The PRT Project
Phase 1 Design & Engineering

PRT Project
Commercial terms,
Corporate Governance and Value

PRT Consortium

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PRT PROJECT - COMMERCIAL TERMS, CORPORATE GOVERNANCE AND VALUE

PRT CONSORTIUM

23 APRIL 2003

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1. EXECUTIVE SUMMARY

This report sets out our advice on commercial framework, corporate governance and valuation issues for the PRT Joint Venture (“the JV”), to be established for the development and marketing of the Personal Rapid Transport (“PRT”) concept and technology internationally.

Our advice is based on a review of materials provided by the PRT Project Consortium (“the Consortium”) and recent discussions with the Consortium and its advisers.

We should note that at the time of this paper, the final costs and respective equity commitments of the various parties have not been finalised. This paper focuses on key concepts and issues that should be considered by the Consortium. Our views on these issues are subject to change, depending on the finalisation of discussions between members of the Consortium.

Our comments are not designed to be exhaustive, and are most useful as a starting point for discussions and further detailed work.

In particular, Macquarie is happy to offer its services in the following areas:

- Implementation of the JV vehicle;
- Valuation work; and
- Financial advisory work in development of specific projects.

1.1 Commercial Framework

Our key recommendations on the commercial framework for the JV are:

- The JV vehicle ("JV Co") is established solely for the purpose of:
    - Development and ownership of the PRT intellectual property ("PRT IP"), including patents and trademarks, as may be created and registered in the future;
    - Marketing of the PRT concept; and
    - Provision of financial and project management, system design and engineering services to specific PRT projects, where appropriate[1].
- JV Co does not participate in specific PRT project vehicles ("SPCs") by way of equity investment;
- JV Co commercially exploits the developed IP by:
    - Entering into arms length licensing arrangements with the SPC's, incorporating a first right of refusal to provide project management services to the SPCs utilising the IP; and
    - Entering into financial management, system design and engineering services agreements with the SPCs.
    - Through the use of technology in businesses and projects that may not be specifically be related to PRT, but have applications/ uses for the technology.
- JV Co has a clearly separated management and operational structure from the SPCs.

1.2 Corporate Governance Terms

We recommend that the JV Co adopts clear corporate governance procedures to ensure proper management and accountability – to this end, we set out below a suggested corporate governance term sheet – this can be used a starting point for discussions between the Shareholders on the structure of the JV Co.

The proposed terms may vary depending on the domicile of the JV Co and the governing corporations law and practice.

The proposed terms can be finalised after further discussions between members of the Consortium. We are happy to facilitate or assist in the implementation of Corporate Governance terms, if you require.

[1] In terms of financial management, we mean that the JV Co may provide services relating to the raising of equity and debt for specific project – eg the JV Co may have contacts/ relationship to raise the debt and equity for these project and may provide advice on financial matters (upfront and ongoing services).

1.3 Corporate Structure

You have asked Macquarie to comment on the detailed corporate structure and resourcing issues for the JV.

We recommend that the JV Co identify functions of the JV prior to making decisions on staffing. We believe JV Co would need functionalities which include: internal accounting, marketing, technology development and project management.

Once these functions are identified, then JV Co needs to address the human and other resource requirements needed to discharge these functions. The analysis of the staffing requirements can only take place after the functions are addressed. Once the functions are determined, and the resourcing requirements are identified, costs can then be budgeted for the resources.

We have set out our more detailed comments on this point below.

