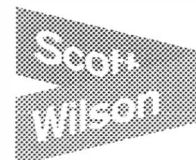


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Mr Andi Harper
Project Director
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Verity House
19 Haymarket Yards
Edinburgh
EH12 5BH

Your Reference:

Our Reference:

Date: 22nd June 2006

Direct Dial: [REDACTED]

Email: mark.jackson@Scottwilson.com

PRIVATE AND CONFIDENTIAL

Edinburgh Tram

Dear Andi,

Further to our meeting in Edinburgh on the 7th June, the Tram consultants present were asked to give a brief summary of the key issues in the form of a short letter. I have consulted within the Scott Wilson TSS team and others within the Scott Wilson Group and have pleasure in presenting our comments below.

I recognise the nature of the discussion we had on the 7th June was serious and tie were eliciting open and honest responses, which by necessity, may cause difficult decisions to be made. Please accept these constructive comments in the spirit in which tie requested them, they are designed to assist tie and all those involved in delivering a successful tram network for the City of Edinburgh.

We believe the key issues to be addressed include, inter-alia;

- De-risking the project
- Novation (Tram and SDS)
- Systems Integration
- Programme
- Defining a successful scheme
- Focused organisational structures

Taking each of the above issues in turn, risk allocation, if not addressed quickly, will result in an unaffordable scheme. We believe risks are incorrectly allocated within the present approach. It is not resulting in a proactive, positive market reaction to the project as indicated by the limited response to the OJEC for the Infraco contract. Novation of the Tram and the novation of the SDS are two key areas where we believe the inappropriate risk allocation has led to some of the UK's major civil engineering contractors not being interested in tendering for the Infraco contract.

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The current response to the Infraco of three interested parties could quickly reduce to only two potential bidders, threatening the credibility of the procurement process and the viability of the project. Potential bid team make-up could result in a project being led by Bombardier or Siemens using trams from another supplier – a totally inappropriate situation, which we believe neither manufacturer will ultimately accept. Novation of the SDS into the Infraco means all decisions taken by the SDS on behalf of tie in the early stages of the project will need to be underwritten by the Infraco. This is resulting in the SDS taking a strictly contractual and “narrow” view. Their design management objective is to cover any subsequent contractual disputes with its ultimate client (the Infraco) rather than acting in the project’s best overall interest.

The procurement strategy, legal-led to date has purported to de-risk the project. Whilst this may be true (the combined utilities MUDFA approach is now likely to work well after significant commercial intervention by the TSS), proposed novation of the tram supplier and the SDS to the Infraco is unlikely to deliver an affordable network. The suite of Contracts appears to have been prepared under strong legal influence with the dominant aim to de-risk tie as Promoter.

This approach conflicts with benefits of creating a commercial structure, which is attractive to the market. Many such structures exist, they need to be based on fair risk allocation matching the resources and roles of the parties; most importantly tie as the promoter owning and managing its appropriate share of the risk.

Systems integration risk was clearly intended to be transferred to the Infraco. If the novation of Tram and SDS is not to take place, this risk should be managed by tie. The combined team of tie, SDS, TSS and the appointed network operator should be able to adequately address this issue; defining and working within appropriate risk allocation.

A review of other completed UK tram projects is being prepared, which outlines the many different approaches used to address Systems Integration.

We are concerned that the programme is currently insufficient. The SDS was appointed late and we understand has not been given any significant extension in time. We are aware of the need to reduce inflation-related costs by keeping the programme tight. However, if the project is to seek an extension to create a more achievable programme we believe removing the novation issues and reviewing other risks will deliver commensurate cost reductions.

The tram scheme has a range of major interfaces to address, not least of which will be the necessary compromises with the CEC on issues including traffic priorities v tram journey time; planning approvals; public streetscape / urban realm aspirations in the CEC Design Manual v. affordability; speed of construction / minimising disruption v lowest cost etc. Defining what the successful scheme will look like for all major stakeholders is not apparent to all those working on the project. Setting and



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communicating these parameters will introduce a high-level order of priorities for the scheme to guide the team through difficult subjective judgements throughout the design and construction process.

Finally, we believe the current organisational structure is not as effective as it needs to be. Roles and responsibilities and the overall tram project organisational structure are not clearly defined. The SDS and TSS are not being used as effectively as they could be for the benefit of the project stakeholders.

Specifically the SDS needs to be “re-aligned” on delivering the best solutions for the overall project, its current focus is on narrowly complying with the SDS Contract with one eye on downstream novation-related commercial risks.

The TSS has largely been used as a “body shop” contract. A detailed review of the entire TSS scope is currently under discussion with tie and we are looking forward to working with tie to implement these proposals. This will help the TSS concentrate on defined “services” to be undertaken and we welcome this change of approach. We have previously prepared proposals for a service provision approach including Utilities Diversions, which have not been adopted and remain open for consideration.

We remain concerned that the tie team has a mix of Promoter and Project Manager roles and has not clearly defined responsibilities internally and /or delegated to its key suppliers. The SDS is a complex contract, with many interfaces, which still has some unclear deliverables and responsibilities. There remains an urgent need to clarify all the main organisations’ roles in the tram project to ensure we all pull together to deliver a successful scheme in the long term and meet the projects many short-term goals. The combined skill and experience exists; together tie, the SDS, the TSS and the other advisors are capable of delivering the project. We are not aligned well enough to ensure the team is really effective.

Please be assured that Scott Wilson, as the lead organisation in the TSS, and with our partners Turner & Townsend and Interfleet, we remain absolutely committed to ensuring the Tram project is a success. The Scott Wilson Group also wants to re-iterate our corporate support to tie. We are determined to help in whatever way necessary to see trams running on the streets of Edinburgh.

Yours sincerely

For SCOTT WILSON RAILWAYS LTD



Mark Jackson
Director of Projects
Scott Wilson Railways Limited