has been necessary to search for proxies available from public information which provide indicators as to the evaluation criteria identified. Such proxies are not always directly relevant, but they can provide an indicator or support an understanding of the relative position of individual countries relative to the purpose and objectives of the JV entity. The interpretations we have made in a number of cases are subjective in nature and made based on our best judgement of all the facts and information available to us.

1.5 Analysis, conclusions and recommendations

This section sets out the results of our analysis. The assessment presented in this section is not intended to be a statistical analysis. It is intended to combine the results of our analysis in an illustrative ranking of the different alternatives.

1.5.1 Overall conclusion and recommendation

Set out below is a summary of our overall conclusions and recommendations:

Figure 3: Executive summary ProCorp overall country ranking

Executive summary

ProCorp overall country ranking

Country	Top down ranking all countries	Countries selected for detailed review	Ranking following detailed review
UK	1	✓	1
Netherlands	2	✓	2
Luxembourg	3	✓	5
Switzerland	4	✓	3
Ireland	5	✓	4
Spain	6	✓	6
Denmark	7	✓	7
Germany	8	-	-
Belgium	9	✓	8
Sweden	10		
Finland	11		
Portugal	12		
Italy	13		
Austria	14		
France	15		
Greece	16		
Norway	16		
Liechtenstein	NA		

The above ranking summary reflects a combination of our analysis of the results of third party research on relevant /related topics, review of a wide variety of other information and our general knowledge and experience in the evaluation of PRT specific requirements. The ranking should not be interpreted as statistically significant, but merely as an indicator of preference based on the criteria evaluated and ProCorp's own prioritisation.

1.5.2 Recommendation - general

In practice there is relatively little to choose between the top five countries, UK, Netherlands, Switzerland, Ireland and Luxembourg. All these locations could meet both JV entities requirements but will represent different advantages and disadvantages in practice over the life of the JV entity. No one location is ideal in all aspects, but the most preferred locations should meet the most critical needs of the JV partners. Set out below is our own recommendation based on our best assessment of all factors.

1.5.3 Recommendation - specific

The UK with a headquarter location base in or around London, emerged as the all round most robust alternative for the initial JV entity domicile, closely followed by the Netherlands (Amsterdam), Switzerland (Zurich), Ireland (Dublin) and Luxembourg (Luxembourg). In summary we recommend the UK and London for the following reasons:

- Pre eminence as an international business centre
- Strong commercial reputation across the world
- Multi cultural neutrality in terms of business presence, languages spoken and English as main language
- Practical physical location for conducting international business (access to markets, international transportation)
- Practical location for access to professional services (in particular legal, tax, accounting and administrative services)
- Practical location for expatriate management/personnel location (the UK has well established practices for expatriate management and contract service operations)
- The best developed PPP experience in practice, including access to related expertise, references and track record
- Well developed and balanced tax system for international business in particular international holding companies (Appendix 4, tab 1: General Review of taxation of European Holding Companies) and ongoing improvements introduced in recent years to enhance attractiveness
- Extensive tax treaty network allowing for tax planning flexibility (See Appendix 4, tab 1: General Review of taxation of European Holding Companies, section 9.9)
- Stability of regulatory and business regime and a general trend towards supporting and incentivising location of international business in the UK
- Access to the largest and most diverse capital market in Europe, especially regarding currencies and project finance. To the extent that the SPC capital investment JV entity raise third party project finance this will be a considerable practical asset.

The major drawbacks with the UK and especially London are the following:

- The cost of operations and professional services
- Not a fully integrated member of the EU, ref. EMU
- Not physically located in continental Europe

It is our subjective opinion that the Netherlands, Switzerland, Ireland and Luxembourg all exhibit a lower, albeit marginal, degree of robustness for the long term development of the initial JV entity.

1.5.4 Conclusion from detailed analysis

Eight countries were selected for more detailed analysis with a specific focus on the following issues.

- More in depth and broader country analysis across the range of evaluation criteria
- Specific capital city review focussing on costs, infrastructure, practicality and cultural issues
- Review of holding company tax regimes. This is included as Appendix 4, tab 1 to this report
- Accessing more information sources to check for anomalies
- Discussion with persons with country related commercial experiences

Through discussion and analysis the least attractive countries and capitals were then eliminated from further review. Belgium, Denmark and Spain were eliminated at this stage.

The final analysis and discussion focussed on the UK versus the Netherlands, and these two countries versus Ireland, Switzerland and Luxembourg. The discussion modified our initial rankings somewhat, but did not alter the overall conclusion.

Luxembourg is particularly strong in providing a base for financial services companies, especially related to international asset (fund) management. It has also served as a base for commodity trading subsidiaries, but is not particularly geared to IP/technology entities. Further, Luxembourg offers little in the way of PPP or marketing value and has some bureaucratic complications in terms of official language requirements. It is our view that it is not the most natural centre for the type of activity we are anticipating.

Ireland has emerged as a strong business centre in recent years mainly on the back of the launch of the IFSC (International Financial Services Centre) in competition with Luxembourg. The IFSC has now been wound down as a result of pressure from the EU/OECD to avoid harmful tax competition. The Irish government has responded by creating a harmonised national tax system which is advantageous in general and for holding companies in particular. Historically there has been good access to qualified professional staff at competitive rates, however, this situation has been increasingly less advantageous in recent years. Although Dublin did create a position of significance in financial services under the IFSC, the city has also proved attractive to other types of relevant entities in recent years. Ireland is an emerging holding company centre with growing PPP experience, but does not have or is perceived to have the breadth, experience or infrastructure of the UK or the Netherlands.

Switzerland is unique in Europe linking the French, German and Italian cultures. It maintains a strong, neutral and independent international business profile mostly in Zurich, although strongly linked to private banking, whilst Geneva has a longstanding reputation for neutrality, hosting NGO activities. Typically, a low tax burden country, taxation issues are complicated by the need for local "cantonal" negotiations and agreements which are subject to renegotiation over time. Whilst situated in the middle of Europe physically, Switzerland remains outside the EU and will probably do so for the foreseeable future. This may be a disadvantage over time as Europe integrates as a business and trading block with the rest of the world. So far Switzerland has managed to adapt to European practices for commercial purposes, but there is no guarantee that this will continue. Further, transparency is not a particular feature of Swiss business. Switzerland is also a relatively high cost environment for most commercial purposes.

The UK and the Netherlands emerged as the most robust alternatives for establishing the initial JV entity. There is very little to choose between the two based on the current level of understanding of JV needs for the PRT concept.

The Netherlands is possibly more politically neutral than UK for international business, physically located on the European continent, fully integrated into the EU, with a reputation for business efficiency at a reasonable cost level, all factors which count in favour of the Netherlands. Also, the Netherlands has a long history in serving as a centre for international holding companies.

However, we chose to recommend the UK because it enjoys a unique pre-eminence and infrastructure as an international business and PPP centre which has been maintained despite the emergence of other jurisdictions. Further, it appears that recent governments have consistently enacted laws and regulation which “tend” to underpin this position. The latest development in this context was improved holding company tax regulation in 2002.

1.5.5 Conclusions from initial top down analysis

The initial top down review and analysis of research information resulted in 10 of 18 countries being eliminated as candidates. Set out below is a summary presentation of the initial top down review results.

Figure 4: Ranking overview by category for all countries

Rankings overview by category for all countries

Executive summary (1 = advantageous, 3 = neutral, 5 = disadvantageous)

Country	Reputation	Practicality	Cost of operations	General tax level	Holding company tax regulation	Stability
Austria	3	4	3	4	3	3
Belgium	3	2	3	5	1	3
Denmark	2	3	3	4	1	3
Finland	2	3	3	3	5	3
France	3	2	4	3	5	3
Germany	2	2	3	2	3	3
Greece	5	5	1	2	4	5
Ireland	3	3	2	2	1	2
Italy	4	3	2	3	3	4
Luxembourg	3	3	2	1	1	1
Netherlands	2	2	2	4	1	2
Portugal	4	4	1	2	3	4
Spain	3	3	1	3	1	3
Sweden	2	2	2	3	5	4
UK	1	1	4	2	1	2
Liechtenstein	NA	4	NA	NA	3	NA
Norway	3	4	5	3	5	3
Switzerland	2	2	5	1	1	1

Information regarding the individual evaluation categories and underlying criteria are included in chapters 7 and 8 of this report.

On completion of the top down analysis the following countries were eliminated from further consideration primarily for the reasons indicated:

- **Austria**: Generally relatively weak performer on most categories, no particular advantage

- **Finland**: Impracticality and taxation issues despite strong competitive profile
- **France**: Generally relatively weak performer on most categories with little focus on being attractive as an international business centre for activities such as envisioned by the PRT concept
- **Germany**: Potentially attractive but high costs and absence of appropriate tax legislation for international holding companies a major issue
- **Greece**: Not a natural business centre, relatively impractical and tax inefficient
- **Italy**: Generally relatively weak performer on most categories except cost levels
- **Portugal**: Relatively weak candidate apart from cost levels
- **Sweden**: Not a mainline business centre, relatively high tax burden and no specific holding company tax legislation
- **Liechtenstein**: Weak reputation, impractical and inappropriate
- **Norway**: Relatively weak performer, not an attractive international business centre or EU member state

1.5.6 Management incentives

PRT management requested that we also briefly review our conclusions and recommendation in the light of the need for establishing management (personnel) incentives linked to the success of the JV entity.

We would suggest that a structured approach to this issue would be as follows:

1. Define the key success criteria for the JV entity in question
2. Define those criteria that management and other personnel can influence
3. Define how such criteria may be measured
4. Consider alternative incentive mechanisms related to the results of 1) 2) and 3) above, including;
    - Ordinary stock (share) options
    - Special class of employee shares (options)
    - Cash bonus schemes

The reason for suggesting alternatives to ordinary stock options is that such options may complicate arrangements between the JV partners e.g. in the shareholder agreements.

Employee stock arrangements need to be tailored to the requirements in 1), 2) and 3) above. Additionally as the JV entity has no direct market pricing, a pricing mechanism for employees' shares needs to be created, which may not align with such mechanisms in the shareholder agreements. However, on a general note both the UK and the Netherlands have extensive provisions regarding the establishment of equity incentives, these should not be particularly disadvantageous compared to other European jurisdictions.

1.6 Corporate governance considerations

As part of this assignment we have also outlined certain corporate governance and commercial considerations which the PRT project partners will need to discuss and agree upon in connection with establishing the initial JV entity.

1.6.1 A logical approach to addressing corporate governance and commercial considerations

Detailed legal documentation (e.g. company byelaws and shareholder agreements) can only be drawn up when a decision has been made as to legal jurisdiction (e.g. UK or the Netherlands) and what type of limited liability corporation should be established (e.g. ltd. or Plc in the UK). However, it is possible at this stage to draw up a list of issues to be addressed and some tentative conclusions in this respect. These should be discussed by the PRT project partners and consensus obtained in order to progress from step three to four in the illustration below.

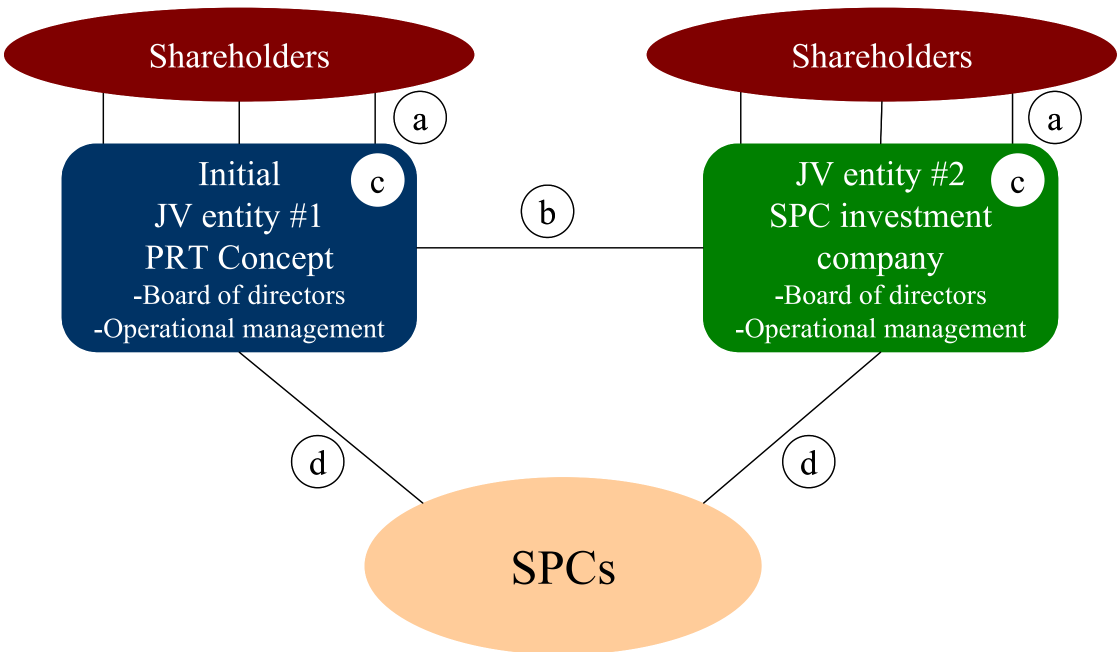
Figure 5: Structured sequence of activities in corporate governance documentation

Step 1	• Purpose of the JV entity (see chapter 4) • Expected development path (see chapter 5)
2	• Selection of domicile (e.g. UK vs NL) • Determination of legal entity – type of limited liability company (e.g. Ltd vs PLC)
3	• Determine major corporate governance and commercial issues to be addressed between shareholders (Set out below)
4	• JV entity partners requirements for corporate governance (to be discussed) • Develop shareholder and other key agreement(s) (to be drafted at a later stage)

The process involved in step 3 can in principle commence immediately in general terms and be presented to the PSC on May 9th. This may be concluded in detailed legal form thereafter and probably by the end of May, depending on the issues arising.

During the drafting of this report we have had conversations with a representative of Macquarie Corporate Finance regarding corporate governance and commercial considerations. Their thoughts on this subject are distributed separately to PRT project partners. Assuming the corporate structure set out in section 1.3 of the executive summary it will be important to regulate the relationships between the:

a) Shareholders in each of the JV entities in the form of individual shareholder agreements
b) Two JV entities (which may have different shareholders)
c) Shareholders of the JV entities, the board of directors, and operational management including roles, responsibilities and powers
d) JV entities and the individual SPCs. This will largely reflect commercial agreements i.e. regulation and control of the purchase/sale of IP/technology for JV entity #1 and financing/investment/returns for JV entity #2.



Set out below are the key recommendations, questions and issues which we believe need to be addressed by the PRT project partners in providing the basis for drawing up the relevant agreements under relationship a) between the initial JV entity shareholders. Further, it is likely that the agreements regulating relationships a), b), c) and d) will be considered and developed in that order to ensure a logical and structured approach.

1.6.2 General recommendation – byelaws vs. shareholder agreement

Generally speaking, we would recommend that the initial JV entity is set up with byelaws (articles of incorporation) at a general and minimum level necessary to comply with local regulation (i.e. UK or Netherlands company law). This will allow for more flexibility in developing the JV entity. More detailed regulation of the shareholder relationship and governance of the JV entity would then be delegated to a shareholder agreement and other agreements which could be modified as necessary in order to adapt to changing needs and circumstances. The shareholder agreement would also set out the general powers and authority for the board of directors (and management) over and above minimum requirements in local company law.

1.6.3 Issues/questions to be addressed at shareholder level

In the following we have outlined key issues and questions the JV partners should address and conclude between themselves. This list is not necessarily exhaustive but should provide guidance for the process between PRT partners.

Subjects	Company byelaws	Shareholder agreement
Purpose		
a) Purpose and scope of company business	• Very general	• More specific including limitations
Capitalisation		
b) Capital structure	• In total	• Specific
- Type of equity	X	X
- Eventually other types of financing e.g. subordinated debt	--	X
- Special considerations – preferred rights/asymmetric sharing of profits	X	X
- Dividend policy	--	X
- Ability to increase/change capital	X	X
c) Initial capital contribution (subscription) i.e. IPR etc. and/or cash subscription	• As necessary	• Specific allocation/ valuation

Subjects	Company byelaws	Shareholder agreement
d) Ongoing capital requirements	• Probably not necessary	• Specific provisions for additional capital contributions
Shareholder rights		
e) Voting rights in general – matters requiring unanimous agreement/simple majority/qualified majority	• Regulated by local law	• Specific rights
f) Matters requiring shareholder approval	• Regulated by local law	• Specific definition
- Change of bylaws	X	X
- Changes in shareholder agreements	--	X
- Approval of new shareholders	--	X
- Major sales/transfers of assets	(X)	X (specific)
- Liquidation	X	X
- Major investments	(X)	X (specific)
- Assumption of liabilities/commitments	(X)	X (specific)
- Annual accounts and tax returns	(X) (usually implicit)	X
- Change in accounting policies	--	X
- Appointment of directors		
Number of directors	X	X (specific)
Appointment of directors	X	X
- Defining the role and responsibility of directors, including decisions delegated to the Board of Directors	(usually implicit)	X (specific)
g) Notices and Quorum for shareholder meeting	X	X (specific)
Shareholder changes		
h) Restrictions on the transfer of shares (initial shareholders)	--	X
- When? (length of initial commitment and notification requirements) – lock in period	--	X
- How? (mechanism)	--	X
- e.g. first right refusal to other shareholders or pro rata basis		
- pricing e.g. cost plus interest		
- exceptions (e.g. within a group of companies)	--	X
i) Approval of new shareholders	--	X
- Criteria (shareholder requirements)	--	X
- Mechanism (process and pricing)	--	X
j) Restriction on the transfer of shares (new shareholders)		
- If different from h) above	--	X

Subjects	Company byelaws	Shareholder agreement
IPR		
k) Management of IPR etc in the JV entity (see also section 1.6.4 below) - Obligations to include agreements to be entered into e.g. asset transfer/licences/IPR	--	X
Other matters		
l) Respective roles and relationship between JV entity #1 and JV entity #2 for capital investment - Coordination of efforts (probably separate agreement) - Initial approval of PRT projects	-- --	X X
m) Restrictions on ability to mortgage shares	--	X
n) Non compete provisions		
o) Confidentiality requirements	--	X
p) Agreement default procedures	--	X
q) Conflict resolution - Arbitration - Deadlock	 --	 X X
r) Governing law	--	X

For each of these subject areas there are a variety of mechanisms/responses available to achieve a consensus between the PRT partners. In preparing the above, it is important to ensure that the agreement does not conflict with national statutory requirements or international regulation e.g. antitrust/competition laws or presents a risk in viability for PPP participation.