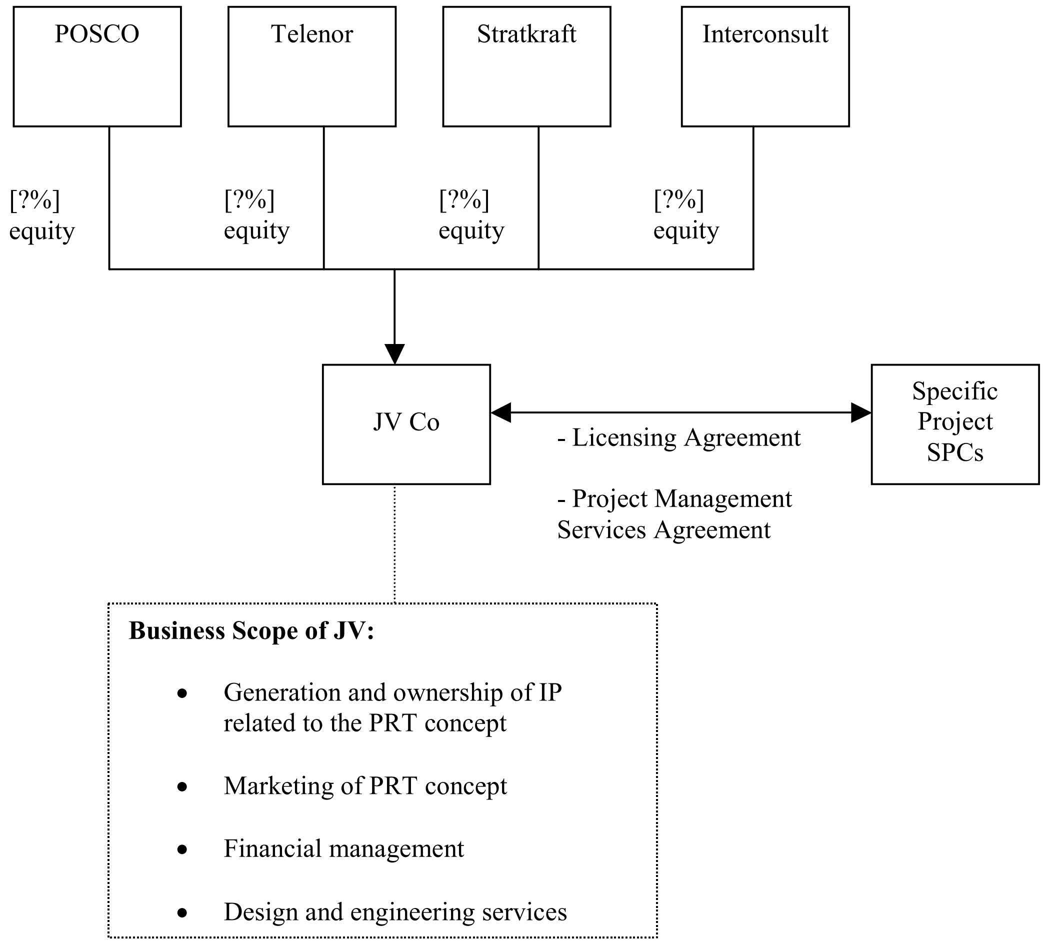
1.4 Maintaining and Increasing the Value of the JV Co

We set out below our comments on the maintaining and enhancing the value of the JV and attracting external investors. We note that our comments are preliminary in nature and are subject to change as the JV business evolves. The points raised below may not necessarily be definitive answers, but are issues that should be considered by the JV in developing its own approach to increasing the value of the business.

- Upon establishment, the JV Co is not likely to be attractive to pure (financial) investors given that:
    - the technology is unproven;
    - the JV has no track record for development and exploitation of the technology; and
    - there is a relative scarcity of speculative VC investors who would take the technology development risk at such an early stage of the projects.
- Whilst pure investor appetite may not currently exist, it is important to keep in mind the key value drivers for the business, to ensure that the JV develops into an attractive investment proposition for external investors in the future – what happens at this early stage will impact on the attractiveness of the business in the future – in this regard, we have set out our comments on key value drivers below.
- During the initial phases of JV Co's business, including the proving of the technology and the development of the first project, a significant majority of funding will come from strategic investors. As further projects are developed, there should be increasing involvement from pure investors in JV Co.
- Given that the primary source of revenue for the JV Co will be licensing fees from SPCs, the quality of the PRT projects will have a significant bearing on the value of the JV Co. For example, if the first project has:
    - A robust long term licensing agreement with the JV Co;
    - An attractive financial support package from government sponsors of the project;

then the JV Co may be an attractive proposition for pure investors.

