

Mr Richard Walker
Bilfinger Berger Siemens Consortium
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Our Ref: WG/JPT

14th October 2008

Dear Richard

Thank you for your letter of 13th October 2008, which followed up our constructive meeting on Tuesday 7th October. I am glad you agree that we should be seeking to make progress on the issues which have been under debate for some time now. I recognise your issues as listed under Stage 1 in the letter, although as you know we will seek to have a balanced view on their resolution. I agree that the process we follow to resolve these matters should meet the three conditions you describe. You are also aware that we do not recognise that a significant number of changes nor a notified 6 month delay have been instigated or caused by tie.

We have a number of serious concerns which also need to be resolved, including the impact on the project of the consortium's delayed mobilisation, securing your supply chain and the need for tie and the Council to see a much stronger degree of ownership and responsibility for delivery of the project by BSC than has been evident so far. These matters should also be addressed within Stage 1. We also feel it will be important to recognise that normal design development from the base date designs was provided for in the price we agreed at contract close. Our discussions must also include a fair and reasonable discussion around the completion date for the project and the dynamics of how that will be achieved.

We note your comments about the contract change mechanism and the need to ensure the administrative and decision making mechanisms are fit for purpose. However in our view this must be achieved without compromise or dilution of the terms of the contract which we have agreed.

I also think that it is important to make quick progress on those issues which require urgent resolution to enable the work on the ground to proceed at pace. I would suggest that we establish a senior task force to deal in a structured fashion with the priorities on the table today. Our nominee is Frank McFadden and I would suggest that the team are operational from the start of next week. Dealing with day to day business effectively will help resolve current problems and hence speed up the wider discussions on programme and cost.

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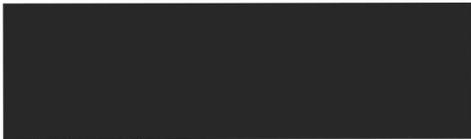
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I mentioned that I will be away for the next few days. To help us all engage constructively on these issues I have asked our Finance Director Stewart McGarrity to propose a structured process which we can follow to deal with the issues in your letter and those which we wish to have resolved. The people within ~~the~~ who will engage with you to resolve these matters will include Stewart, Steven Bell, Frank McFadden, Dennis Murray and Jim McEwan, who are our senior project team directors reporting to myself. I look forward to hearing of the composition of your team. Both of these groups in my view need to be empowered to resolve matters constructively, as I have made clear to our team, and that would certainly require your own people to include those who are fully aware of the detail of the programme, design and construction issues under consideration and how they may be resolved in practice.

You are aware that to progress this further I have arranged a conference call this afternoon with yourself, Stewart and Michael.

Finally, I would like to stress my personal commitment to the process discussed above. Regardless of what has happened in the past, there is a great deal of momentum now building up which I am still confident will enable us to jointly deliver a world class tram system for Edinburgh.

Yours sincerely

A large black rectangular redaction box covering the signature area.

Willie Gallagher
Executive Chairman