Having completed the basis for a shareholder agreement it will be possible to start legal drafting of the company byelaws and the shareholder agreement. At this stage the legal entity can be established and registered with respect to directors, management and capital. More detailed corporate governance provisions may then be developed in respect of the board of directors and operational management.

1.6.4 Managing intellectual property and know-how

As the intellectual property and know-how will be the most important assets of the initial JV entity, its management and control is crucial for the development of shareholder value from the JV entity.

The shareholder agreement will regulate this issue in principle between the individual shareholders. Additional commercial agreements will regulate in detail, acquisition, ownership, use of and remuneration for the IPR and know-how contributed by shareholders and others.

The shareholder agreement will typically define IPR and know-how generally for the JV partners:

- e.g. IPR is patentable inventions in a European or US jurisdiction, hereunder patents and patent applications, including any extensions, reissues, divisions, continuations, utility models, trademarks and service marks, registered designs; and copyright protected works.
- e.g. Know-how is trade secrets, ideas, data and databases, methods including business methods, processes, practices, formulas, techniques, procedures, unregistered designs, drawings, apparatus, specifications, and other valuable information and experience, whether confidential or not, exclusive of any IPRs.

Further, it will be necessary for the JV shareholders to address and regulate these matters for different types of IPR/know-how that arise as a result of the JV entity:

- e.g. "**Created IPR**" is any and all IPRs that are developed during the development, planning and project operations of the PRT Project, and which are not Improved IPR
- e.g. "**Created know-how**" is any and all know-how that is developed during the development, planning and project operations of the PRT Project. It is understood that any know-how developed by or in conjunction with a consultant or technical staff assigned to PRT Project management by any of its Partners shall be deemed to be Created know-how
- e.g. **Initial IPR** is any and all IPRs that are made available to the PRT Project by a Partner in the form of a license, as well as any IPRs that are contributed by the PRT Project
- e.g. **Improved IPR** is any IPRs developed during the development, planning and project operations of the PRT Project, such IPRs being applicable to and dependent upon the Initial IPR

1.6.5 Relationship between the shareholders, board of directors, operational management, and employees in each JV entity

In order to ensure business integrity and appropriate controls there should be a clear division of persons, roles, responsibilities, powers and remuneration for each of, the shareholders, board of directors, operational management and employees.

- The shareholder group is addressed in the company byelaws and shareholder agreements.
- The board of directors group is addressed in the specific instructions from the shareholders to the board of directors.
- The top management group is addressed in specific instructions from the board to the management.
- Top management is given specific powers for managing the daily business of the JV entity and its employees, other contracted resources etc.

These documents flow naturally from the shareholder agreement when this is finalised.

1.7 Commercial considerations

In addition to the commercial considerations included in the shareholder agreement, it will be necessary to develop commercial agreements which regulate the relationships c) and d) illustrated in section 1.6.1.

1.7.1 Relationship between the initial JV entity #1 (The PRT concept JV) and the JV entity #2 (The Investment JV) investing in individual SPC's

Possible matters to be considered in this agreement include:

- Definition and division of roles and responsibilities between the two entities
- JV entity #1 overall priority in determining use and commercialisation of IPR on commercial terms (This may also include authorised suppliers of equipment)
- JV entity #1 sole responsibility for quality assurance issues related to IPR used in SPC
- JV entity #2 will confine its activities to financing, investing and participating in SPC's
- Shareholders in initial JV entity #1 eventual preferential rights for investment in JV entity #2
- Coordination guidelines for tendering/participating in PPP projects

1.7.2 Relationship between the JV entities and the individual SPCs

The agreements between these entities will represent the key commercial conditions for both JV entities and the practical content will be a matter of negotiation between the parties involved. It is not possible to be definitive about the nature and scope of such agreements as they will also have to comply with local PPP policies.

Typically it could be expected that the following would be considered:

JV entity #1 (The PRT Concept JV) and an individual SPC

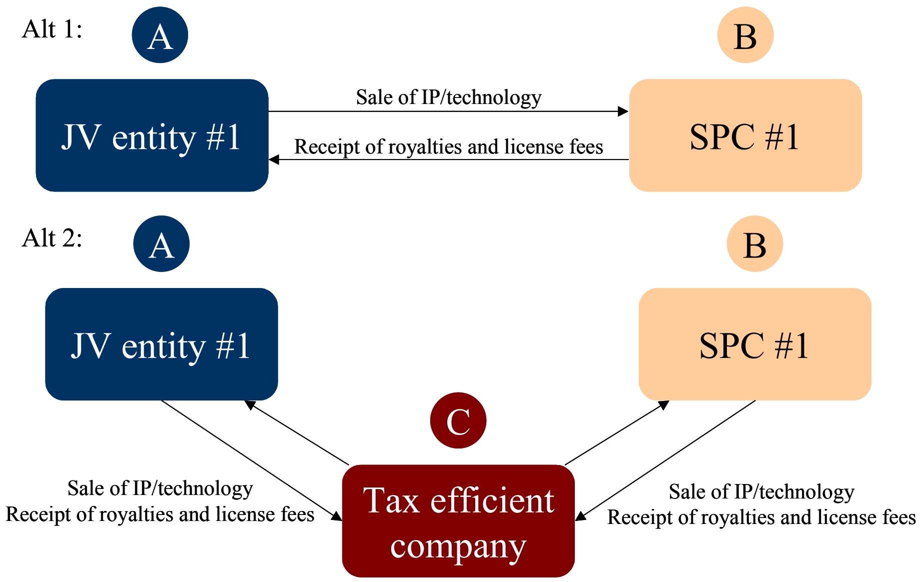
- IPR license agreements
- Technology license agreements
- Consulting and support services agreements
    - Project management agreement
    - Operational support agreement
    - Research and development agreement

JV entity #2 (The Investment JV) and an individual SPC

- Investment agreement
- Financing agreement
- SPC shareholder agreement

In respect of these types of commercial agreement for JV entity #1 and JV entity #2 it may be appropriate, depending on the organisation and domicile of the SPC, to consider tax planning structures which may reduce tax or transaction cost friction. As a possible consequence the parties to an agreement may include intermediary companies which, due to tax treaty arrangements can act as “conduits” for cash flows and transactions between the JV entity and SPC.

This is illustrated below in a simplified fashion using the example of the initial JV entity:



Under alternative 1 the cash flows to the JV may be subject to withholding taxes, or other fees or capital gains in the event of a sale or partial sale of IPR etc. Negative impacts may be reduced by the introduction of a "tax efficient company", often referred to as a conduit company, as an intermediary. The conduit company typically has beneficial tax treaty arrangements with the JV and SPC domiciles. The conduit company may or may not be owned by the JV entity.

2 Background

POSCO, Telenor, Statkraft and Interconsult are partners in a consortium whose objective is to develop and realise the potential in the PRT (Personal Rapid Transport) concept. The consortium partners have entered into a Letter of Intent (LOI) to establish a JV entity to own, manage and commercialise the Intellectual Property (IP) and other assets (e.g. systems, technology, trademarks, copyrights) arising from the PRT project. The consortium partners have now reached a stage in the project development, where they wish to formalise organisation of the JV entity.

3 Objectives of the report and approach adopted

3.1 Objectives

The consortium partners have asked ProCorp to assist them in identifying the most appropriate European country in which to establish the JV entity and outline corporate governance considerations to be addressed in establishing the new entity.

3.2 Approach adopted

We have structured our approach to this assignment as follows:

3.2.1 Purpose and objectives of the JV entity

Through discussion with PRT project personnel and review of general documentation we have sought to broaden our understanding of the purpose and objectives of the JV entity and the role it will play in the development and commercialisation of the PRT Project, including the roll out of Special Purpose Companies (SPC).

3.2.2 Development paths for the JV entity

Through discussion with PRT project personnel we have sought to understand the business model envisioned and identify and explore the probable development paths for the JV entity. This has been used to identify and prioritise the most relevant issues in considering the questions of domicile and governance structure for the JV entity.

3.2.3 Identification and prioritisation of evaluation criteria

Based on 3.2.1 and 3.2.2 above, international surveys, statistical criteria, fact sheets, policy documents etc. and our own knowledge and experience we have sought to identify and prioritise the evaluation criteria to be used in arriving at our recommendation. Criteria addressed are both objective and subjective in nature and for the purposes of this report have been organised under the following general categories:

- Commercial reputation for the purposes of the stakeholders
- Practicality in terms of JV operations
- Cost of operations
- Impact of taxation
- Stability of regulatory and business regime

- Other factors

3.2.4 Alternative domiciles for the JV entity

The PRT Project partners have indicated that the JV entity shall be domiciled in Europe. Our evaluation is therefore limited to European countries, defined for this purpose as being the 15 countries who are currently members of the European Union (EU), the members of the European Economic Area (excluding Iceland) and Switzerland. We have in principle considered all these European countries. However, in practice 10 of these 18 countries have been eliminated from our evaluation at a relatively early stage as inappropriate, impractical or openly disadvantageous in satisfying the evaluation criteria.

3.2.5 Analysis, evaluation and recommendation(s)

Based on the above analysis we have conducted a more detailed evaluation of eight European countries with respect to the evaluation criteria identified. From this analysis we have eliminated three more countries and categorised the five remaining countries in an order of preference. This forms the basis for our report conclusions and recommendation(s).

3.2.6 Corporate governance structure and commercial considerations

Based on the preferred domiciles and the agreed legal form of the JV Company, we have outlined the major corporate governance and commercial considerations to be addressed in establishing the new entity. This includes consideration of governance through company byelaws versus shareholder agreement for the most important issues. Consideration of the corporate governance structure also includes reference to the relationship(s) between the JV and individual SPC's established for building PRT infrastructure and services. This subject is dealt with only in the executive summary.

4 Purpose of the JV entity

In order to make a reasonable assessment of the most appropriate domicile for the JV entity it is important to define the probable nature and scope of its activities. This is of particular importance with respect to considering the impact of taxation.

The PRT project partners have already decided that the JV entity will be organised as a limited liability company, even though most JV's are organised by agreement or partnership. It will be the international holding company for the JV partners joint interests in the PRT concept. This international holding company will be owned by the current JV partners and potentially other partners over time. It will be responsible for the continued development of the PRT concept, Intellectual Property Rights (IPR), related systems and technologies including design and engineering, project management, financial and other risk management, marketing and selling internationally and participating in the realisation of PRT projects around the world, most often in compliance with domestic PPP policy and regulations. This may encompass turnkey management of entire PRT projects.

The JV entity will own all the intellectual property (IP) related to the PRT concept, both existing IP and that which may be developed by the partners jointly in the future. It may also own technologies, trademarks and patents etc. arising from the JV cooperation.

The JV entity will typically licence its IPR and technology to Special Purpose Companies (SPC's) and the JV Partners may also participate in the ownership and therefore potentially the financing of such SPC's.

We would recommend that the JV entity owning the concept and related intangible assets, should be organised separately from the entity which undertakes direct investment in and financing of SPC's. This is primarily due to legal capital tax, accounting and financial risk considerations (see executive summary for analysis).

An SPC will normally be established for each new PRT project to be realised. The individual SPC will typically represent a local or national PRT project where public and private interests combine in partnership to build and operate PRT infrastructure. In this context PPP issues will need to be considered.

The JV entity is not expected to participate directly in the physical construction of PRT Infrastructure or in the operations of the SPC, but will require insight and control in the project management, construction and operational aspects of a particular project for integration and quality assurance (e.g. safety permits, operating licences, system licence compliances etc.) purposes. However, the individual JV partner may supply products and services directly to an SPC under licence, over contract or permission from the JV entity.

The JV entity is likely to have a relatively small management organisation which draws upon the resources and competence of the JV partners and others, as necessary, to realise its goals. Naturally this organisation can be expected to grow with the commercial roll out of PRT projects around the world.

5 Possible development path for the JV entity

The current consortium partners have worked together in an initial planning phase and have agreed to organise and fund more detailed planning, including engineering and marketing through a legal JV entity (limited liability company). This limited liability company will also become the international holding company for the partners joint commercial interests in the PRT concept.

Over time the JV entity should continue to develop and refine the PRT concept, systems and technologies. It will probably have extensive IPR and probably the rights to related technologies, trademarks and patents. A JV entity may have direct or indirect equity participation interests in various SPC’s varying from minority interests to majority stakes. As mentioned earlier, we would strongly advise that any capital investment in SPCs is managed through a separate entity or directly by the JV partners, for legal, capital, tax, accounting and financial risk reasons. The first PRT project to be realised in this fashion is likely to be in Norway in connection with new transport infrastructure at Fornebu, outside of Oslo. The test track to be established in this connection may be owned by the JV entity as an integral part of its sales and development role. However, the first full scale operation will need to be organised as a separate legal entity. Any equity participations are likely to be very long term investments established and managed under PPP rules for national and local authority public transport related projects. There is also likely to be a secondary market for PRT related to closed transport systems for amusement parks, hospitals, industrial complexes etc.

As a consequence of the above, the JV entity will primarily be receiving licence fees and royalties as well as consulting fees (eg. For project management, local PRT adaptations etc.) from SPC's located around the world. In the longer term it could potentially receive dividend (or success) payments from commercially successful SPC’s. It may also be participating in loss making SPC infrastructure projects. However, as noted above we would recommend that the initial JV entity focus on commercialisation of PRT technology and that SPC infrastructure investment is managed in a separate JV entity. As a result our analysis and conclusions focus largely on the technology driven JV entity.

The initial JV entity costs will be primarily related to payment for management and technical (design & engineering) and marketing/sales resources in house, or provided by JV partner organisations or third parties. This will largely depend on practical considerations for the PRT partners. However, we assume that all contributions are made on an armslength commercial basis from all partners.

In the long term, assuming a successful commercialisation of the PRT concept, the JV partners will most likely wish to repatriate excess returns to their own companies in the form of dividends or the channelling of licence and royalty payments in a tax efficient manner.

6 PRT project stakeholders

For the purposes of this report, stakeholders shall mean those parties that have a vested interest in the development and success of the PRT concept and technology, both at the JV entity level and the individual SPC. It is important to consider the possible requirements and preferences of current and future stakeholders in relation to the organisation and location of the parent holding company.

In addition to the PRT partners, the most significant stakeholders will include SPC participants from the public and private sectors, national regulatory authorities, equipment and technology suppliers as well as employees at the JV and SPC levels.

A probable success factor for the PRT concept will be the clear division of roles and responsibilities between the JV entity and the individual SPC. This raises the question of probable conflict of interests and therefore preferences between the various stakeholders. For the purposes of this report we have focussed on, and prioritised our evaluation based on the principle stakeholders, the PRT partners. Initially the PRT partners are Korean and Norwegian corporations, however the nature of the ownership structure is likely to become even more internationally diverse over time.

The SPC relationship to the JV entity is considered specifically under corporate governance and commercial considerations in the executive summary.

The impact of PPP policy and regulation on our analysis and conclusions is considered specifically in chapter 7 and 8 as well as the executive summary.

7 Identification and prioritisation of evaluation criteria

Based on an understanding of the purpose and objectives of the JV entity, how it may develop going forward and the principle stakeholders with a vested interest in the PRT concept and technology, it is possible to draw up the most important evaluation criteria upon which to benchmark various European domiciles and arrive at a recommendation.

In theory there are very many criteria which are relevant in evaluating the relative attractiveness of a particular domicile. In practice most of these criteria can be organised into one or more of the following six categories described in sections 7.1 – 7.6 below.

7.1 Commercial reputation for the purposes of the stakeholders

Given the very international character of the PRT concept and the nature of its potential customers, the ultimate holding company needs to be domiciled in a location with a strong reputation as an international business centre. Important factors in this category include:

- Access to competence for conducting a wide range of international business e.g. legal and financial competences
- Access to capital and financing solutions including currency considerations for large international infrastructure projects
- Experience with PPP projects
- Cultural breadth and acceptance for conducting international business
- Integrity and perceived neutrality relative to a wide range of SPC stakeholders
- Relative efficiency of business practices

The relative attractiveness of European countries under this category can be evaluated indirectly by reference to the level of relevant international business activity conducted in each country, independent measures and reviews of business practices and the preferences exhibited by the international business community.

7.2 Practicality (in terms of JV operations)

There are a number of issues related to choice of domicile which may have a significant bearing on the practicality of conducting international business in one geographical location compared with another.

Practical issues such as language competencies, infrastructure efficiency, physical location and ease of international travel, immigration and local employment requirements, accounting practices and requirements, legal protection afforded the JV entity (IPR and technology) are all examples of relevant considerations. These types of issues are partly general knowledge, partly regulation, fact, established practice or opinion.

7.3 Cost of operations

The cost of doing business in a particular country has many aspects over and above the general cost of living, including, the costs of establishing a company, employment costs, office rentals, the costs of professional services, litigation costs, levels of VAT etc. as well as long term trends in these contexts. Statistical data, factual information and analyses can to a large extent identify and rank countries business cost levels. However, it is important to take into account that certain costs in capital cities may vary significantly from the national average. Therefore cost analysis must be extended to principle cities in each country.

7.4 Impact of taxation

A particular cost of doing business, which is inevitably tied to a particular domicile, is the impact of taxation. There are differences within Europe in the overall tax burden for corporations despite increased EU harmonisation pressures. Tax burden will also depend on the legal structure and domicile of the business and the nature and scope of its activities. In particular, a number of jurisdictions offer various forms of tax incentives to international holding companies in order to attract investment. However, each country has a unique set of rules in this area which requires in depth projections and analysis of the business case in question in order to arrive at a definitive answer as to the best holding company location from a tax perspective. Detailed and accurate information for the JV entity in this area is not practicable at this time, although we have assumed the JV entity may enter into agreements with SPC’s all over the world. In this context project management has specifically mentioned such diverse locations as China, Korea, Norway and Sweden. For the purposes of this report we have therefore concentrated on the relative attractiveness of the tax regime in each country given the general description of the JV entity set out above. Further, focus has been applied to the JV entity as an IPR/technology company rather than an infrastructure investment vehicle.