2. COMMERCIAL FRAMEWORK



RECOMMENDATION: *We recommend the establishment of the JV Co and business on the basis of the following principles, which should be incorporated in the form of a shareholders' agreement, to be signed upon establishment of JV Co:*

Business Scope of JV	The JV Co will have the following business scope: • Generation and ownership of the PRT technology and concept including all patents, trademarks and copyright ("PRT IP"). • Implementation of the program for the second phase of the development of design and engineering ("Agreed Program"). • Marketing of the PRT concept internationally. • Provision of financial and project management, system design and engineering services to specific PRT projects, where appropriate. • Licensing of PRT IP to the SPCs.
Shareholders	POSCO, POSDATA, POSCON, POSMEC, Telenor, Stratkraft and Interconsult ("the Shareholders") agree: • to be shareholders in the JV Co; and • to commit to funding the JV Co by way of equity investment until the completion of the Agreed Program

<table>
<tr><td rowspan="8">Equity Commitments</td><td colspan="2">Upon establishment of the JV Co, Parties agree to make the following upfront and irrevocable equity commitments (“Equity Commitments”) to the JV Co for the funding of the Agreed Program:</td></tr>
<tr><td>POSCO</td><td>[USD], [%]</td></tr>
<tr><td>POSDATA</td><td>[USD], [%]</td></tr>
<tr><td>POSCON</td><td>[USD], [%]</td></tr>
<tr><td>POSMEC</td><td>[USD], [%]</td></tr>
<tr><td>Telenor</td><td>[USD], [%]</td></tr>
<tr><td>Stratkraft</td><td>[USD], [%]</td></tr>
<tr><td>Interconsult</td><td>[USD], [%]</td></tr>
<tr><td rowspan="8">Pre-Establishment Costs</td><td colspan="2">The Shareholders agree and acknowledge that the following pre-establishment costs have been incurred for the pre-study and will be capitalised in the JV Co as initial equity contributions of the Shareholders:</td></tr>
<tr><td>POSCO</td><td>[USD]</td></tr>
<tr><td>POSDATA</td><td>[USD]</td></tr>
<tr><td>POSCON</td><td>[USD]</td></tr>
<tr><td>POSMEC</td><td>[USD]</td></tr>
<tr><td>Telenor</td><td>[USD]</td></tr>
<tr><td>Stratkraft</td><td>[USD]</td></tr>
<tr><td>Interconsult</td><td>[USD]</td></tr>
<tr><td>Subscription of Shares</td><td colspan="2">Upon establishment of the JV Co, the Shareholders will fund their Equity Commitments to the JV Co by way of a subscription for ordinary voting shares in the JV Co (“the Shares”)[2].</td></tr>
<tr><td>Restriction on the Transfer of Shares before the completion of the Agreed Program</td><td colspan="2">Until the completion of the Agreed Program, the Shareholders cannot assign, transfer or otherwise deal in the Shares in the JV Co without prior approval of all Shareholders.

Shareholders will have a first right of refusal over the Shares offered for sale by a Shareholder before Completion the Agreed Program, on a basis proportional to their respective Equity Commitments to the JV Co.</td></tr>
<tr><td>First Right of Refusal over Shares after the Completion of the Agreed Program</td><td colspan="2">After the completion of the Agreed Program, in the event that the Shareholders decide to sell their Shares, the Shareholders will have a first right of refusal over the Shares offered for sale by a selling Shareholder on a basis proportional to their respective Equity Commitments to the JV Co.</td></tr>
<tr><td>Further Equity Contributions</td><td colspan="2">The Shareholders acknowledge that after the Agreed Program, the JV Co may require additional funding for further development of the PRT concept.

The Shareholders agree that they will each have a first right of refusal to subscribe for additional shares in the JV Co in future fundraisings on a basis proportional to their Equity Commitments to the JV Co.</td></tr>
<tr><td>Intellectual Property</td><td colspan="2">The Shareholders acknowledge that all technology, software and</td></tr>
</table>

[2] The timing and structure of Share subscriptions will be decided once the domicile and structure of the JV Co and the Equity Commitments are finalised.

	systems designed by the Shareholders for the PRT concepts will be transferred the JV Co. The Shareholders agree to take all necessary steps to ensure that all technology developed for the PRT concept by the Shareholders is registered as PRT IP in the JV Co.
Licensing Agreements	The Shareholders agree that the JV Co will provide technology to specific project SPCs by way of licensing agreements which give JV Co the first right refusal to provide financial, project management, design and engineering services to the SPCs.
Timetable for Agreed Program	The Shareholders will agree a timetable for the Agreed Program and this will be included as a schedule to the shareholders' agreement, upon establishment of the JV Co.
Addition of New Members	New Shareholders may be admitted to the JV Co during the Agreed Program upon terms and pricing agreed by the existing Shareholders

