



KPMG LLP
Property & Infrastructure
Canary Wharf (6th Floor)
15 Canada Square
London E14 5GL
United Kingdom

Tel +44 (0) 20 7311 6407
Fax +44 (0) 20 7311 6479

Nicholas Ridgmont
Departmental Finance Manager
Finance and Resources
2nd Floor Hub 4
Southwark Council
PO BOX 64529
London
SE1P 5LX

The Directors
Lend Lease (Elephant & Castle) Limited
20 Triton Street
Regent's Place
London
NW1 3BF

20th December 2013

Dear Sirs

Report of KPMG LLP on the Development Account in respect of Elephant & Castle regeneration scheme

In accordance with our engagement letter dated 23 May 2012 we have examined the attached Development Account in respect of the Elephant & Castle regeneration scheme ("the Scheme") for the period ended 30 June 2012 together with the books and records maintained by Lend Lease (Elephant & Castle) Limited ("the Developer") insofar as they relate to the Scheme.

This report is made solely to the Council and the Developer in accordance with the terms of our engagement letter.

Our work has been undertaken so that we might state to the Council those matters we are required to state to them in this report and for no other purpose. This report has been released to the Council on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council for our work, for this report, or for the opinions we have formed.

Respective responsibilities

Under Clause 2 of the Fifth Schedule of the Agreement, as defined in our engagement letter dated 23 May 2012, the Developer is responsible for the preparation of the Development Account in respect of the Scheme. The Development Account has been prepared by the Developer and is the sole responsibility of the Developer.

It is our responsibility to form an independent opinion, based on our examination and to report our opinion exclusively to the Council.

Basis of Opinion

Our work included examination, on a test basis, of evidence relevant to the amounts included in the Development Account.

We planned and performed our examination so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Development Account is free from material misstatement.

Our work has not included any assessment of the value for money of the costs included within the Development Account or the standard of services or works provided.

Our work has not included verifying the allocation percentages for individual staff members in relation to the Project Management and Development Management fees. Our work has included vouching, on a test basis, amounts included in the Development Account in respect of Project Management and Development Management fees to Resource Plans provided to the Council by the Developer.

In view of the purpose to which the Development Account has been prepared, however, we did not evaluate the overall adequacy of the presentation of the information which would have been required if we were to an express an audit opinion under International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Opinion

In our opinion the Development Account has been properly prepared on the basis set out in note 1 to the Development Account and in accordance with Clause 2 of the Fifth Schedule of the Agreement.


for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square, London, E14 5GL

E&C RA - Development Account As at 30th June 2012				
Project to Date	Scheme Wide	Outline Planning 150051	Phase 1 150103	TOTAL
Revenue:				
Sales Revenue				0
Other				0
Total Revenue	0	0	0	0
Costs in WIP:				
Pre-RA "Accrued Development Costs"	(2,200,000)			(2,200,000)
Construction Costs				0
Professional Fees		(3,746,183)	(926,065)	(4,672,248)
Project Management Fee		(649,004)	(323,699)	(972,703)
Development Management Fee		(1,395,583)	(383,591)	(1,779,174)
Land and Sitewide Costs				0
Other				0
Total Costs in WIP	(2,200,000)	(5,790,770)	(1,633,355)	(9,624,125)
Costs in P+L:				
Inventory Impairment	(2,406,031)			(2,406,031)
Guarantee Fees	(594,198)			(594,198)
Audit Fees				0
Working Capital Charge	(321,624)			(321,624)
Other				0
Total Costs in P+L	(3,321,853)	0	0	(3,321,853)
Net Project	(5,521,853)	(5,790,770)	(1,633,355)	(12,945,978)
RA Adjustments:				
Reverse Accounting Impairment	2,406,031			2,406,031
8.26 - Audit Fees (paid by LLEH)	(15,938)			(15,938)
8.35 - Guarantee Fees (reverse out)	594,198			594,198
Reverse Cost of Equity (accounting)	321,624			321,624
8.36 - Cost of Equity (per RA)	(209,440)	(334,791)	(52,985)	(597,216)
Total RA Adjustments	3,096,475	(334,791)	(52,985)	2,708,699
Net Development Account	(2,425,378)	(6,125,561)	(1,686,341)	(10,237,279)

1. Basis of Preparation

The Development Account has been prepared for the information of the Council by Lend Lease (Elephant & Castle) Limited in accordance with clause 2 of the Fifth Schedule of the Regeneration Agreement dated 23 July 2010 and made between (1) Lend Lease (Elephant & Castle) Limited and (2) The Mayor and Burgesses of the London Borough of Southwark.

The Development Account includes £1,753,493 of accrued costs as at 30 June 2012. These accruals will be reversed in the next period as invoices are paid. £593,940 of the accrual relates to project management and development management fees.

2. Related Party Transactions

The Project Management and Development Management fees, in aggregate totalling £2,751,877, have been calculated using Lend Lease's policies for allocation of internal time costs. Detailed resource budgets and charge-out rate breakdowns supporting the costing methodology have been provided to Southwark Council.

Based on the current Project Cash Flow's forecast of total fees and total development costs, these fees are within the maximum 2.6% allowances in the Fifth Schedule of the Regeneration Agreement.

During the period, the following related parties also provided services to the Development on an "arms length basis":

- Lend Lease Construction (EMEA) Limited | Cost Planning Services | £304,315

These fees have been included within the Professional Fees section of the Development Account and are in addition to the Project Management and Development Management fees.

3. Approval of the Development Account

The Development Account was approved by Lend Lease (Elephant & Castle) Limited on 19/11/13 and signed on its behalf by [REDACTED]

[REDACTED]