7.5 Stability of regulatory and business regime

The scope of business envisioned by the JV entity is very long term in nature and therefore the stability of the regulatory and business regime is an important risk factor. Whilst historical stability is no guarantee for the future, it does provide an indication in combination with evaluation of the other categories as to the risk of disadvantageous change. Stability can be reviewed with reference to economic factors (e.g. measures of relative economic efficiency including trends in interest rates and inflation), political factors (e.g. measures of political efficiency including continuity in governance) and regulatory factors (e.g. historical trends and any proposed negative changes in the tax and legal systems). For most European countries these factors demonstrate a high degree of stability, but can be used for partial exclusion of candidates and guiding further analysis.

7.6 Other factors

There may be other factors related to a specific country or situation which are identified as relevant for the evaluation which need to be addressed specifically. Other factors have only been evaluated for the eight countries where more specific analysis has been conducted.

7.6.1 Public Private Partnerships (PPP)

The most important other factor identified is the PPP relevance of a particular country. PPP policies and initiatives have been developed in most European countries on the back of deregulation and privatisation of public services. PPP initiatives have been employed in a range of activities including energy utilities, transport systems, air traffic control, schools, prisons, hospitals and defence contracts. Of particular interest in the context of this report are the following themes which arise in many PPP policy statements and regulations regarding selection of private sector joint venture partners.

- Regulation issues and political conflicts of interest
- Transparency of partner and process
- Best fit issues such as financial resources, technological expertise, marketing skills, access to customers and markets, cultural fit and relationship management

7.7 Summary

These six evaluation categories have varying significance and consequences in the process of determining the most attractive domicile for the JV entity. In general, due to the current stage of business development and uncertainty related to the roll-out of the PRT business, including identity and structure of SPC's, we have put greater emphasis on the consequences of practical and relatively permanent uncontrollable criteria, (e.g. international business reputation, practicality and costs) as opposed to highly technical and business variable or semi-controllable issues, (e.g. impact of taxation). In practice, as long as a domicile is not significantly disadvantageous for the JV entity for tax purposes it will be possible to organise and adapt the corporate tax structure as the business develops and grows, although this may generate increased complexity over time. It should be noted that whilst certain jurisdictions are not generally disadvantageous, they may (for example) have developed international tax treaties etc. to a greater or lesser extent, which provides a more robust platform for certain countries when considering global business activities. On the other hand, the PRT partners will have little or no influence over the international business reputation or practical constraints of a particular domicile.

8 Evaluation of alternative domiciles for the JV entity

8.1 Introduction

The scope and key assumptions for the evaluation of alternative domiciles are as follows:

- The domicile shall be European. We have defined Europe in this context as the 15 members of the EU, the members of the EEA (excluding Iceland) and Switzerland.
- European tax havens/offshore companies have been excluded.
- The JV entity shall be organised as a limited liability company.

We have conducted research and overall top down analysis of each of the 18 European countries falling within the scope of this report. We have then systematically eliminated countries from further review, or selected countries for further review, based on the following general prioritisation of evaluation criteria categories.

1. Commercial reputation for the purposes of the stakeholders
2. Practicality in terms of JV operations
3. Cost of operations
4. Impact of taxation
5. Stability of regulatory and business regime
6. Other factors

We have not attached specific weights to these categories, relying instead on experience, common sense and judgement to guide our prioritisation. For example, categories 1) and 5) are typically related, as a strong commercial reputation normally requires stability and predictability of rules, regulations and business practices. Also there is generally an inverse relationship between cost levels and extent of commercial (international) reputation and activity. Category 6), other factors, is typically an ad hoc category to capture relevant country specific issues not addressed in the other categories. Further, whilst general levels of national taxation in a particular country may be attractive, the impact of advantageous holding company tax legislation will be of greater and normally overriding importance in determining a relevant domicile for the JV entity. Therefore we have over weighted consideration of holding company tax legislation relative to the general tax regime.

Note: The above prioritisation is not meant to be scientific or statistically accurate, but is intended to provide a guidance for a meaningful ranking of various criteria.

In researching and developing relevant measures for the various categories and individual evaluation criteria we have sought to identify objective proxies for subjective evaluations. For example, international and statistically relevant interview surveys in respect of business managers location preferences. We have also tried to collate a range of statistical and other objective surveys on general issues from high quality sources as correctives and guidance in eliminating or selecting countries from the review. For example, the use of official OECD or World Economic Forum research studies on business, economic and political efficiency and competitiveness, cross checked against private research such as the Economist Intelligence Unit and domestically generated information.

As a result of the overall top down research and analysis, 10 countries have been eliminated from further review. A more detailed analysis has then been conducted for the eight remaining countries in which an additional three countries have been eliminated. We have then categorised the remaining five countries in arriving at our recommendation.

Note: Set out below is an example of some of the materials and criteria considered for each category, the measures and proxies analysed and additional sources of information reviewed. This information should be seen in conjunction with the country analyses and topic analyses presented in the appendices to this report. No one source or criteria has been a deciding factor in our conclusions.

8.2 Commercial reputation for the purposes of the stakeholders

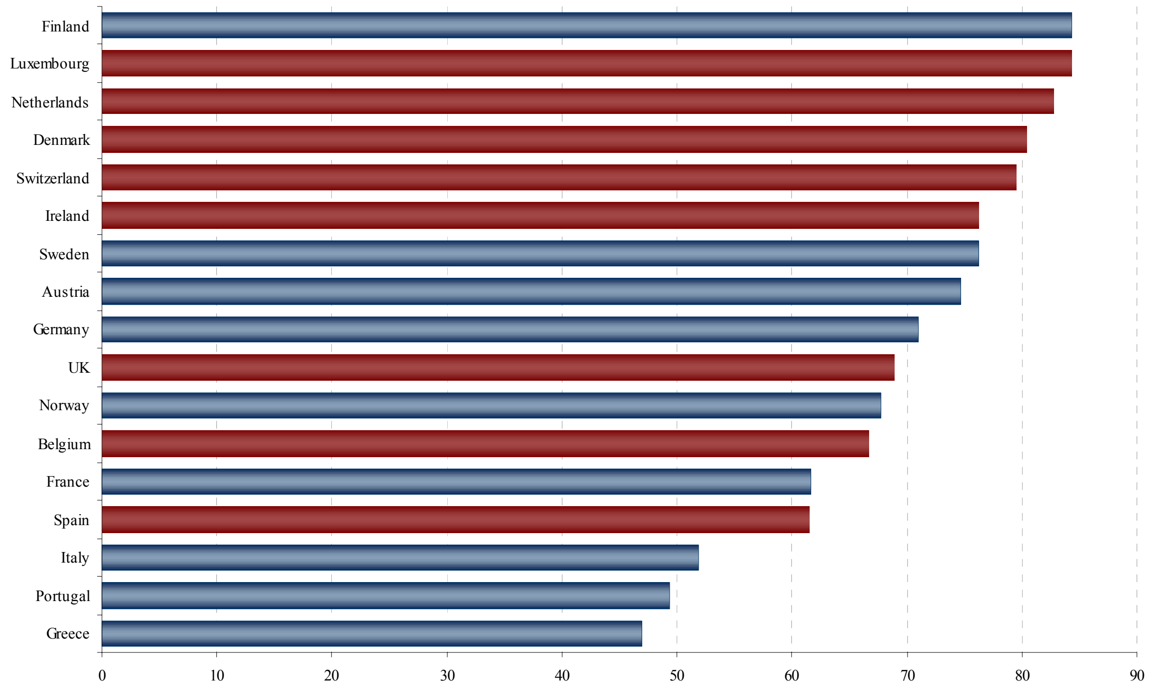
Set out below are examples of the main criteria considered and the measures/proxies identified in the analysis.

8.2.1 The World Competitiveness Ranking

(Source: IMD, www.imd.ch)

The World Competitiveness Yearbook (WCY) is probably the world's most renowned and comprehensive report (released annually) on the competitiveness of nations, ranking and analysing how a nation's environment sustains the competitive environment for enterprises. A country's competitiveness cannot be reduced only to GDP and productivity because enterprises must also cope with political, social and cultural dimensions. Therefore nations need to provide an environment that has the most efficient structure, institutions and policies that encourage the competitiveness of enterprises.

Figure 6: World Competitiveness Ranking



The world competitiveness ranking (WCR) is a result of 128 criteria based on hard data and an extensive executive opinion survey containing 115 criteria. The WCR comprises the following four main categories:

- Economic performance
- Government efficiency
- Business efficiency
- Infrastructure

Whilst not all of these measures are equally relevant for the purposes of this report, they do reflect on the sustainability and integrity of a business environment for the medium/long term, thereby supporting or detracting from the countries' attractiveness. These categories are described separately under the relevant sections below.

8.2.2 The Growth Competitiveness Index

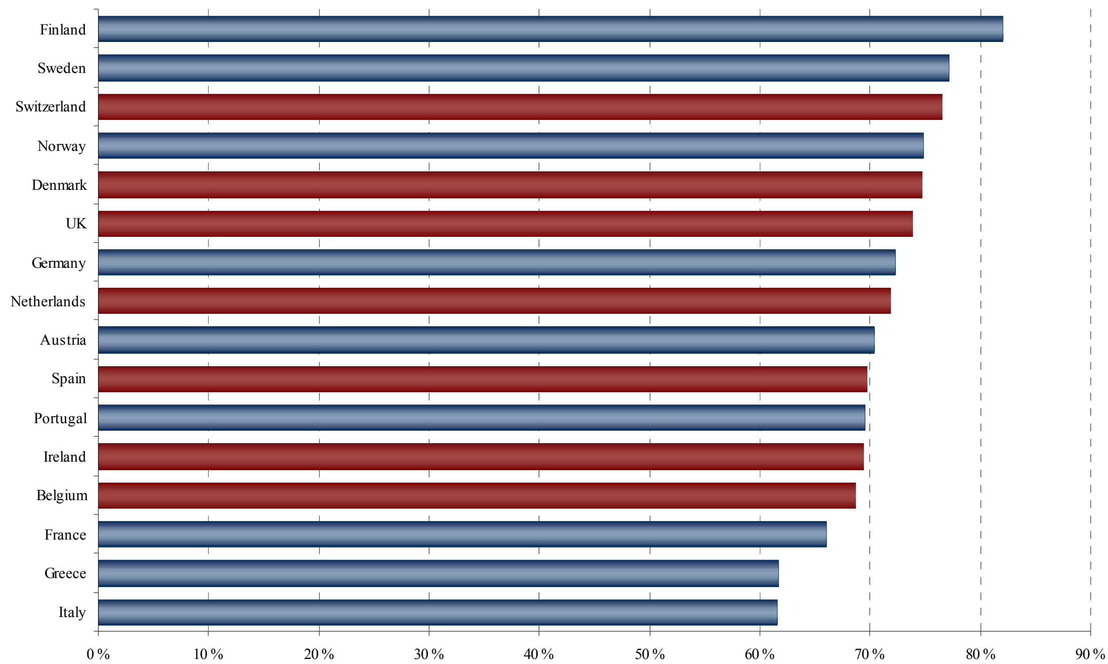
(Source: World Economic Forum, www.weforum.org)

The overall Growth Competitiveness Index (GCI) aims to measure the capacity of the national economy to achieve sustained economic growth over the medium term, taking into account the current level of development.

The GCI is based on three broad categories of variables that are found to drive economic growth in the medium and long term; technology, public institutions and macroeconomic environment. The World Economic Forum explains the connection between the categories as follow:

> "Without technological progress, countries may achieve a higher standard of living, for example, through a higher rate of capital accumulation, but they will not be able to enjoy continuously high economic growth. Institutions are crucial for their role in ensuring the protection of property rights, the objective resolution of contract and other legal disputes, efficiency of government spending, and transparency in all levels of government. In the absence of good governance, the division of labour is likely to be impeded and the allocation of resources inefficient. Monetary and fiscal policies, and the stability of financial institutions, have important effects on short-term economic dynamics as well as on the long-term capacity to grow".

Figure 7: Growth Competitiveness Index



The GCI is based on 174 criteria, of which 34 criteria are hard facts whereas the rest of the criteria are gathered through extensive surveys ranked from one to seven (seven being the best ranking). For the purpose of this report, we have indexed all of the results from the World Economic Forum in order to make comparisons easier.

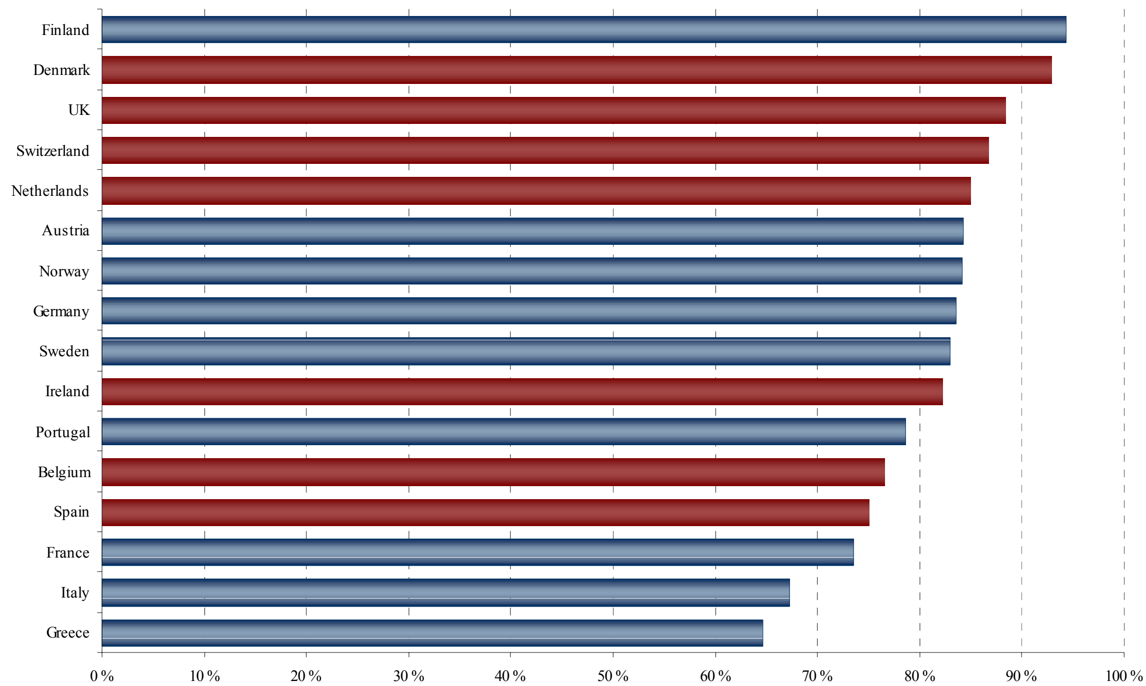
8.2.3 Public institutions index

(Source: World Economic Forum, www.weforum.org)

The public institutions index (PII) analyses whether a country's judiciary is independent from political influences of members of government, citizens or firms, protection of financial assets by law and if the government is neutral among bidders when deciding among public contract. This index also determines whether bribes and crime are an issue for companies doing business in the country.

Not all components in this index are relevant, however, in the context of this report it is a partial proxy for perceived and actual integrity for conducting international business, which is an important consideration in a PPP credibility context.

Figure 8: Public institutions index (PPI)

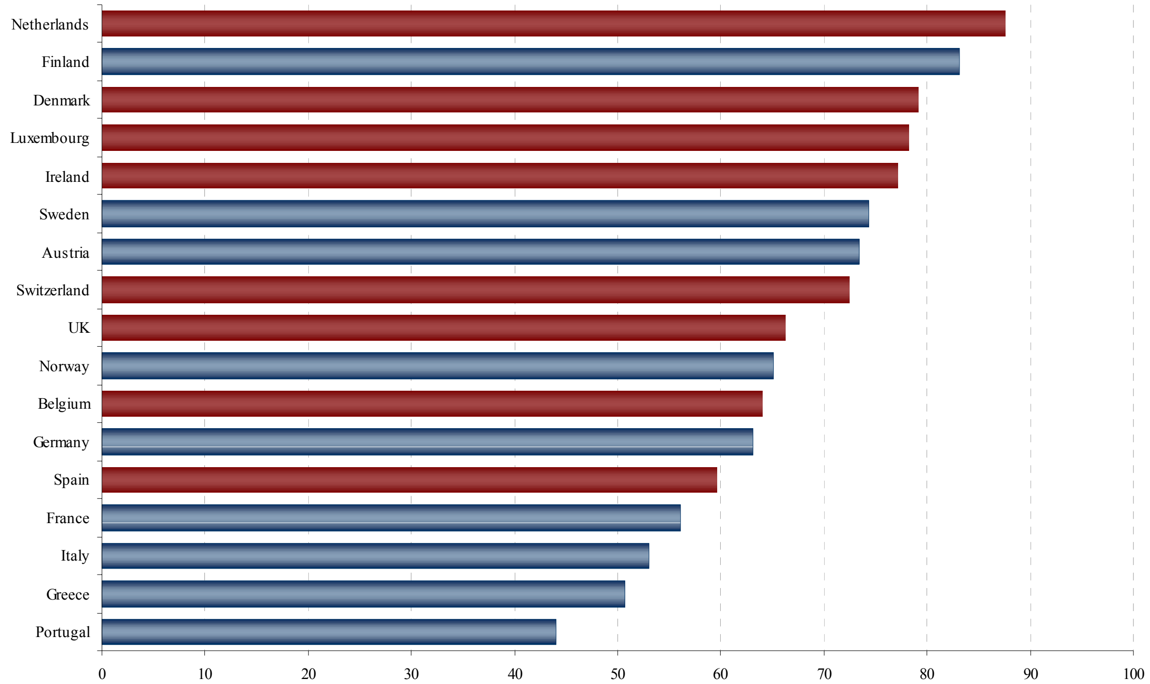


8.2.4 Business efficiency index

(Source: IMD, www.imd.ch)

The Business efficiency index (BEI) measures to which extent enterprises are performing in an innovative, profitable and responsible manner.