RECOMMENDATION: *We recommend that JV Co does not participate in specific PRT project vehicles ("SPCs") by way of equity investment. Shareholders should make equity investments directly to the SPCs for specific projects, depending on their appetite for specific project risk.*

We make this recommendation for the following reasons:

1. As a broad principle, the JV Co has a separate business and risk profile to the specific SPCs – **as a result, the JV Co should not be taking equity risk on specific projects**. Taking equity exposure on specific projects skews the business scope and risk profile of the JV Co. This may result in a negative impact on the viability of the JV Co core business (financially and reputation-wise). In other words, the PRT technology itself should not be jeopardised by the success or failure of a particular project.

2. A direct equity stake in the SPCs will increase the risk that the licence fee revenue will be challenged from an accounting and taxation perspective.

    a. *Taxation*

    If the JV Co is a substantial shareholder of the SPC, there is an increased risk that taxation authorities may challenge the taxation treatment of the licence fee on the grounds that it is not arms length. Of course, it does not follow automatically that licence fees will be challenged if parties are related – however, risk of scrutiny is increased and given that the SPCs will most likely be operating in jurisdictions different to the JV Co, managing related party issues should be easier if the SPC and JV Co are not in a parent/ subsidiary relationship.

    b. *Accounting*

    If the SPC is a subsidiary of JV Co, accounting consolidation rules may apply (depending on the jurisdiction in which JV Co is established) – this could have adverse accounting implications for JV Co, particularly in terms of accounting recognition of the licensing fee revenue.

3. Investment of capital in the SPCs through the JV Co will most likely have additional transactional and taxation costs than a direct investment in the SPC by stakeholders.

4. It is understood that one of the objectives of the JV Co is to ensure a proper use of the technology in specific projects – this may have been a factor motivating the parties to consider ownership of specific project equity through JV Co. However, this objective can be achieved through robust technology licensing arrangements or other service contracts between the JV Co and SPCs – in other words, investment by the JV Co is not required to achieve the objective of ensuring proper exploitation of PRT technology.

RECOMMENDATION: *We recommend that the JV Co has a clear and separate management and operational structure from the SPCs.*

A preliminary review indicates that, whilst the JV Co and SPC businesses have related business objectives, we observe that:

- The core business of the JV Co is fundamentally different to that of future SPCs;

- The risk profile of the JV Co is different to that of specific projects – fundamentally, the technology effectiveness risk is assumed by the JV Co – specific project SPCs will be conducting business once the technology risk has been assumed and effectively managed by the JV Co;

- The stakeholders in the JV Co may be (and most likely will be) quite different to the stakeholders in the SPC.

For this reason, we recommend strongly that the Shareholders of the JV Co ensure that the JV Co has a clearly separate management and operational structure from the SPCs.

In particular, we suggest consideration of the following points:

- To the extent possible, the JV Co and the SPCs should have separate managers and project staff;

- All legal documentation and supply contracts should clearly specify whether the risk is being assumed by the JV Co or a particular SPCs;

- Contractual arrangements between the JV Co and SPCs (such as licensing/ services agreements) should be true arms length agreements with a clear allocation of costs, based upon the risks and benefits being assumed by each party.

- The JV Co should have a separate financial management and budgeting system from the SPCs – this may have resource and cost implications in terms of staff and accounting systems – however, based on our experience, the long term benefits of separate systems outweighs the short term inconvenience and cost implications.

3. CORPORATE GOVERNANCE

RECOMMENDATION: *We recommend that the JV Co adopts clear corporate governance procedures to ensure proper management and accountability – to this end, we set out below a suggested corporate governance term sheet – this can be used as a starting point for discussions between the Shareholders on the structure of the JV Co.*

The proposed terms may vary depending on the domicile of the JV Co and the governing corporations law and practice.

Rights of Shareholders

The voting entitlements in the JV Co for each Shareholder is one vote for each Share held.

Any decisions of the JV Co which are required to be made by the Shareholders will be made by a simple resolution of the Shareholders

Shareholders' Meetings

The Shareholders will meet at least once in each financial year of the JV Co or more frequently as reasonably requested by notice from any Shareholder.

