
From: Richard Jeffrey [Richard.Jeffrey@tie.ltd.uk]
Sent: 16 August 2010 13:48
To: Stewart McGarrity; Steven Bell
Subject: FW: Thoughts

For info

From: Richard Jeffrey
Sent: 16 August 2010 13:48
To: 'rush [REDACTED]'; Jim Molyneux
Cc: David_Mackay
Subject: FW: Thoughts

Tony/ Jim,

Thanks for all your help in pulling together the counter offer. After our meeting this morning I discussed it with David and we agreed that my note of last week (copied below) clearly sets out the criteria which will need to be met if we are to stand any chance of getting shareholder approval to a deal. This therefore needs to be the end point of any negotiations. I hope this is clear.

Regards

Richard

From: Richard Jeffrey
Sent: 11 August 2010 11:43
To: 'Anthony Rush'; david_mackay@[REDACTED]
Cc: Fitchie, Andrew; Jim Molyneux; William Mowatt; J Blair Anderson
Subject: RE: Thoughts

Tony, I think there will be several questions applied to any deal,

Is it affordable? (i.e. is the total project cost less than £545m)
What is the implied price for the whole project to Newhaven? (needs to be £600m or thereabouts)
Is it defensible as fair value?
Is it explainable/reconcilable against the original contract/price?
Does it result in a viable stage 1 operation? (i.e. does it get a tram to St Andrews square or better)
How certain is the price/programme etc?
Is the 'integration risk' acceptable? (i.e. are we still buying a system?)
Can we trust these guys to deliver?

If the answer to the above is yes, we should get approval.

Regards

Richard

From: Anthony Rush [mailto:rush_[REDACTED]]
Sent: 09 August 2010 20:27
To: david_mackay@[REDACTED]; Richard Jeffrey
Cc: Fitchie, Andrew; Jim Molyneux; William Mowatt; J Blair Anderson
Subject: Thoughts

David/Richard,

Jim and I spent sometime this afternoon discussing the level we expect to offer in a Counter Offer. I set out our thoughts below – not to give finalised numbers but to share with you the process of what we will try and achieve and how we are developing the Counter-offer

Through the work that Jim has done with BB(UK) we have a good idea of their likely out-turn site costs. Jim has also identified and in some cases agreed reductions in what they claim.

Our thoughts are:

For all BB (UK) Off-street works and the enabling works at Newhaven we are minded that the bottom line we could expect BB(UK) to accept is £140 million. This reflects c£55million above the original Contract Price for changes etc.

At that figure we believe that they could, given that EK drives down the costs, break-even at site. That is no contribution for head-office or profit. Jim feels that they are looking for 7% (£10 million) for head-office – in my experience this is ritz in a competitive market. Blair has more up-to-date knowledge of the market – but for this class of work I used to be happy with 5%.

We expect that they have in mind a settlement figure of c£175 million from their offer of £210 million excluding On-street Work.

The above excludes SDS and PSSA costs.

Siemens is more difficult.

For Off-street work we place a value of £68 million and On Street, including PSSA, £15 million - pretty much in line with the Contract Price.

The above excludes any prolongation costs or costs of materials – which we haven't as yet bottomed out. Maybe Flynn will tell me tomorrow. We see Siemens major difficulty being BAM. Collectively we need to pressurise Siemens.

Consolidating these numbers:

BB (UK)	£140 million
Siemens	£83 million
CAF	£59 million
	£287 million

This in effect reflects the savings Jim has identified compared with my last analysis. Coincidentally it gets us to York Place for about the original price. I stress - coincidentally.

Please don't take these figures as firm or finalised. Jim, Bill and I will refine them in the next 48 hours along with a recast milestone schedule– but please comment or give us guidance.

Tony

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