Figure 9: Business efficiency index (BEI)



The index is divided into five subcategories:

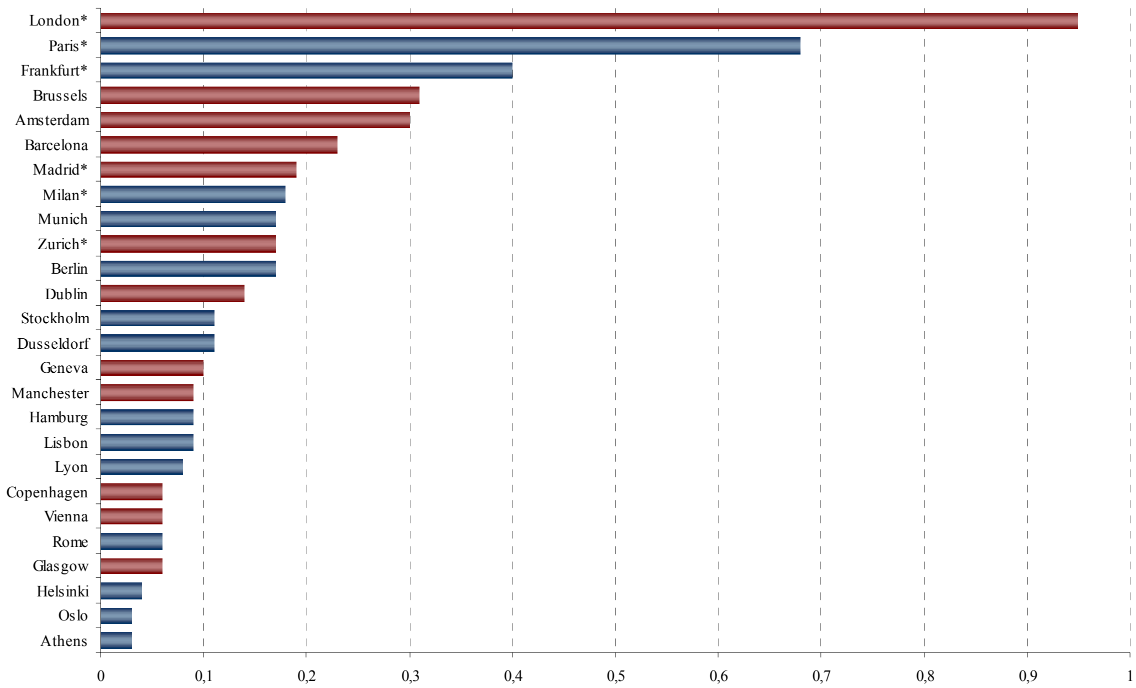
- Productivity: Measures a county's overall productivity, GDP per person employed, GDP per person employed per hour and the productivity in major industries such as agriculture, general industry and in the service industry
- Labour market: Analysing factors such as labour costs, working relations and availability of skills
- Finance: Determines bank and stock market efficiency and analyses whether cash flow is generally sufficient to allow companies to self-finance
- Management practices: Contains information about the managements adaptation ability, ethical practices, shareholder value and customer satisfaction, among other things
- Impact of globalisation: Measures attitudes towards globalisation, relocation of production outside the country and the impact of globalisation on the business

8.2.5 Best location for business today

(Source: Cushman & Wakefield Healey & Baker, European Cities Monitor 2002)

The ranking sets out the best cities to locate a business today. It is based on interviews with over 500 companies surveyed from nine European countries. The sample was systematically selected from "Europe's 15.000 largest companies", in order to reflect a representative sample of industrial, trading, and services companies. The interviewees were Senior Management or Board Directors, with responsibility for location. All interviews were conducted by telephone in July 2002. The ranking is based on the percentage of the business respondents who know each city very or fairly well.

Figure 10: The best cities for locate business



**City included in country ranking*

The overall ranking is divided into 12 sub indices of which we have concentrated on the following indices in addition to the overall indices. The relevant factors analysed in the European Cities Monitor for the purpose of this report were:

- Availability of qualified staff
- Easy access to markets, customers or clients
- Transport links with other cites and internationally

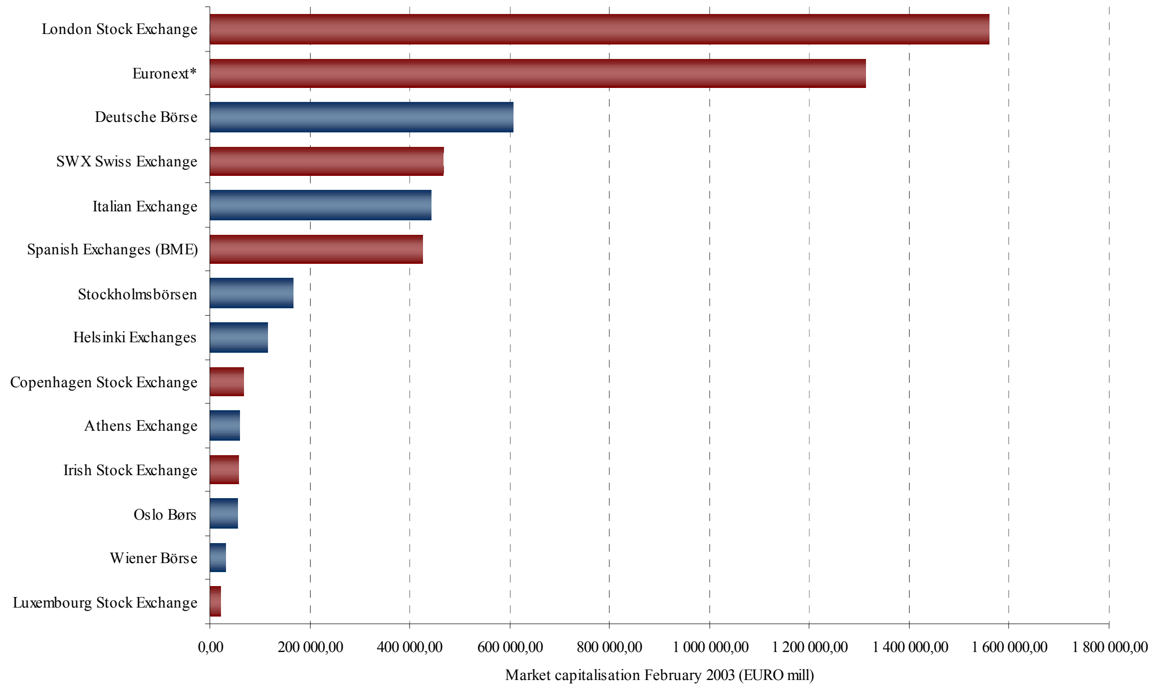
- The climate governments create for business through tax and the availability of financial incentives
- Cost of qualified staff
- Languages spoken

8.2.6 Equity market

(Source: Federation of European Securities Exchanges, www.fese.org)

The size of a country's equity market is an indicator of a country's relative attractiveness, international business reputation and access to capital markets. Our ranking criteria is based purely on the total market value of the companies listed at each country's main stock exchange as of February 2003.

Figure 11: Size of domestic equity market



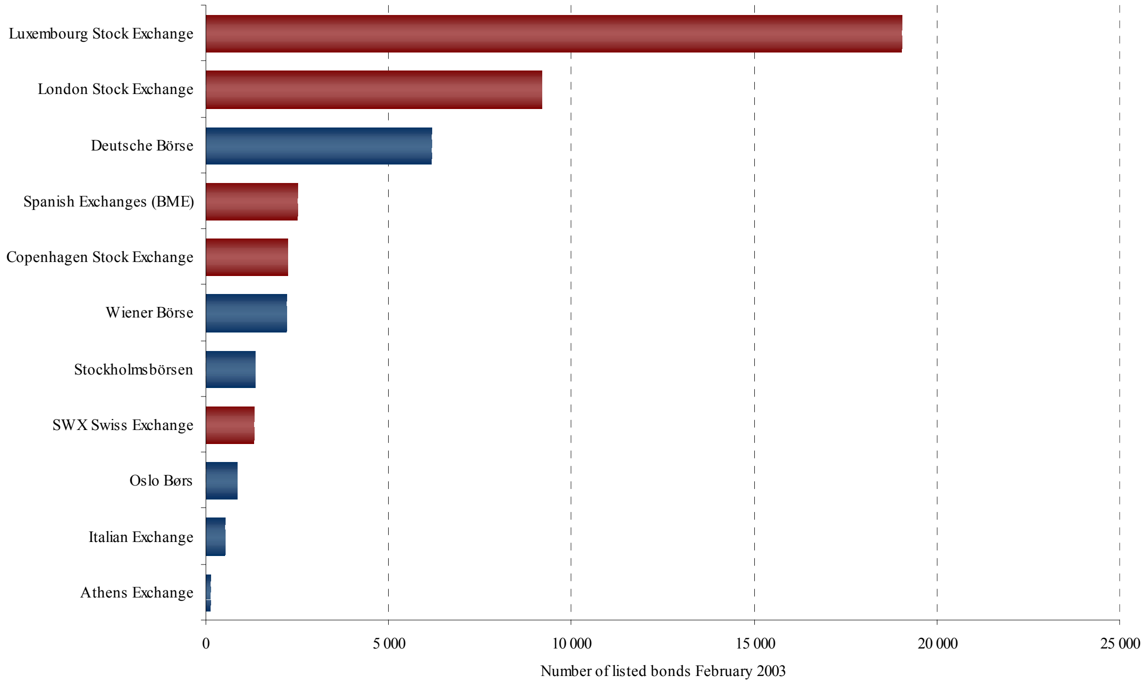
**Common stock exchange for Belgium, France and Netherlands*

8.2.7 Bond market

(Source: Federation of European Securities Exchanges, www.fese.org)

The bond market differs from the equity market in that some countries, e.g. Luxembourg and Denmark, have an artificially high number of debt instruments listed on their stock exchanges. The reason is mainly related to the historical tax and regulatory regimes. We have included a ranking of the countries based on number of listed bonds in each country as a proxy for the international credit market and access to debt capital, taking into account special country factors.

Figure 12: Size of domestic bond market



8.2.8 Additional sources of information reviewed

We have also reviewed a range of other ad hoc material, some of which is included in the appendices to this report, to check for other relevant or conflicting information but have chosen not to include this information here.

8.2.9 Results and conclusions

The UK and London have enjoyed a long-lasting reputation as the pre-eminent business centre in Europe with a particularly strong international bias. However, the UK economy is not the strongest and the very size, diversity and complexity of the international business community in London also seems to hinder overall business efficiency. In this aspect the Netherlands (Amsterdam) score significantly better, as do the countries of the Nordic region. However, the Nordic countries score poorly as international business centres. France (Paris) and Germany (Frankfurt) are strong business centres but lack the international breadth, infrastructure and experience of the UK (London) to service international holding companies and support tax efficient structures.

Figure 13: Overview business reputation

Rankings overview
Business reputation **(1 = advantageous, 3 = neutral, 5 = disadvantageous)**

Most favorable
Least favorable

Country	World competitiveness	Growth competitiveness	Public institutions	Business efficiency	Best location for business today	Equity market	Bond market	ProCorp ranking
Austria	8	9	6	7	13	15	6	3
Belgium	12	13	12	11	4	2	NA	3
Denmark	4	5	2	3	12	11	5	2
Finland	1	1	1	2	14	10	NA	2
France	13	14	14	14	2	2	NA	3
Germany	9	7	8	12	3	5	3	2
Greece	17	15	16	16	16	12		5
Ireland	6	12	10	5	9	13	NA	3
Italy	15	16	15	15	7	7	10	4
Luxembourg	2	NA	NA	4	NA	16	1	3
Netherlands	3	8	5	1	5	2	NA	2
Portugal	16	11	11	17	11	NA	NA	4
Spain	14	10	13	13	6	8	4	3
Sweden	7	2	9	6	10	9	7	2
UK	10	6	3	9	1	1	2	1
Liechtenstein	NA	NA	NA	NA	NA	NA	NA	NA
Norway	11	4	7	10	15	14	9	3
Switzerland	5	3	4	8	8	6	8	2

8.3 Practicality in terms of JV operations

There are a number of important issues related to practicality in terms of the choice of domicile for the proposed JV entity. Factors including infrastructure efficiency, geographical location in terms of ease of travel, communication, business language, immigration requirements, legal system protection for the JV entity etc should be included in the evaluation of the most favourable domicile for the JV entity. The above factors are mostly "soft" issues and finding relevant proxies for objective measurement is challenging.

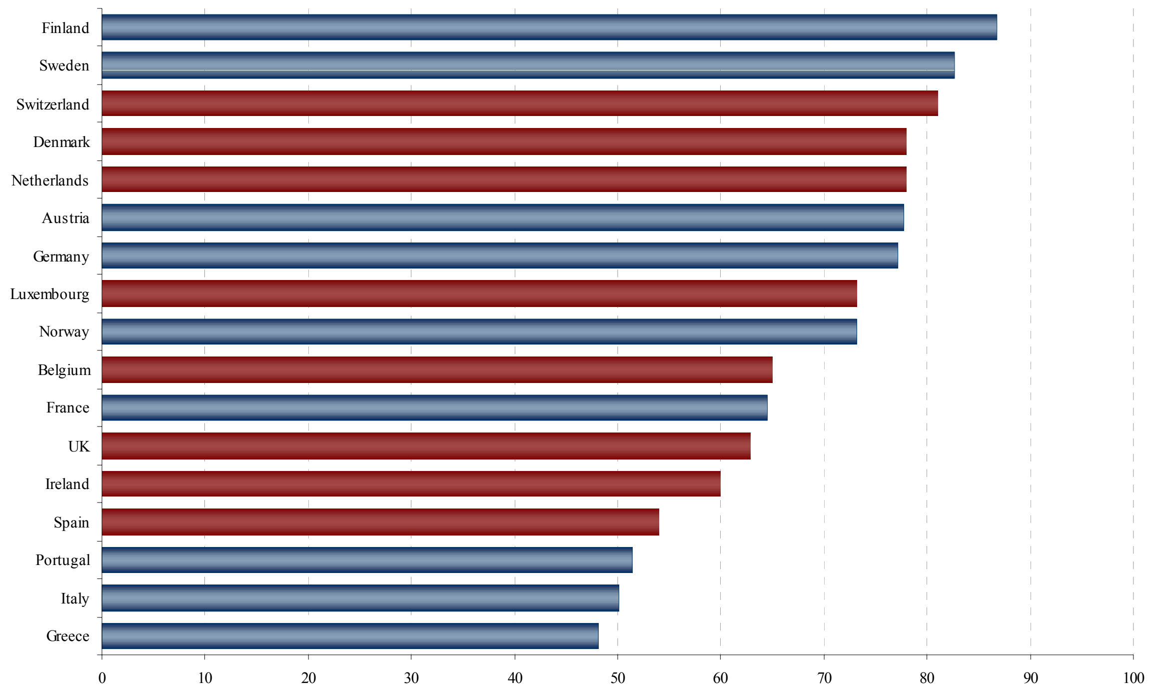
Set out below are examples of the criteria considered and some of the measures/proxies applied in the analysis of practicality. The results should also be read in conjunction with the contents of the appendices to this report.

8.3.1 Infrastructure ranking

(Source: IMD, www.imd.ch)

The infrastructure ranking measures to which extent basic, technological, scientific and human resources meet the needs of business.

Figure 14: Infrastructure ranking



The index is divided into five subcategories:

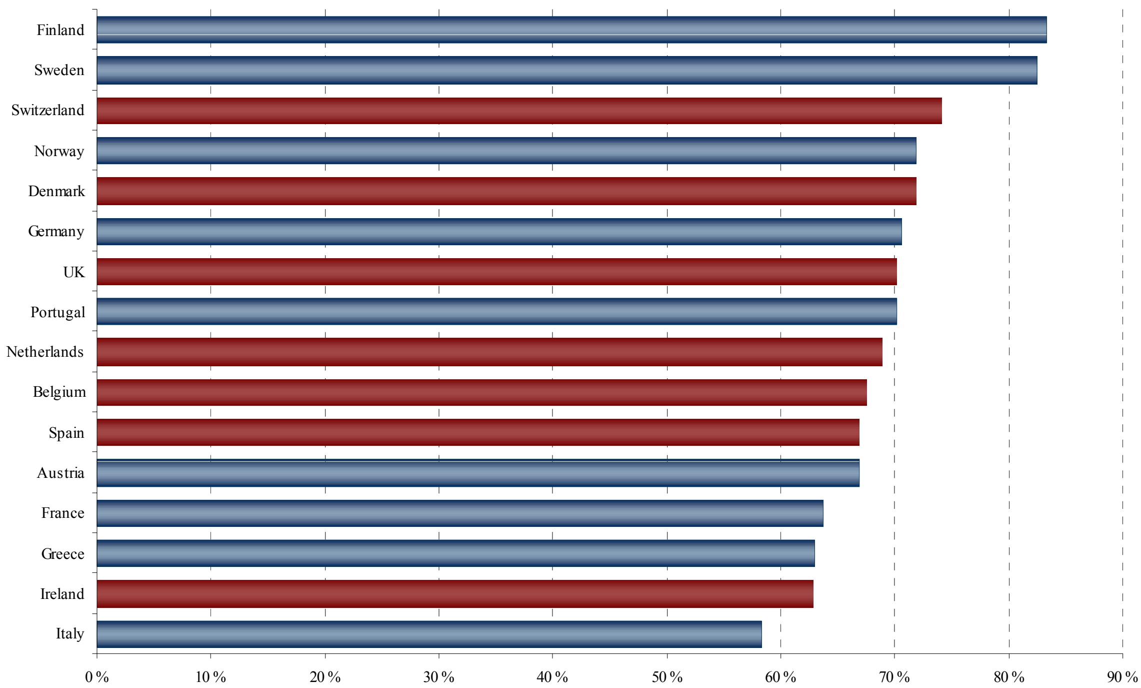
- Basic infrastructure: Population market size, density of roads and railroads network, quality of air transportation, energy imports and self-sufficiency in non-energy raw materials among other things
- Technological infrastructure: Comprises a country's level of internet access, number of cellular mobile subscribers, number of main telephone lines and the number of personal computers
- Scientific infrastructure: R&D expenditures, science degrees, Nobel prizes and innovation with respect to numbers of new patents
- Health and environment: Health infrastructure, alcohol and drug abuse, ecological footprint, pollution problems and environmental laws
- Value system: Quality of life, discrimination, female in important positions, value of the society and protection of the private sphere

8.3.2 Technology index components

(Source: World Economic Forum, www.weforum.org)

The technology index comprises three subcategories; innovation, technology transfer and information and communication survey (the latter is a combination of both hard data and management survey). Innovation seeks to explain the elements of innovation that are linked to economic growth. The importance of technology transfer linked to the country's competitiveness is captured in the technology transfer category. The information and communication survey comprises a country's level of internet access, number of cellular mobile subscribers, number of main telephone lines and the number of personal computers. Soft issues related to technology have been based on management surveys.