Meetings of Shareholders may take place in any location agreed between them or by any means available technologically and will include the circulation of written resolutions.

Matters requiring approval by the Shareholders

Each Shareholder agrees that each of the following must first be approved by a resolution of the Shareholders:

- The making of investments outside of the business scope of the JV Co.
- The taking of any action to wind up, liquidate or appoint an administrator to JV Co or to terminate the Shareholders Agreement.
- The sale or transfer of all or substantially all of the assets or rights comprising the core business of the JV Co.
- The abandonment of the business of the JV Co.
- The adoption of accounts and tax returns of the JV Co.
- The incurring of liabilities by the JV Co in excess of one million US dollars (USD1,000,000) in aggregate in any financial year otherwise than in accordance with the business plan of the JV Co.

- The making of any change to any material *accounting policy of the JV Co.*
- *Appointment of and changes to the Board of Directors of JV Co.*
- *Changes to the articles or by-laws of the JV Co or to the Shareholders' Agreement.*

Quorum for Shareholders' Meetings	The quorum for any meetings of Shareholders is one or more Shareholders holding sufficient Shares to pass the relevant resolution.
Initial Shareholders' Meeting	The Shareholders will hold a meeting upon establishment of the JV Co for the purpose of electing the Board of Directors.
Board of Directors	The JV Co will have five (5) directors.
Appointment of Directors	The directors will be appointed by way of an election by the Shareholders, based on their Shares.
Terms of Office for Directors	A director shall hold office until such time as they are removed by the Shareholders. The Shareholders may from time to time fix the period of office for the directors.
Change in number of Directors	The Shareholders may from time to time change the number of directors on the Board of the JV Co, whilst retaining the basic principle that appointment of directors takes place by way of election by Shareholders, based on the Shares.
Decisions of the Board of Directors	Decisions of the Board of Directors are to be made by a majority of the directors present at the meeting of the Board of Directors.
Quorum for Meeting of Board of Directors	The quorum for meetings of Directors is the presence in person (or by alternate or proxy, as may be permitted by the articles and by-laws of the JV) of three (3) directors.
Responsibilities of the Board of Directors	The Board of Directors will be responsible for managing the business and affairs of the JV Co, including but not limited to:

- establishing the general policies of the JV Co.
- establishing the strategic priorities and objectives of the Corporation.
- establishing the financial objectives and criteria.

- determining matters of a major or unusual nature which are not in the ordinary course of business of the JV Co.

- approving the Business Plan of the JV Co on an annual basis.

Matters to be referred to the Board

Without limiting its responsibilities, the following matters will be referred to the Board of Directors:

- The issuance by the JV Co of bonds, shares, options or warrants to acquire additional shares, share exchanges, reclassifications, share splits, reverse share splits or similar actions, or any purchase, redemption, acquisition, deregistration or cancellation of any shares, including an IPO.

- Any transaction between the JV Co and a director of the JV Co, or Shareholder of the JV Co, except for reimbursements of reasonable expenses incurred in the ordinary course of business.

- The adoption of salary and compensation policies (including bonus, profit sharing, severance or other compensation plans).

- The appointment and removal of the Managing Director of the JV Co.

