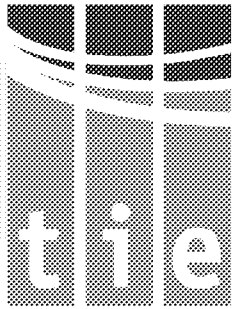


Edinburgh Tram Project

Risk

13 December 2007

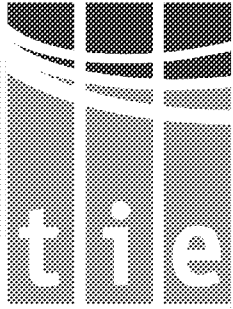
Presentation to CEC



Risks

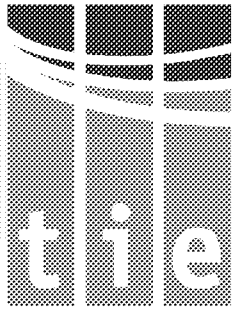
Different risks and allocations for each phase of Project

- Development (now Preferred Bidder Phase)
- Construction (to delivery into fare paying service)
- Maintenance



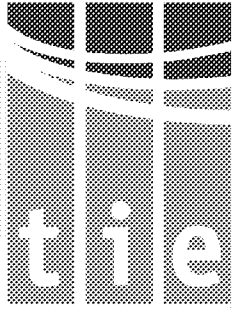
This Review

- Concentrates on risk allocation position once contracts are awarded and novations effected
- Applies during construction and maintenance phase



Status Of Review

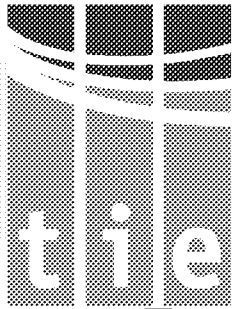
- Risk matrices prepared based on negotiations to date
- Position on contract negotiations are:
 - Tramco largely complete (minor alignment issues to conclude)
 - Infraco well advanced (all 'big ticket' issues done)
 - Programme prepared for resolution of remainder by week commencing Monday 07/01/2008)
- Final check of contract by DLA Piper
 - week commencing Monday 07/01/2008



Mitigations

Main mitigations are:

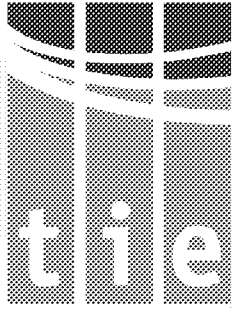
- Effective Project Management – timely decisions, processes, judgement, anticipating problems
- Effective Contract Management – understanding and applying contract
- Insurance – OCIP
- Risk Provisions
- Divine providence!



CEC Infraco Contract Risks

Construction Period

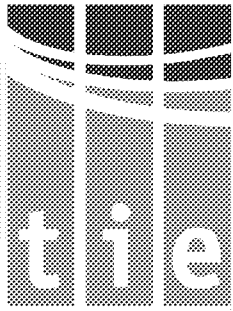
- Delays to completion for client default
- Breach of liability caps due to Infraco failure –
 - Overall 20% of Infraco Construction Price (circa £40m) + on demand performance bond (circa £20m) + insurable events
 - Sub cap of 20% of Tramco Price (circa £10million) if solely due to Tramco + performance bond
- Liquidated Damages –
 - LDs 10% of Infraco Construction Price (circa £20m) which would be equivalent to 81 weeks
 - Sub caps of 10% of Tramco Price (circa £5m) if solely due to Tramco
- Infraco/Tramco insolvency
- Late or non payment where payment is above 10% of contract sum – circa £20m



CEC Infraco Risks Events

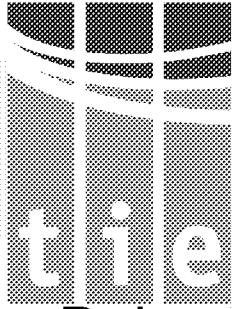
Delays to completion for client default

- Client Changes
- Delay in granting Prior Approval
- Unforeseeable Ground Conditions
- CEC stopping up streets
- Delay by MUDFA
- Discovery of unexploded ordnance
- Fire, flood etc
- Accidental loss or damage
- Strike or industrial dispute
- Force Majeure Event



CEC Infraco Risks Events

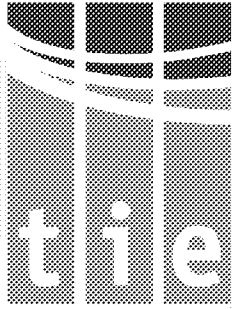
- Breach of liability caps due to Infraco failure
- Termination for Infraco Default
 - Delay beyond 81 weeks
 - Breach of indemnity provision
 - Breach of Third Party obligations set out in contract



CEC Infraco Risks - Mitigations

Delays to completion for client default

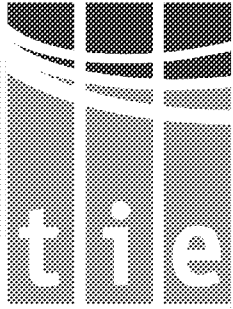
- Client Changes – Effective Project Management
- Delay in granting Prior Approval – Do before Contract Award
- Unforeseeable Ground Conditions – Agreed GBR and negotiation buy out
- CEC stopping up streets – Agree On Street Methodology
- Delay by MUDFA – Effective Project Management, Contract Management
- Fire, flood etc - OCIP
- Accidental loss or damage - OCIP
- Strike or industrial dispute – Apply political pressure
- Force Majeure Event – Providence!
- Discovery of unexploded ordnance – Provide info' but MoD will respond quickly!



CEC Infraco Risks Mitigations

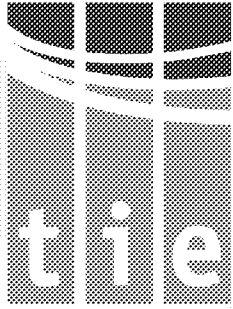
Breach of liability caps due to Infraco failure

- Termination for Infraco Default – Effective Project Management and Contract Management
- Delay beyond 81 weeks – Effective Project Management and Contract Management, termination option
- Breach of indemnity provision – Effective Project Management and Contract Management, OCIP
- Breach of Third Party obligations set out in contract – Effective Project Management and Contract Management



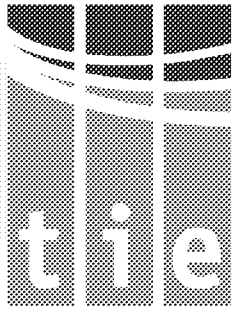
CEC Infraco Risks Mitigations

- Infraco/Tramco insolvency
 - PCG
 - Joint and several liability
 - Credit Checks (before award and annual)
 - Group Company FD presentations



CEC Infraco Risks Mitigations

- Late (by 30 Business Days) or non payment where payment is above 10% of contract sum – circa £20m
 - Provide cash drawdown forecasts to CEC
 - CEC fund **tie** cash positive



Next Steps

- Complete Risk Matrices
- Issue to CEC
- Further presentation/Q&A session with CEC