Figure 15: Technology index



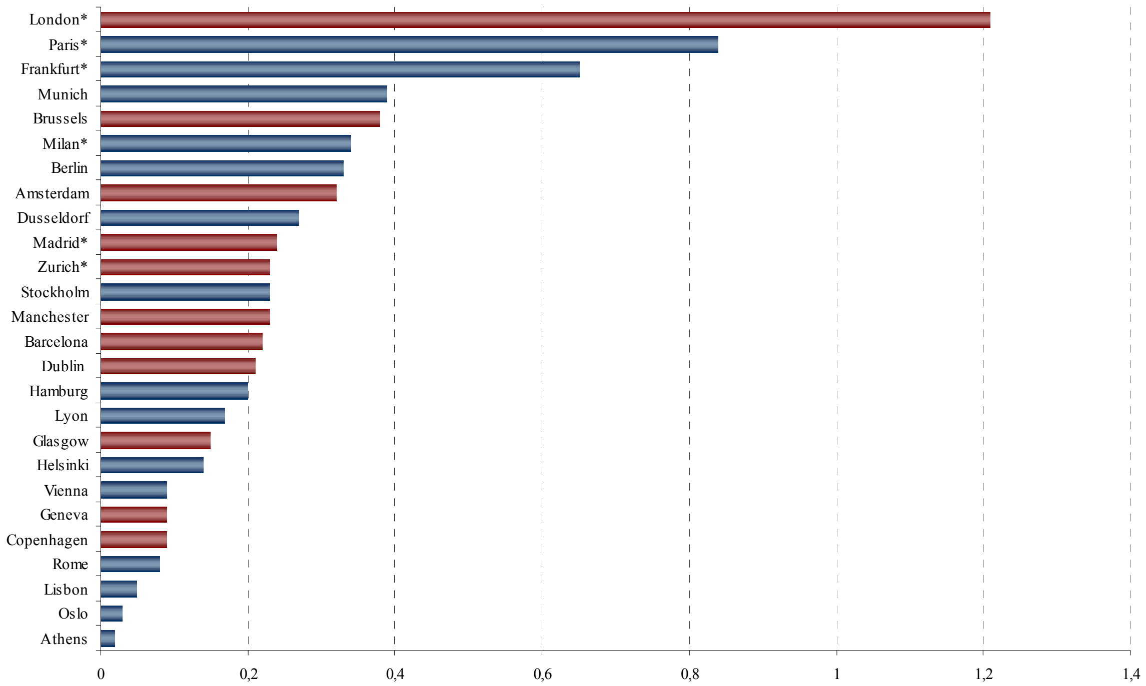
For the purpose of this report we have not differentiated between technology index for core innovators and non-core innovators, which the World Economic Forum does in their report on Growth Competitiveness.

8.3.3 Qualified staff

(Source: Cushman & Wakefield Healey & Baker, European Cities Monitor 2002)

Ranking of major European cities with respect to the availability of professionally qualified staff for business purposes. The score is derived from the number of nominations for best, second best and third best. All respondents are familiar with each location in a commercial context.

Figure 16: Best cities in terms of qualified staff



**City included in country ranking*

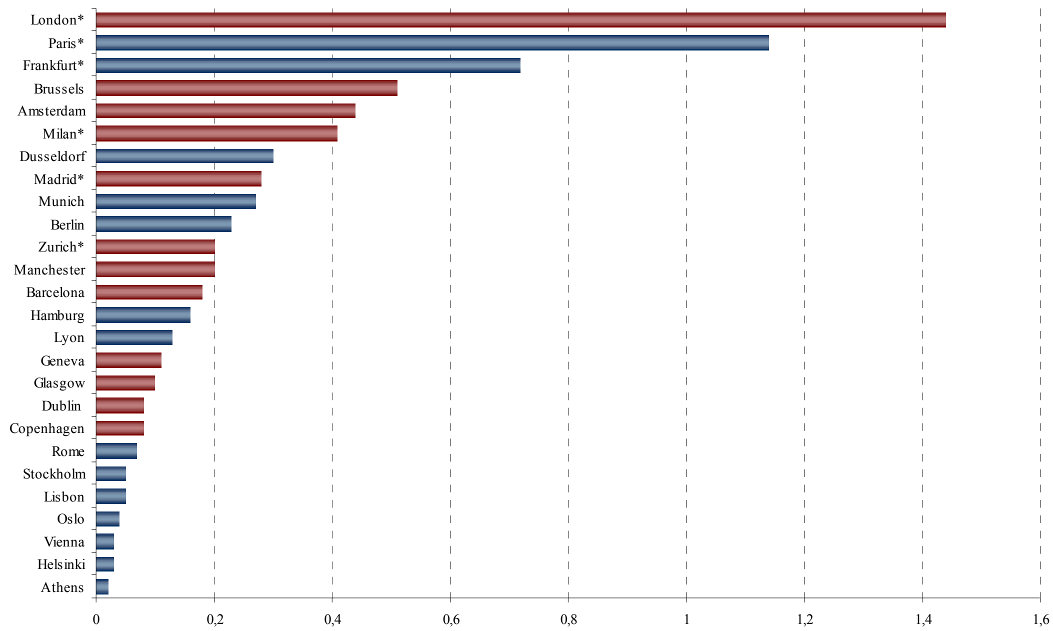
Such survey results should be viewed with caution as the method used can create exponential differentiation due to popular familiarity with a location. Nonetheless an element of "direct truth" and indirect relevance for this report may be assumed. This comment applies also to figure 17-19 inclusive.

8.3.4 Access to markets

(Source: Cushman & Wakefield Healey & Baker, European Cities Monitor 2002)

Ranking of major European cities based on easy access to markets, customers or clients. The score is derived from the number of nominations for best, second best and third best. All business respondents are familiar with each location.

Figure 17: Best cities in terms of easy access to markets, customers or clients



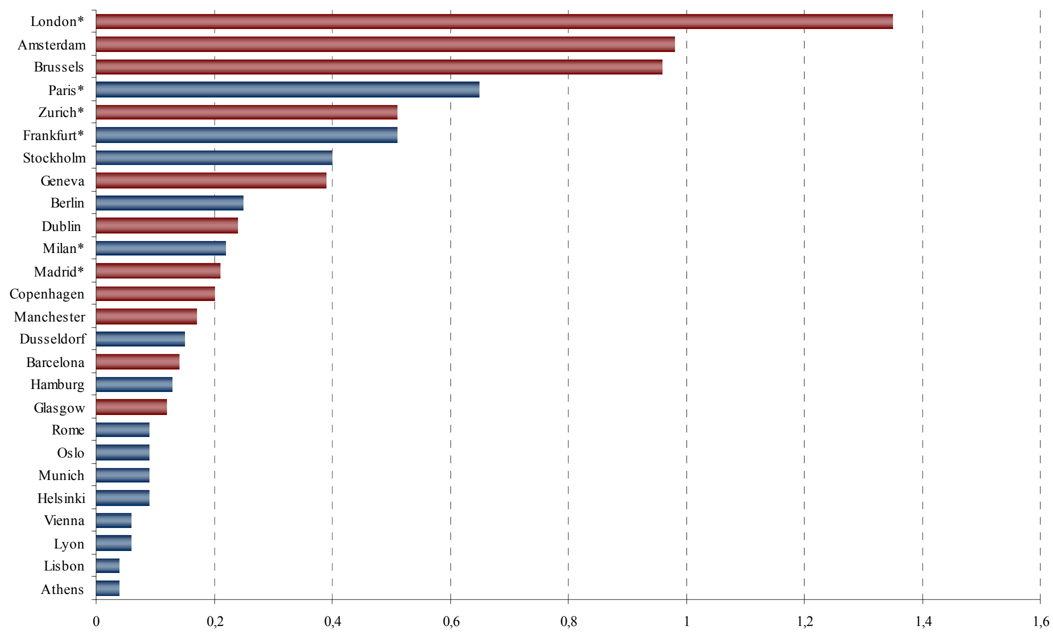
**City included in country ranking*

8.3.5 Languages spoken

(Source: Cushman & Wakefield Healey & Baker, European Cities Monitor 2002)

Ranking of major European cities based on the languages spoken. The score is derived from the number of nominations for best, second best and third best. All business respondents are familiar with each location.

Figure 18: Best cities in terms of languages spoken



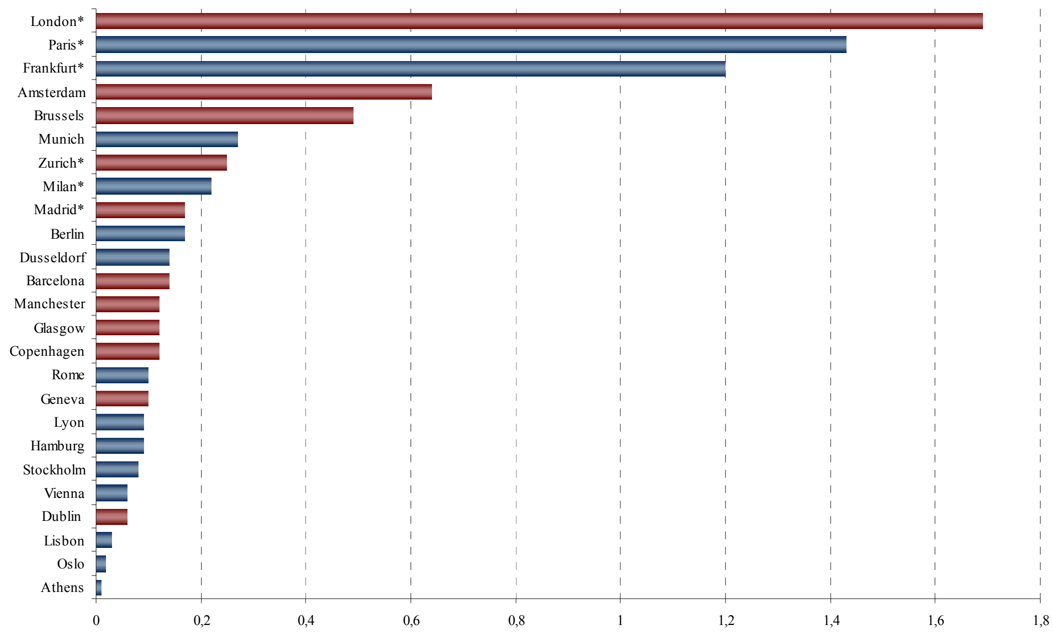
**City included in country ranking*

8.3.6 Transport links

(Source: Cushman & Wakefield Healey & Baker, European Cities Monitor 2002)

Ranking of major European cities based on transport links with other cities and internationally. The score is derived from the number of nominations for best, second best and third best. All respondents are familiar with each location.

Figure 19: Best cities in terms of transport links with other cities and internationally



**City included in country ranking*

8.3.7 Additional sources of information reviewed

We have also reviewed a range of other ad hoc material to check for other relevant or conflicting information but have chosen not to include this information here as it does not add further to our analysis or conclusions. This information includes country reports and analyses, own knowledge and experience and discussions with persons with international business development experience.

8.3.8 Results and conclusions

Overall we are of the opinion the UK and London is the most practical international business location from a logistical standpoint, although this comes at the expense of a somewhat dated and conservative infrastructure and technology profile. In this context Switzerland and the Nordic region are clearly superior. France and Germany suffer in the same way as the UK but do not have such a well established international and multi cultural profile to compensate.

Figure 20: Rankings overview practicality

Rankings overview

Practicality (1 = advantageous, 3 = neutral, 5 = disadvantageous)

Most favorable (green) / Least favorable (red)

Country	Infrastructure ranking	Technology index	Qualified staff	Access to markets	Languages spoken	External transport	ProCorp ranking
Austria	6	12	12	14	14	11	4
Belgium	10	10	4	4	3	5	2
Denmark	4	5	13	10	11	9	3
Finland	1	1	11	15	13	NA	3
France	11	13	2	2	4	2	2
Germany	7	6	3	3	6	3	2
Greece	17	14	16	16	16	15	5
Ireland	13	15	10	9	8	12	3
Italy	16	16	5	6	9	7	3
Luxembourg	8	NA	NA	NA	NA	NA	3
Netherlands	5	9	6	5	2	4	2
Portugal	15	8	14	12	15	13	4
Spain	14	11	7	7	10	8	3
Sweden	2	2	9	11	7	10	2
UK	12	7	1	1	1	1	1
Liechtenstein	NA	NA	NA	NA	NA	NA	4
Norway	9	4	15	13	12	14	4
Switzerland	3	3	8	8	5	6	2

8.4 Cost of operations

Set out below are examples of the criteria considered and the measure/proxies applied in the analysis of cost of operations. These measures and the evaluations made should eventually be read in conjunction with additional material included in the appendices.

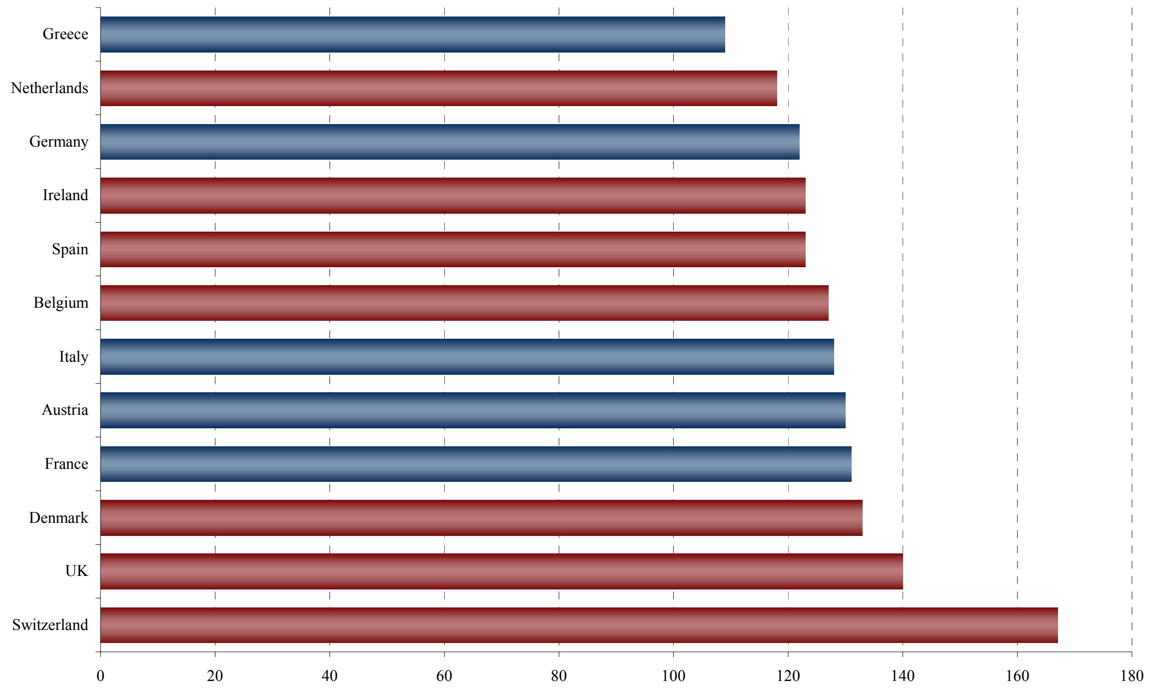
8.4.1 Cost of living in the country

(Source: Worldwide cost of living survey by the Economist Intelligence Unit ("EIU"), December 2002)

Ranking of cost of living includes items like food, clothing, transportation, health care, entertainment, and miscellaneous goods and services. Housing costs and income tax differentials are not included, however sales and VAT and household expenses are included.

The graph below illustrate the cost of a basket with goods and services that costs US$ 100 in the US.

Figure 21: International cost of living in the country

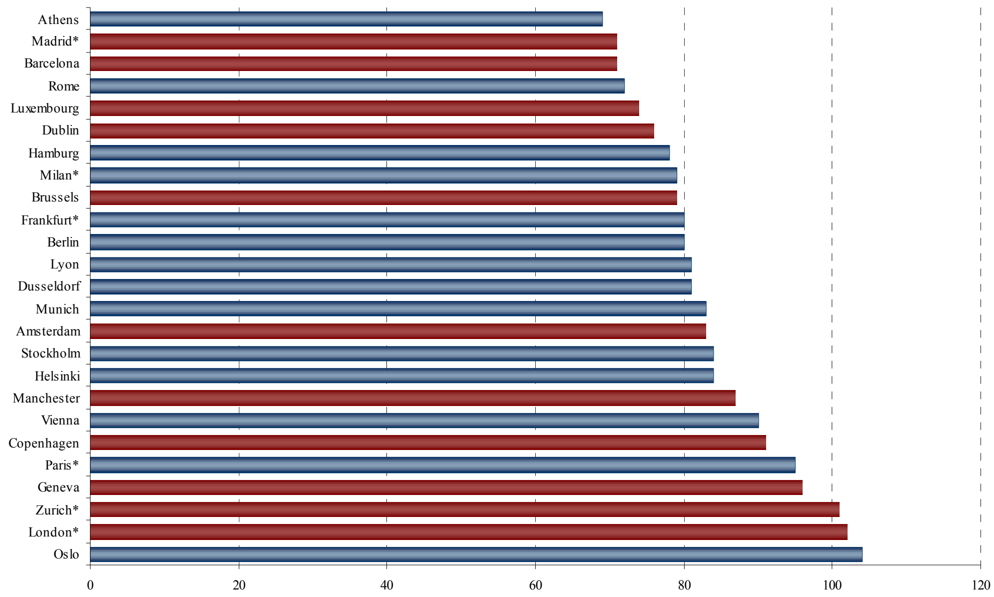


8.4.2 Cost of living by major city

(Source: EIU March 2001, www.eiu.com)

The EIU survey compares prices and products in 133 cities around the world. Its purpose is to provide companies with an unbiased and independent guide from which allowances can be calculated for executives and their families being sent overseas. The data quoted in this report used New York as a base index of 100 for comparison.