Managing Director

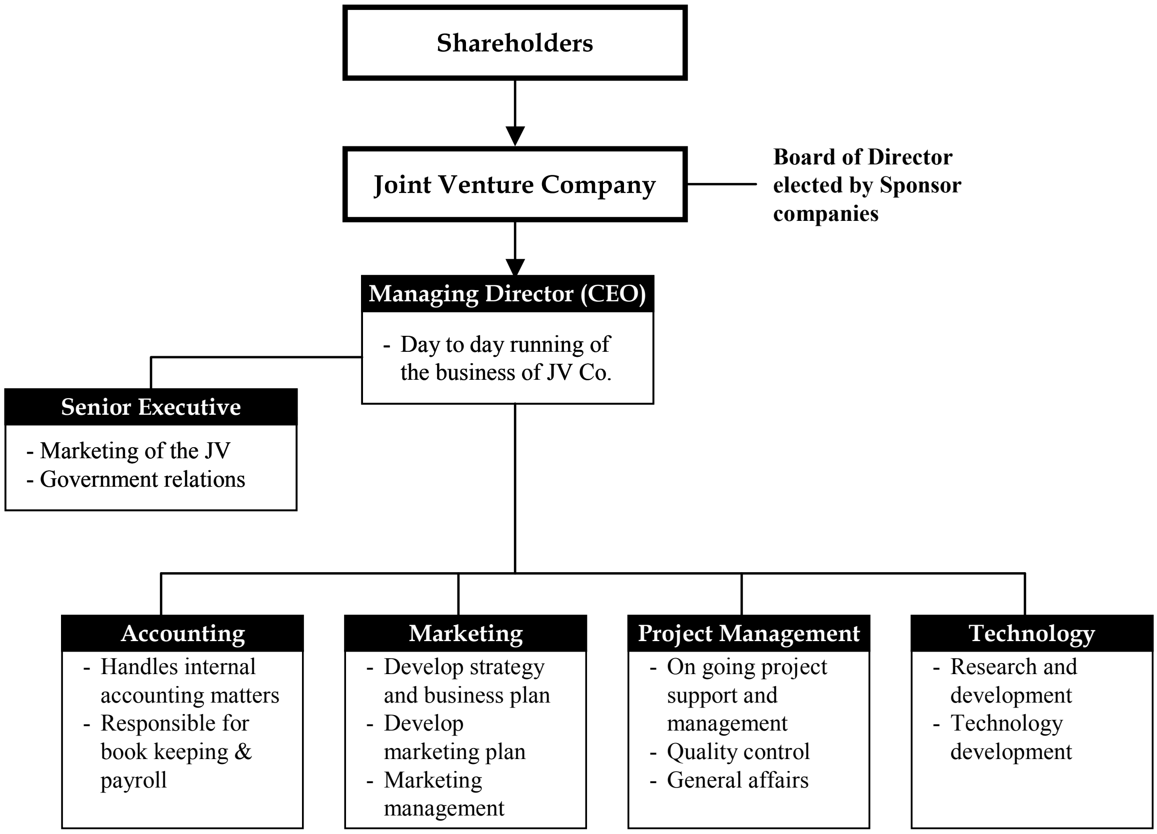
The Managing Director will be appointed by the Board of Directors outside of the existing directors of the JV Co.

4. CORPORATE STRUCTURE

RECOMMENDATION: *We recommend that the JV Co identifies functions of the JV prior to making decisions on staffing. We believe JV Co would need functionalities which include: internal accounting, marketing, technology development and project management. Once these functions are identified, then the JV vehicle needs to address the human other resource requirements needed to discharge these functions. The analysis of the staffing requirements can only take place after the functions are identified. Once the functions are addressed, and the resourcing requirements are identified, the cost can then be budgeted for the resources.*

We believe the best approach is to start with one or two staff whose job it is to start up the company and carry out this task during the first month or so of operations. At the resourcing stage, JV Co should evaluate which jobs will require internal staff and which can be outsourced.

The following diagram describes some of the functionalities which JV Co would need:



Responsibilities of Managing Director

The Managing Director will be responsible for the day to day running of the business of the JV Co, including:

- Preparation of the Business Plan of the JV Co.
- Staffing and personnel issues.
- Selection, pricing and execution of supplier contracts.

- Implementation of the Agreed Program.
- Formulation and implementation of the development of the PRT concept after the Agreed Program, as appropriate.

Responsibilities of Senior Executive

The Senior Executive will be mainly responsible for managing government relations and initiating marketing:

- Managing relationship with government agencies
- Initiating marketing opportunities – act as a rain maker
- Reporting to Managing Director
- Working independently from other business functions

It may be the case that the Senior Executive may wish to be on the Board of Directors – this is sometimes expected, depending on the seniority and background of the Senior Executive. If this is the case, the board structure may need to be reconsidered.

Accounting

Accounting division will be mainly responsible for:

- Handling internal accounting
- Book keeping and payroll

Marketing

Marketing division will be mainly responsible for:

- Developing strategy
- Developing and managing marketing plan
- Developing business plan
- Conducting market research

Project Management

Project Management division will be mainly responsible for:

- Ongoing project management and support
- Monitoring projects
- Maintaining quality control
- General affairs

Technology Development

Technology Development division will be mainly responsible for:

- Research and development
- Technology development

Our opinion on outsourcing Accounting

The bookkeeping can be outsourced to an accounting/ payroll firm - such firms exist in Korea, and will be available in the UK - however, you should keep in mind that a liaison point within the JV company should have responsibility for liaison and oversight.