Figure 22: Cost of living in major cities



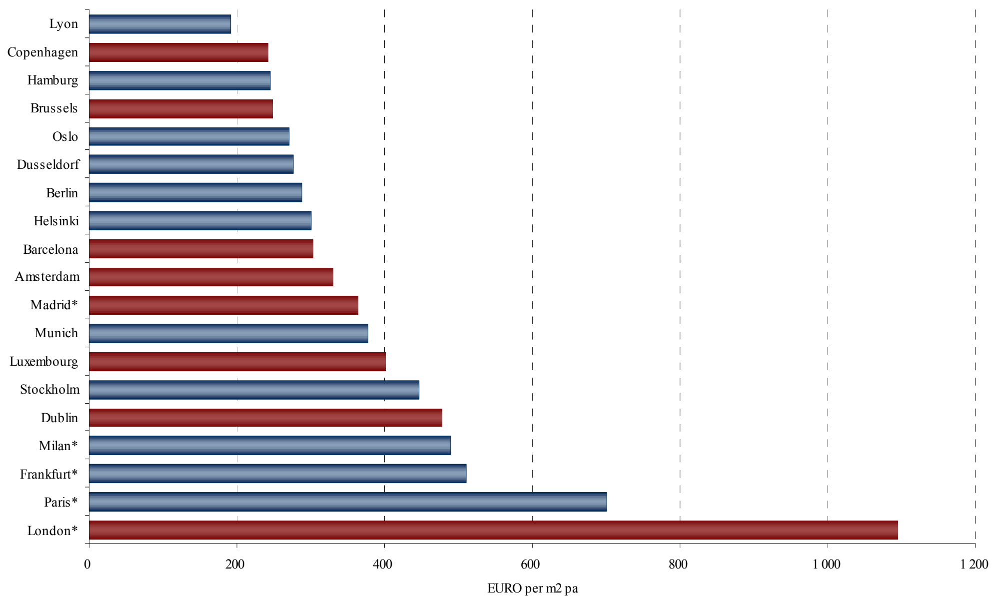
**City included in country ranking*

8.4.3 Cost of office rental

(Source: Jones Lange LaSalle International Review, 4Q 2002, www.joneslanglasalle.com)

The rents quoted in local currencies normally reflect prime units over 500 m2 of lettable floorspace, which excludes rents that represent a premium level paid for a small quantity of space. Exchange rates from www.nettavisen.no as of 8. April 2003 have been used to translate local rents to Euro.

Figure 23: Office rental comparison



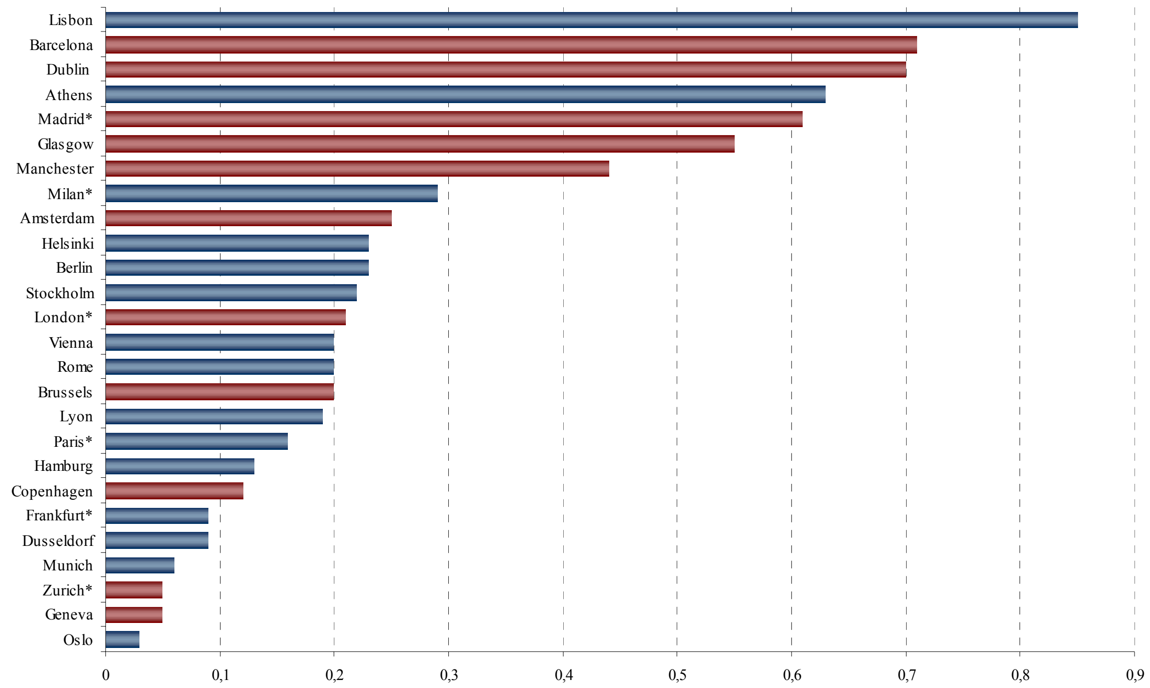
**City included in country ranking*

It should be noted that the general downturn in the international economy has modified this picture in recent months particularly for London, primarily due to downsizing of capital market institutions in the city. It should be possible to obtain office space today at a significant discount to 2002 levels.

8.4.4 Cost of qualified staff

(Source: Cushman & Wakefield Healey & Baker, European Cities Monitor 2002)
Ranking of major European cities based on cost of qualified staff for business purposes. The score derived from the number of nominations for best, second best and third best. All respondents are familiar with each location in a commercial context.

Figure 24: Best cities in terms of cost of qualified staff



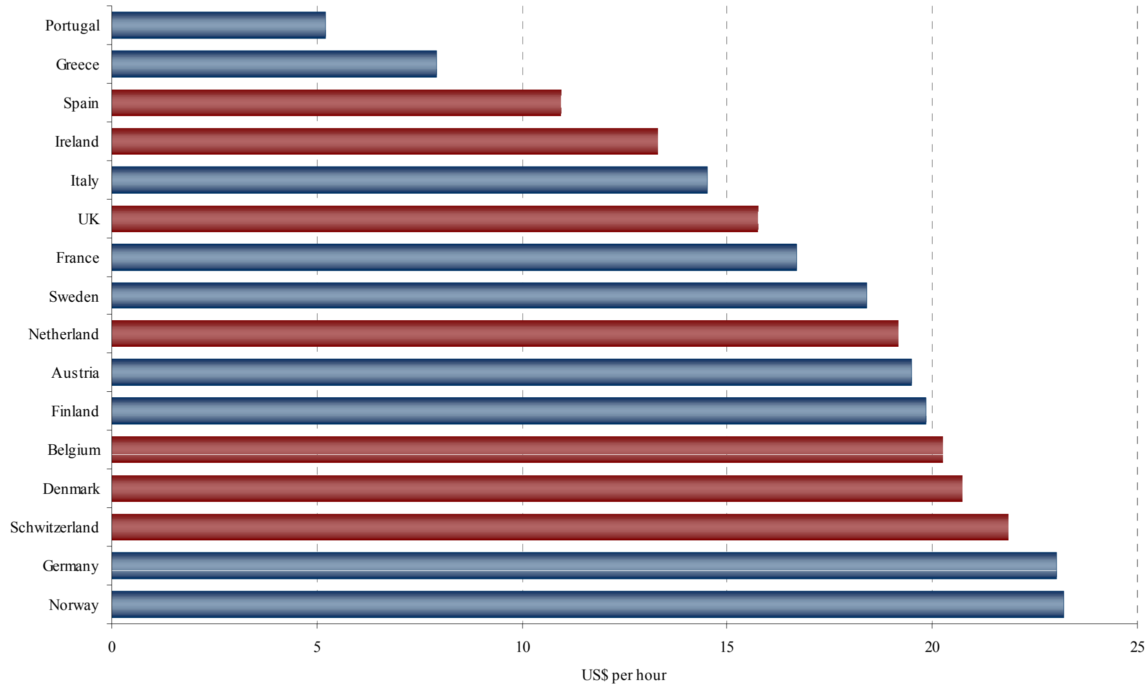
**City included in country ranking*

8.4.5 Labour cost

(Source: EIU, www.economist.com/countries/)

Ranking based on general labour costs per hour (US$) in 2001.

Figure 25: Labour cost US$ per hour



The ranking reflects general wage levels and may not be entirely representative as highly qualified technical personnel/management in major cities command premium salaries.

8.4.6 Additional sources of information reviewed

We have also reviewed a range of other ad hoc material to check for other relevant or conflicting information but have chosen not to include this information here as it does not add further to our analysis or conclusions.

8.4.7 Results and conclusions

There were difficulties in obtaining comparable data for a number of countries, in particular for Luxembourg. Generally in Europe, there seems to be an inverse relationship between cost levels and the business reputation and practicality of a particular country (capital city). Ireland and Spain are interesting exceptions as both countries have been actively promoting and improving their roles as international business centres, in particular through their tax regimes.

Figure 26: Results and conclusion

Rankings overview

Cost of operations (1 = advantageous, 3 = neutral, 5 = disadvantageous)

Least expensive
Most expensive

Country	Cost of living in country	Cost of living major city	Cost of office rental	Cost of staff	Labour cost per hour	ProCorps ranking
Austria	8	11	NA	10	10	3
Belgium	6	6	2	11	12	3
Denmark	10	12	1	13	13	3
Finland	NA	10	4	7	11	3
France	9	13	12	12	7	4
Germany	3	7	11	14	15	3
Greece	1	1	NA	3	2	1
Ireland	4	4	9	2	4	2
Italy	7	5	10	5	5	2
Luxembourg	NA	3	7	NA	NA	2
Netherlands	2	8	5	6	9	2
Portugal	NA	NA	NA	1	1	1
Spain	4	2	6	4	3	1
Sweden	NA	9	8	8	8	2
UK	11	15	13	9	6	4
Liechtenstein	NA	NA	NA	NA	NA	NA
Norway	NA	16	3	16	16	5
Switzerland	12	14	NA	15	14	5

8.5 Impact of taxation

Set out below are examples of the criteria considered and the measure/proxies applied in the analysis of the impact of taxation. This section should also be viewed in conjunction with material on taxation included in the appendices.

8.5.1 Impact of taxation – general

(Sources: European tax handbook, OECD, KPMG, Deloitte Touche Tohmatsu, Ruchelman Law Firm, Forbes, Advokatfirmaet Schjødt, Advokatfirmaet Thommessen, Krefting, Greve & Lund).

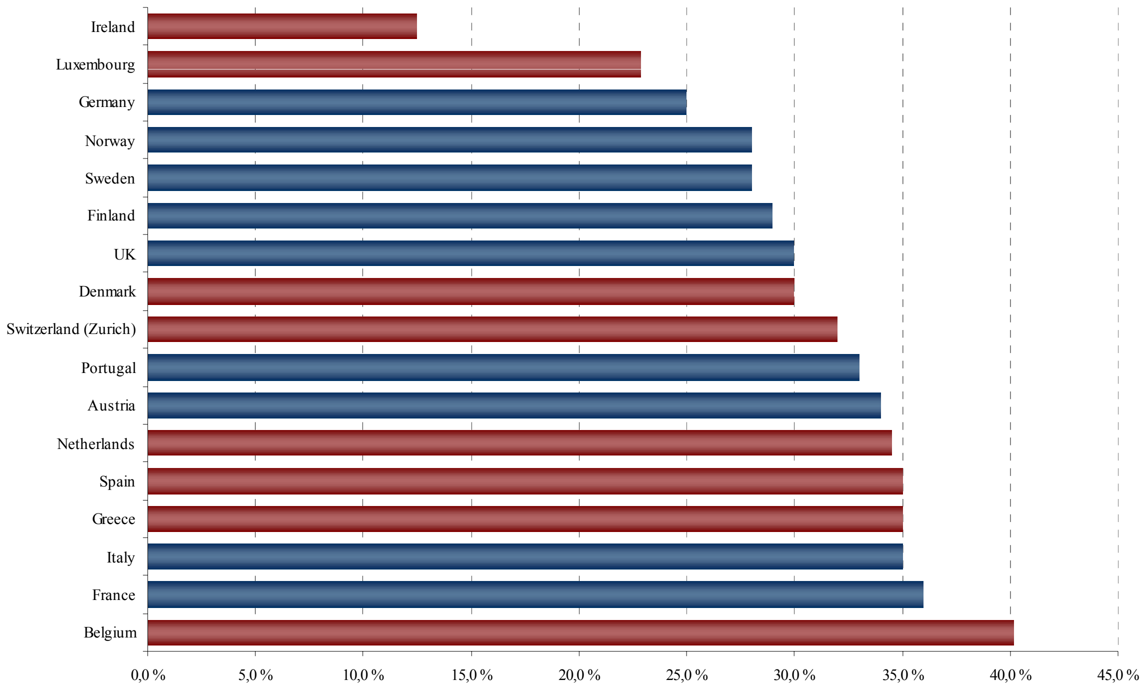
We have not included typical "European tax havens" and mail box company locations (also referred to as "Offshore or Shell companies") in domiciles such as the Dutch Antilles, Jersey, Guernsey and Isle of Man in our research universe. The PRT project managers underlined the need for integrity and a robust long term solution. Such tax havens are under increasing pressure for transparency and current advantages may be illusory in the long term. Further they represent a potential credibility risk in a PPP context.

There are a number of important issues related to tax and taxation of companies and individuals that the JV needs to take into consideration when selecting the most appropriate domicile for the company. The following criteria have been used to evaluate and rank countries with respect to the general taxation level:

- General corporate tax rates
- Tax on dividends from domestic companies
- Maximum personal tax burden
- Value added tax rates
- Holding company tax regulations (see separate Appendix 4, tab 1 for detailed review of favourable holding company tax regimes)
- Special considerations related to royalty/license/commission income etc.

Set out below are comparative illustrations of the nominal corporate, personal and value added tax levels for the countries reviewed. Effective corporate and personal tax rates may vary significantly.

Figure 27: Corporate tax rates



Ireland has an absolute advantage for general tax purposes, but there is a lingering question as to whether this can or will be maintained. General tax level in Switzerland is cantonal and negotiation dependent and thus variable.

Figure 28: Taxation of dividends from domestic companies

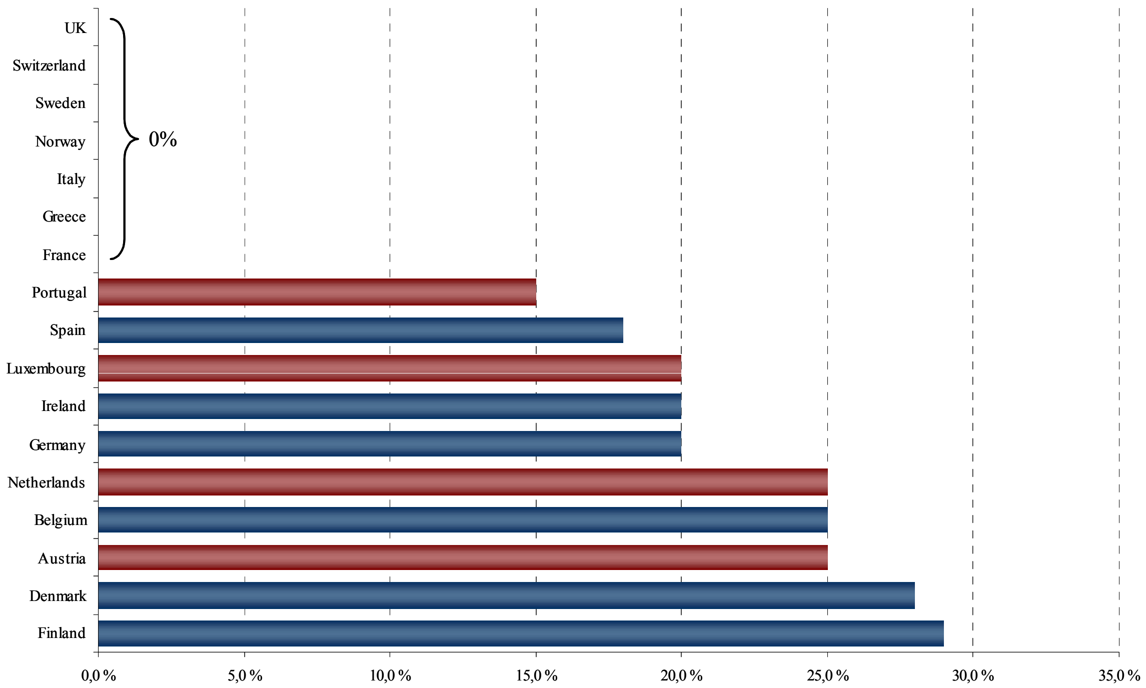


Figure 29: Maximum personnel tax burden

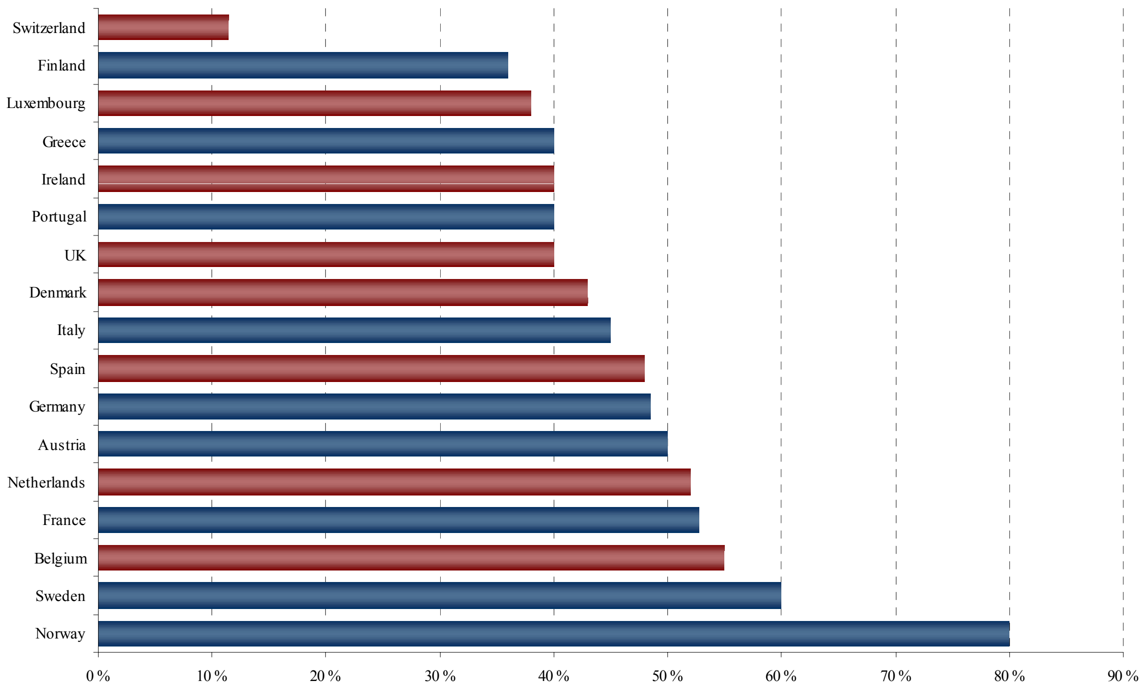
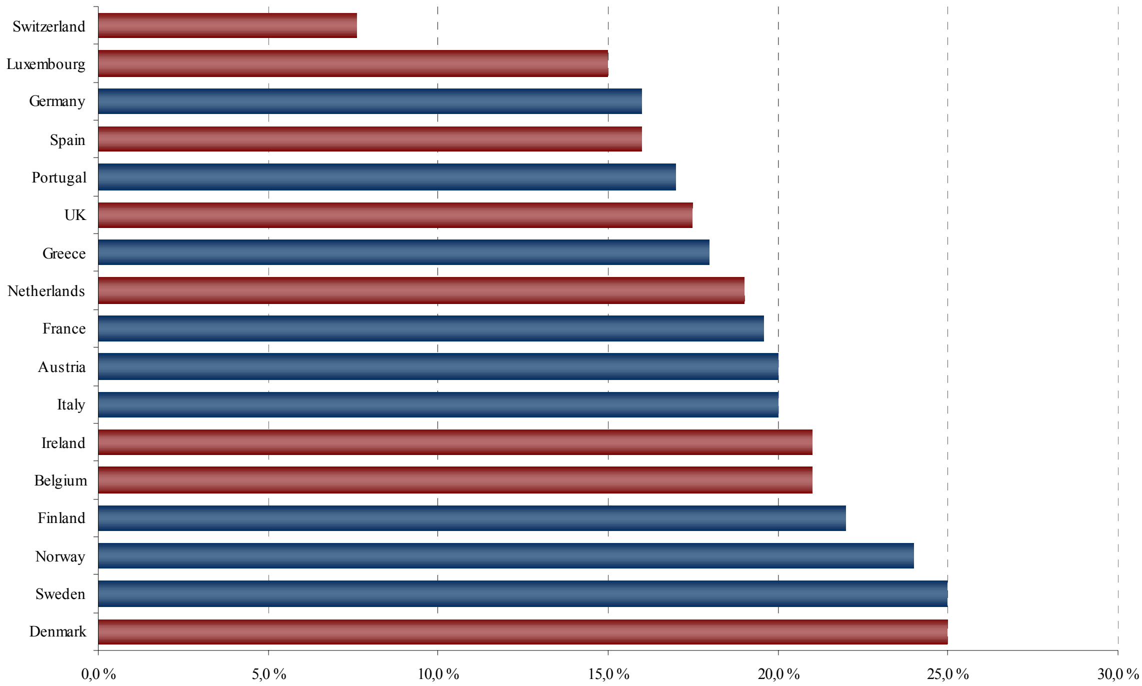


Figure 30: Value added tax rates



Our general review of the domestic tax burden has on the whole been given little weight in evaluating overall tax impact ranking, whilst the impact of holding company tax regulations has been emphasised. The rationale for this is that those countries that have specific (international) holding company tax regulation are typically those that have, or are promoting an international business centre profile. Additionally, it is these countries that typically have the most developed tax treaty networks which effectively reduce international tax frictions. Further, these jurisdictions also typically have the most sophisticated tax planning skills and environments necessary for finding optimal tax structures

8.5.2 Additional sources of information reviewed

Country fact sheets, articles and general tax publications/periodicals have been reviewed for identification of possible significant issues or changes in legislation. Some of these documents are included in the appendices to this report.

8.5.3 Results and conclusions

The specific results of this particular analysis should be treated with caution. The impact of taxation is highly dependent on the nature, scope and quantum of companies activities and their sources of income and expenditure. At this stage we also know relatively little about the JV entity and its relationship to SPCs in other domiciles.

Nonetheless, we recommend that the PRT project partners consider keeping the JV entity IPR, technology and systems activities separate from any eventual capital investment/financing activities in SPCs. A combined entity is likely to generate significant tax issues and inefficiencies. It should also be noted that an individual company's operating decisions and financing structure can impact tax status and costs significantly. Illustration and comments in this regard are included directly in the executive summary to this report.

Bearing in mind the above, the conclusions below do not reflect an opinion or conclusion as regards on anticipated relative tax burden in any jurisdiction. Further, ProCorp are not tax experts or advisers and specialist tax/legal advices should be sought in this respect before taking a specific commercial decision.

Nonetheless, we can draw some general conclusions which should be robust enough for the purpose of this report.

Countries without a specific holding company incentive structure represent a significant and probably a disqualifying disadvantage for location of domicile. Belgium, Denmark, Ireland, Luxembourg, Netherlands, Spain, UK and Switzerland all have some degree of favourable tax structure for (international) holding companies. Denmark and Spain are relative newcomers to this type of regime. Ireland together with Luxembourg have built systems which have been particularly attractive for financial services. The UK does not necessarily impute the lowest absolute tax burden, but probably provides the most robust base for ongoing tax efficient international structures. It is also probably the business centre with the greatest concentration of tax planning expertise and network of tax treaties globally. Switzerland also has a strong position internationally for tax purposes but is complicated by local cantonal issues, which are often a function of negotiation and agreement on an individual basis.

Figure 31: Rankings overview impact of taxation – general

Rankings overview
Impact of taxation - general (1 = advantageous, 3 = neutral, 5 = disadvantageous)

Most favorable
Least favorable

Country	Corporate tax	Tax dividends from domestic companies	Maximum personnel tax	Value added tax	Holding company tax regulation	General tax level	Holding company tax regulation	ProCorp weighted average score
Austria	11	13	12	10	Neutral - favourable	4	3	3
Belgium	17	13	15	12	Favorable	5	1	2
Denmark	8	16	8	16	Favorable	4	1	2
Finland	6	17	2	14	Negative	3	5	5
France	16	1	14	9	Negative	3	5	5
Germany	3	10	11	3	Neutral	2	3	3
Greece	14	1	4	7	Negative - neutral	2	4	4
Ireland	1	10	4	12	Favorable	2	1	1
Italy	15	1	9	10	Neutral	3	3	3
Luxembourg	2	10	3	2	Favorable	1	1	1
Netherlands	12	13	13	8	Favorable	4	1	2
Portugal	10	8	4	5	Neutral	2	3	3
Spain	13	9	10	3	Favorable	3	1	2
Sweden	5	1	16	16	Negative	3	5	5
UK	7	1	4	6	Favorable	2	1	1
Liechtenstein	NA	NA	NA	NA	Neutral	NA	3	2
Norway	4	1	17	15	Negative	3	5	5
Switzerland	9	1	1	1	Favorable	1	1	1

8.6 Stability of regulatory and business regime

Set out below are examples of the criteria considered and the measure/proxies applied in the analysis of stability. Not all criteria are equally relevant, but serve as indicators underlying the stability criteria. These measures should be viewed in conjunction with the individual country reports and other information included in the appendices.

8.6.1 Government efficiency index

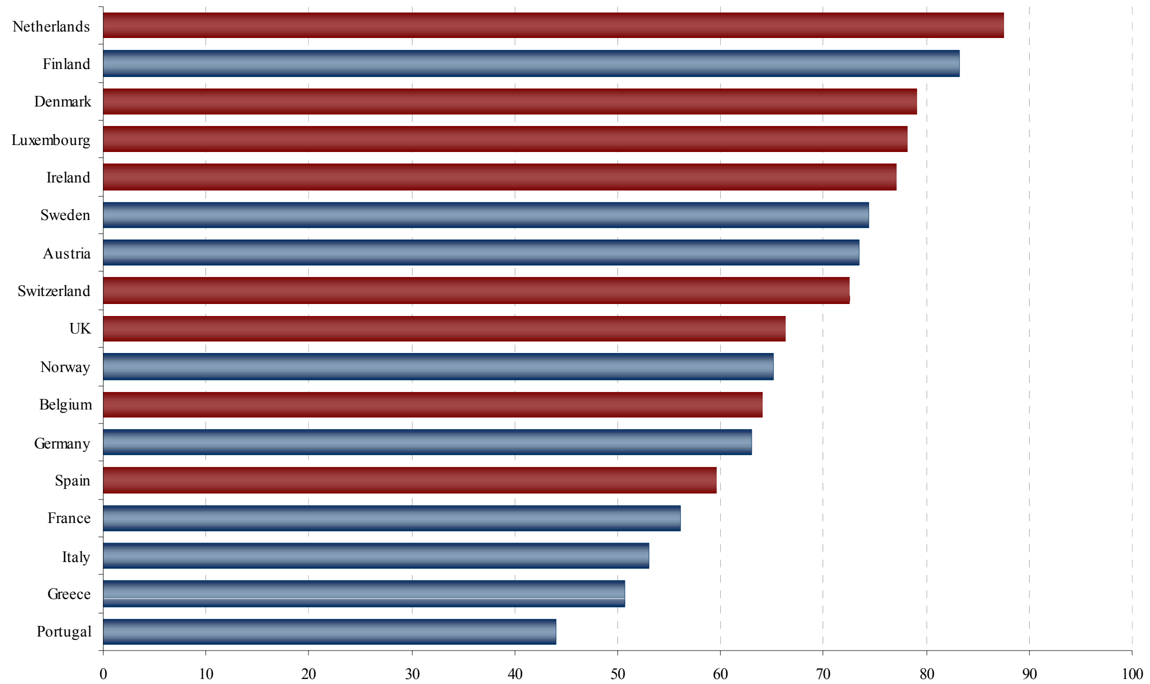
(Source: IMD, www.imd.ch)

The Government efficiency index measures to which extent government policies are conducive to competitiveness for enterprises. The index is divided into five subcategories:

- Public finance: Measures development in central government budget, foreign debt, real growth and government expenditures
- Fiscal Policy: Contains areas such as collected tax, tax rates, social security contribution and whether tax evasion is common in the country
- Institutional framework: Covers areas such as central bank policy, interest rates, legal framework, whether new legislation encourages competitiveness of enterprises, government decision ability and bureaucracy. Justice and security is another matter covered by the institutional framework
- Business legislation: Addresses openness, competitive regulations, labour regulations and capital market regulations

- Education: Measures total public expenditure on education, level of higher education, education system, education in finance, qualified engineers and knowledge transfer

Figure 32: Government efficiency index



8.6.2 Economic performance rankings

(Source: IMD, www.imd.ch)

Summarised as two separate categories under rankings overview; *Macroeconomic evaluation of the economy and Domestic economy ranking.* Economic performance is an evaluation of the macroeconomic performance of the domestic economy, which is divided into five subcategories:

- Domestic economy: Measures such things as size of the GDP, GDP growth, wealth, and GDP forecasts
- International trade: Looks at the build up of the international trade balance of the country
- International investment: Looks at the outflow and inflow of international investments
- Employment: Size of workforce and unemployment rates
- Prices: Inflation, cost-of-living index, apartment and office rent

Figure 33: Macroeconomic evaluation of the domestic economy

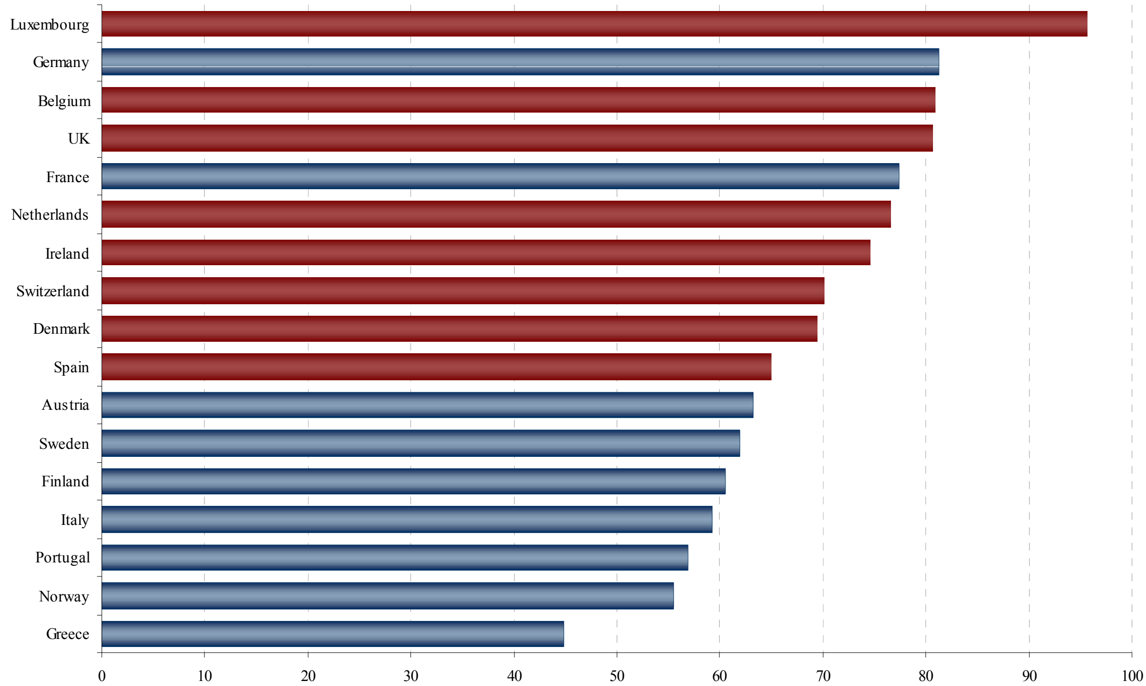
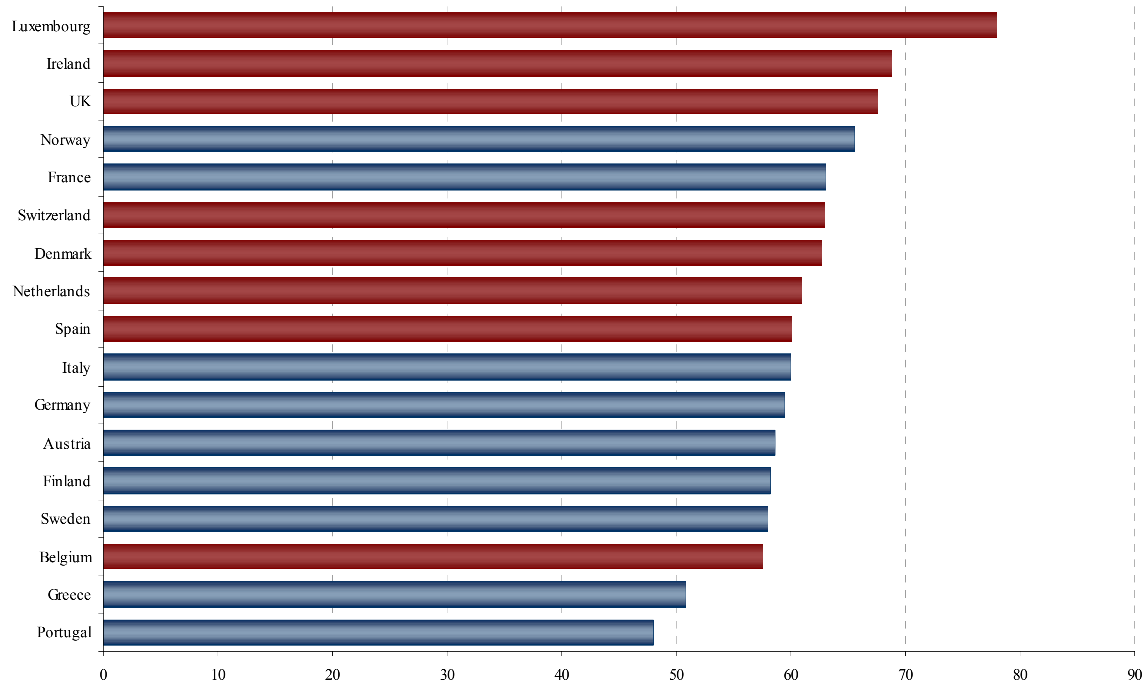


Figure 34: Domestic economy

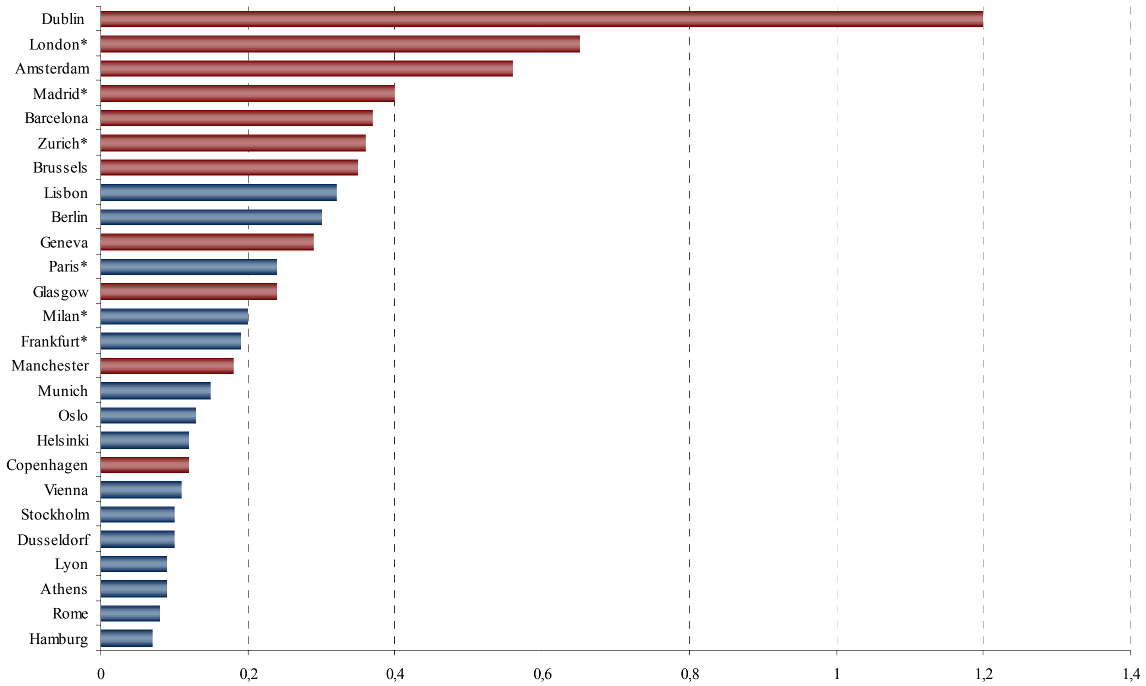


8.6.3 Best business climate created by governments

(Source: Cushman & Wakefield Healey & Baker, European Cities Monitor 2002)

Ranking of major European cities based on business climate created by governments. The score derived from the number of nominations for best, second best and third best. All respondents are familiar with each location.