Fringe benefits for core members

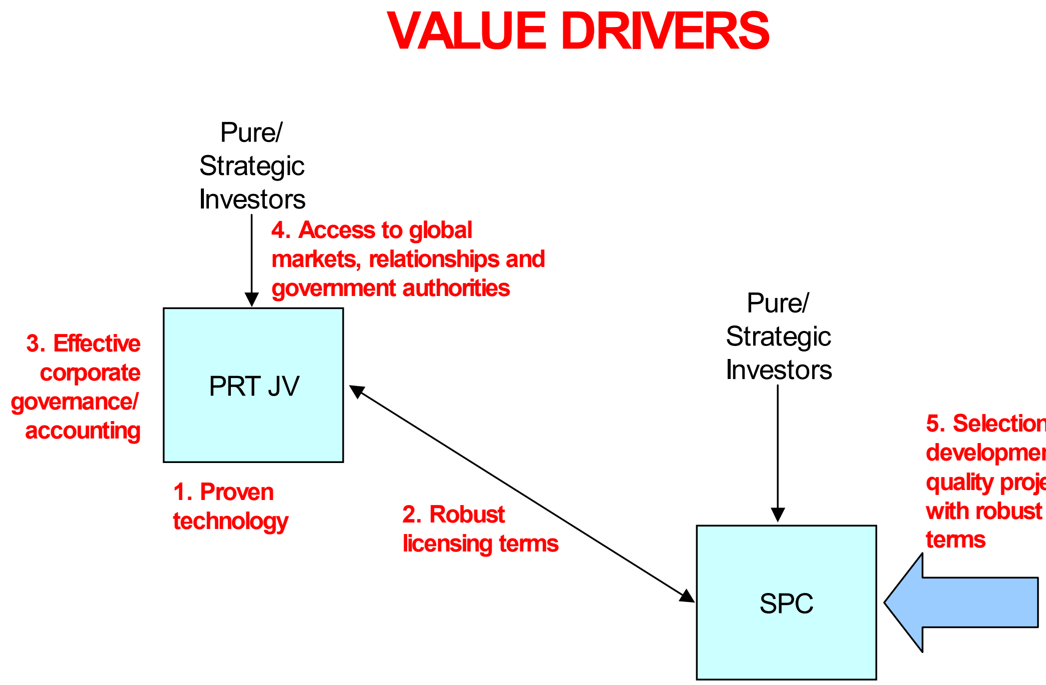
Expat staff may require:

- Accommodation;
- Health insurance;
- Education assistance;
- Trips home.

The Macquarie approach is to identify the potential costs and allocate "one number" to the core members - it is the choice then of the core members how they allocate this one number - for example, some may prefer to allocate more of their package to accommodation - for others, travel and visiting home could be a bigger priority.

5. INCREASING AND MAINTAINING VALUE

Value Drivers



The following value drivers for the JV should be considered:

5.1 Proven technology

Of course, the key value driver for the JV is its core business/ competency - the quality and workability of the technology – this is an area that is beyond the scope of our advice or expertise – for the purposes of our comments, we assume that the technology developed is valuable, workable and versatile enough to be adapted and implemented across a range of specific environments and projects.

5.2 Robust licensing arrangements

Assuming that the technology developed by the JV has intrinsic value, then it is important that licensing agreements with SPCs that exploit and generate value from the technology are robust – licence fees will be the key source of revenue for the JV. The following terms and conditions should be considered - of course, a more detailed study of these issues will be required, but this may be a useful starting point:

- *Robust fee structure:*

  - incorporates several components including fees for marketing, ongoing maintenance, technology consulting, and other services that are provided, where appropriate.

- an upfront component to meet initial development/ investment costs and ongoing component which may be linked to the performance of the project – this gives the technology provider an exposure to upside benefits.

- guarantee from project sponsors for upfront component of the fee – this may be commercially difficult for some sponsors, but should be considered and canvassed - minimise the project risks for technology provider.