Figure 35:Best cities in terms of the business climate governments create



**City included in country ranking*

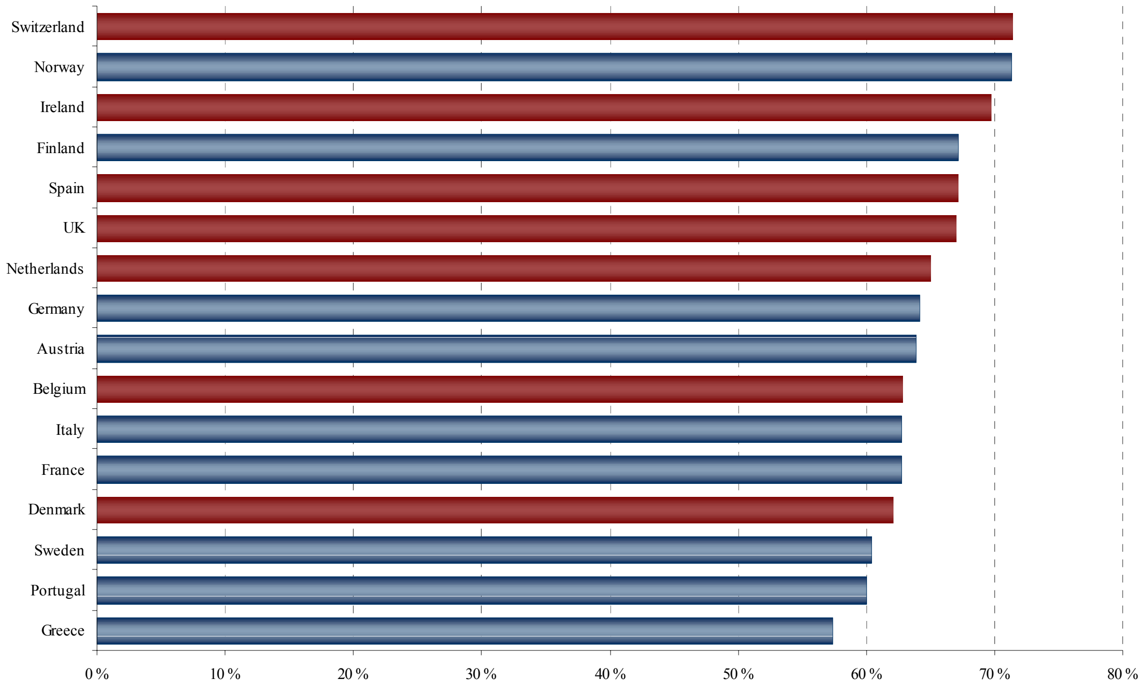
Such survey results should be viewed with caution as method used can create exponential differentiation due to popular opinion. Nonetheless an element of "direct truth" and indirect relevance for this report may be assumed.

8.6.4 Macroeconomic environment index

(Source: World Economic Forum, www.weforum.org)

The macroeconomic environment index reflects, among other things, inflation, national savings, and real exchange rate developments, as well as country credit ratings and general government expenditure.

Figure 36: Macroeconomic environment



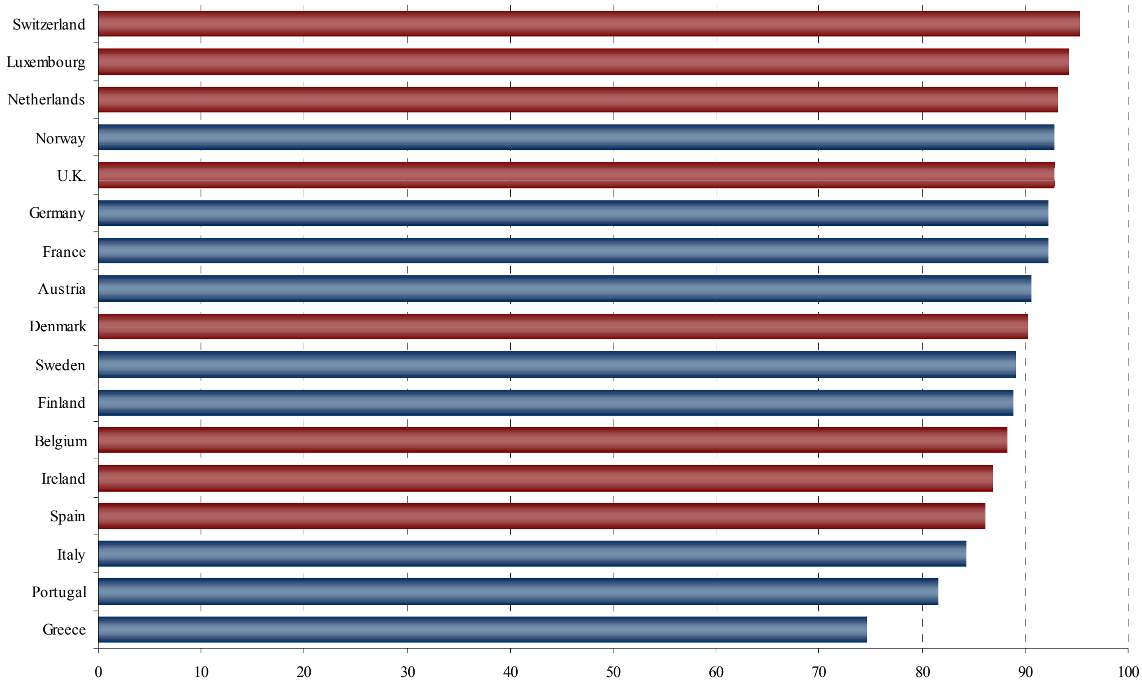
The differences indicated above are not particularly significant for the purposes of this report.

8.6.5 Country credit rating

(Source: Institutional Investor platinum, March 2003, www.Institutionalinvestor.com)

The country-by-country credit ratings developed by Institutional Investor are based on information provided by senior economists and sovereign risk analysts at leading global banks and money management and securities firms. They have graded each of the countries on a scale of zero to 100, with 100 representing those countries that have the least chance of default. Participants are not permitted to rate their home countries. The individual responses are weighted using an Institutional Investor formula that gives more importance to responses from institutions with greater worldwide exposure and more-sophisticated country analysis systems. Global average rating in March 2003 was 42,1.

Figure 37:Country credit rating



8.6.6 Additional sources of information reviewed

We have also reviewed a range of other ad hoc material to check for other relevant or conflicting information but have chosen not to include this information here as it does not add further to our analysis or conclusions.

8.6.7 Results and conclusions

There appears to be a rough correlation between level of stability and dependency of a country/economy and international business activity within Europe. Therefore not surprisingly the leading "international" business centres in Europe generally have the most stable and predictable business environments. Particularly noteworthy are Switzerland and Luxembourg (although data for Luxembourg is weak and maybe overrated), but also UK, Netherlands and Ireland were better than average. All these countries qualify as acceptable in relation to stability criteria, although the general differences between countries were not very significant.

Figure 38:Rankings overview stability of regulation and business regime

Rankings overview

Stability of regulation and business regime (1 = advantageous, 3 = neutral, 5 = disadvantageous)

Most favorable

Least favorable

Country	Government efficiency	Macroeconomic Evaluation of the domestic economy	Domestic economy ranking	Best climate government create	Macroeconomic environment index	Country credit rating	ProCorps ranking
Austria	8	11	12	14	9	8	3
Belgium	13	3	15	6	10	12	3
Denmark	5	9	7	13	13	9	3
Finland	1	13	13	12	4	11	3
France	14	5	5	8	12	7	3
Germany	12	2	11	10	8	5	3
Greece	17	17	16	16	16	17	5
Ireland	2	7	2	1	3	13	2
Italy	16	14	10	9	11	15	4
Luxembourg	4	1	1	NA	NA	2	1
Netherlands	6	6	8	3	7	3	2
Portugal	15	15	17	7	15	16	4
Spain	10	10	9	4	5	14	3
Sweden	7	12	14	15	14	10	4
UK	11	4	3	2	6	4	2
Liechtenstein	NA	NA	NA	NA	NA	NA	NA
Norway	9	16	4	11	2	4	3
Switzerland	3	8	6	5	1	1	1

8.7 Other factors

The other factors discussed below relate to a specific subject or country issues for the eight countries where more detailed analysis has been conducted.

8.7.1 Requirements for participation in international PPP processes

The UK public policy in this area is probably the most developed in the world. By 2000 over 50 countries had consulted the UK treasury on approaches for developing partnerships between the public and private sectors. These include such diverse countries as Italy, Ireland, Japan and the Netherlands who have chosen to follow the general structure and model adopted in the UK. This position has also helped UK based companies to participate in international PPPs.

The UK model is very market and commercially oriented and has gradually developed a form of "best practice" in maintaining a balance between public sector service and private sector commercial interests. Emphasis is increasingly on appropriate regulatory regimes and more efficient partnerships models where focus on the creation of effective competition is highlighted.

8.8 Overall conclusion and recommendation

Set out below is a summary of our overall conclusions and recommendations:

Figure 39: Executive summary ProCorp overall country ranking

Executive summary
ProCorp overall country ranking

Country	Top down ranking all countries	Countries selected for detailed review	Ranking following detailed review
UK	1	✓	1
Netherlands	2	✓	2
Luxembourg	3	✓	5
Switzerland	4	✓	3
Ireland	5	✓	4
Spain	6	✓	6
Denmark	7	✓	7
Germany	8	-	-
Belgium	9	✓	8
Sweden	10		
Finland	11		
Portugal	12		
Italy	13		
Austria	14		
France	15		
Greece	16		
Norway	16		
Liechtenstein	NA		

The above ranking summary reflects a combination of our analysis of the results of third party research on relevant /related topics, review of a wide variety of other information and our general knowledge and experience in the evaluation of PRT specific requirements. The ranking should not be interpreted as statistically significant, but merely as an indicator of preference based on the criteria evaluated and ProCorp's own prioritisation.

8.8.1 Recommendation - general

In practice there is relatively little to choose between the top five countries, UK, Netherlands, Switzerland, Ireland and Luxembourg. All these locations could meet both JV entities requirements but will represent different advantages and disadvantages in practice over the life of the JV entity. No one location is ideal in all aspects, but the most preferred locations should meet the most critical needs of the JV partners. Set out below is our own recommendation based on our best assessment of all factors.

8.8.2 Recommendation - specific

The UK with a headquarter location base in or around London, emerged as the all round most robust alternative for the initial JV entity domicile, closely followed by the Netherlands (Amsterdam), Switzerland (Zurich), Ireland (Dublin) and Luxembourg (Luxembourg). In summary we recommend the UK and London for the following reasons:

- Pre eminence as an international business centre
- Strong commercial reputation across the world
- Multi cultural neutrality in terms of business presence, languages spoken and English as main language
- Practical physical location for conducting international business (access to markets, international transportation)
- Practical location for access to professional services (in particular legal, tax, accounting and administrative services)
- Practical location for expatriate management/personnel location (the UK has well established practices for expatriate management and contract service operations)
- The best developed PPP experience in practice, including access to related expertise, references and track record
- Well developed and balanced tax system for international business in particular international holding companies (Appendix 4, tab 1: General Review of taxation of European Holding Companies) and ongoing improvements introduced in recent years to enhance attractiveness
- Extensive tax treaty network allowing for tax planning flexibility (See Appendix 4, tab 1: General Review of taxation of European Holding Companies, section 9.9)
- Stability of regulatory and business regime and a general trend towards supporting and incentivising location of international business in the UK
- Access to the largest and most diverse capital market in Europe, especially regarding currencies and project finance. To the extent that the SPC capital investment JV entity raise third party project finance this will be a considerable practical asset.

The major drawbacks with the UK and especially London are the following:

- The cost of operations and professional services
- Not a fully integrated member of the EU, ref. EMU
- Not physically located in continental Europe

It is our subjective opinion that the Netherlands, Switzerland, Ireland and Luxembourg all exhibit a lower, albeit marginal, degree of robustness for the long term development of the initial JV entity.

8.8.3 Conclusion from detailed analysis

Eight countries were selected for more detailed analysis with a specific focus on the following issues.

- More in depth and broader country analysis across the range of evaluation criteria
- Specific capital city review focussing on costs, infrastructure, practicality and cultural issues
- Review of holding company tax regimes. This is included as Appendix 4, tab 1 to this report
- Accessing more information sources to check for anomalies
- Discussion with persons with country related commercial experiences

Through discussion and analysis the least attractive countries and capitals were then eliminated from further review. Belgium, Denmark and Spain were eliminated at this stage.

The final analysis and discussion focussed on the UK versus the Netherlands, and these two countries versus Ireland, Switzerland and Luxembourg. The discussion modified our initial rankings somewhat, but did not alter the overall conclusion.

Luxembourg is particularly strong in providing a base for financial services companies, especially related to international asset (fund) management. It has also served as a base for commodity trading subsidiaries, but is not particularly geared to IP/technology entities. Further, Luxembourg offers little in the way of PPP or marketing value and has some bureaucratic complications in terms of official language requirements. It is our view that it is not the most natural centre for the type of activity we are anticipating.

Ireland has emerged as a strong business centre in recent years mainly on the back of the launch of the IFSC (International Financial Services Centre) in competition with Luxembourg. The IFSC has now been wound down as a result of pressure from the EU/OECD to avoid harmful tax competition. The Irish government has responded by creating a harmonised national tax system which is advantageous in general and for holding companies in particular. Historically there has been good access to qualified professional staff at competitive rates, however, this situation has been increasingly less advantageous in recent years. Although Dublin did create a position of significance in financial services under the IFSC, the city has also proved attractive to other types of relevant entities in recent years. Ireland is an emerging holding company centre with growing PPP experience, but does not have or is perceived to have the breadth, experience or infrastructure of the UK or the Netherlands.

Switzerland is unique in Europe linking the French, German and Italian cultures. It maintains a strong, neutral and independent international business profile mostly in Zurich, although strongly linked to private banking, whilst Geneva has a longstanding reputation for neutrality, hosting NGO activities. Typically, a low tax burden country, taxation issues are complicated by the need for local "cantonal" negotiations and agreements which are subject to renegotiation over time. Whilst situated in the middle of Europe physically, Switzerland remains outside the EU and will probably do so for the foreseeable future. This may be a disadvantage over time as Europe integrates as a business and trading block with the rest of the world. So far Switzerland has managed to adapt to European practices for commercial purposes, but there is no guarantee that this will continue. Further, transparency is not a particular feature of Swiss business. Switzerland is also a relatively high cost environment for most commercial purposes.

The UK and the Netherlands emerged as the most robust alternatives for establishing the initial JV entity. There is very little to choose between the two based on the current level of understanding of JV needs for the PRT concept.

The Netherlands is possibly more politically neutral than UK for international business, physically located on the European continent, fully integrated into the EU, with a reputation for business efficiency at a reasonable cost level, all factors which count in favour of the Netherlands. Also, the Netherlands has a long history in serving as a centre for international holding companies.

However, we chose to recommend the UK because it enjoys a unique pre-eminence and infrastructure as an international business and PPP centre which has been maintained despite the emergence of other jurisdictions. Further, it appears that recent governments have consistently enacted laws and regulation which “tend” to underpin this position. The latest development in this context was improved holding company tax regulation in 2002.

9 Appendices (included in separate binders)

9.1 Binder 1: Country fact sheets

9.2 Binder 2: Detailed country information (Belgium, Ireland, Denmark and Luxembourg)

9.3 Binder 3: Detailed country information (Netherlands, Spain, UK and Switzerland)

9.4 Binder 4: European surveys and research reports (including tax report)

9.5 Binder 5: Global surveys and research reports