- escalation for inflation.

- provisions for increase in the licence fee, where there is a material breach of quality control standards by the project SPC.

- *Long term agreement, which stays in place for the term of the project.*
- *Right of first refusal for JV to provide project management and technology consulting services.*
- *Restrictions on sublicensing of the JV technology by the SPCs.*
- *Clear quality control standards with consequences for breach/ failure to perform;*
- *Ownership of any modifications of the existing technology platform vests in the JV.*

5.3 Effective corporate governance and accounting

In order to attract investors, the JV needs to ensure smooth running and efficient decision making procedures – generally speaking, pure investors are averse to operational risk and will look to an effective corporate governance framework to protect their interests and the value of the business.

Also, given that the success of the JV will depend upon a high degree of co-operation between a number of stakeholders, it is important that transparent and efficient corporate governance mechanisms with a clear decision making structure are adopted from the beginning. The same logic applies for accounting systems.

We have included our comments on these issues in this paper.

5.4 Access to global markets, relationships and government authorities

The JV should look to partner with investors and individuals that add value not just in terms of funding, but also relationships that will ensure smooth development of technology and adoption of projects by governments. Selection of the right partners is a critical factor contributing to value and success.

Further detailed work is required in this area – Macquarie has expertise in the area of identifying suitable partners and has a lot of contacts and relationships internationally in the infrastructure sector, we will be pleased to assist the PRT Project in further detail on this point, if required.

5.5 Selection and identification of quality projects with robust PPP terms.

The quality of the licence fee revenue is a critical point for the value of the JV – the quality of this income stream comes down to the financial position of the end-user, the SPCs. In this regard, selection and identification of quality projects and ensuring that the projects have strong financial structures and support packages from the government, will greatly enhance the value of the JV.

We look forward to working in greater detail as financial adviser to specific projects – in particular, the following matters should be considered:

- *The projects should have a robust financial support package from the government sponsors.* Structuring and negotiation of these financial support packages with the government is an area of strong global expertise for Macquarie – we see this as an important role for us in development of specific projects.

- *The projects should have a robust financial structure, with the appropriate debt and equity structure to ensure financial feasibility.* Once again, this is an area where Macquarie can add a lot of value.

Attractiveness to Pure Investors

Macquarie has extensive experience both as investor and manager of infrastructure assets. In basic terms, pure investors seek infrastructure investments because the following factors exist:

- *Long term sustainable yield*

- *Low risk/ volatility*

- *Low correlation to other asset classes (in other words, the return investors obtain is not linked directly to the performance of equity or debt markets)*

- *Stable and predictable cashflows*

- *Regulated/ government support mechanism*

Whilst the JV business is not an infrastructure asset itself, its success and value is linked closely to the development of the infrastructure using the technology.

Applying this logic, there may be pure investor interest in the JV, if:

- The technology is proven;

- The licence revenue flows from robust agreements with SPCs that have a strong financial support package from the relevant government sponsors; and

- Operational risks are minimised by clear corporate governance and an effective and efficient management team in the JV.

Potential Investment Structures for New SPCs

Whilst this is beyond the scope of the valuation of the JV Co itself, it may be worthwhile for the PRT Project to consider potential investment structures for specific projects, given that the investment structures may have impact on the value of the JV Co's technology in the future.

Basically, investors will be attracted to investment in the SPCs, based upon the specific characteristics of each project, eg:

- The nature of financial support that is provided by the government sponsors;

- The availability of nonrecourse debt financing for the project – generally speaking, project investors will be averse to any kind of recourse in financing structures; and

- The diversification of risk (ie whether they are exposed to one or more than one project).

At a later stage, a fund or holding company vehicle structure can be considered for consolidated investments in projects – this would involve a single vehicle which would act as a channel for investments into several projects. There are benefits to such an approach:

- Greater diversification of exposure to projects in different locations means that the overall risk of investment is lower (diversification reduces risk);

- Investors can share information, ideas and technological advantages in specific projects across different projects – this leads through generation of greater value;

- The PRT Project has an ability to co-ordinate and channel equity to specific projects in a systematic and strategic manner.

Macquarie has expertise in the development of infrastructure funds, and at the right time, would be very happy to work with the PRT Project to explore these ideas further.