

Colin Smith

From: Steven Bell [Steven.Bell@tie.ltd.uk]
Sent: 21 February 2011 07:41
To: Anthony Rush; Gregor Roberts; 'Nigel Robson'; Dennis Murray; 'BrandonNolan'; 'Jim Molyneux'; 'Colin Smith'; Richard Jeffrey
Cc: Alan Coyle
Subject: RE: Accounting Treatment - Strictly P&C - Not for FOISA

Tony

Thanks for this. It is an interesting list, and some of the material on it is now installed at the depot. Dennis Gregor and I will review on Monday.

I agree wholeheartedly that liability (or entitlement) are different from settlement value. That is why Dennis has been focussing on the entitlement and liability assessments. The settlement issue is for broader and more strategic consideration, informed by the entitlement and liability analysis. I am sure we will get to the heart of that on Monday.

I expect our assessment (as tie) will be different from your assessment as advisors and the differences will help inform the debate in closing towards an entitlement range and a settlement range.

Regards

Steven

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From: Anthony Rush [mailto:rush_aj@tie.ltd.uk]
Sent: 18 February 2011 21:11
To: Gregor Roberts; 'Nigel Robson'; Dennis Murray; 'BrandonNolan'; 'Jim Molyneux'; 'Colin Smith'; Richard Jeffrey; Steven Bell
Cc: Alan Coyle
Subject: RE: Accounting Treatment - Strictly P&C - Not for FOISA

Gregor,

Thanks for this.

I attach the information provided to us by Ed Kitzman in September last when I was querying how much Siemens had allowed in their price for materials and equipment. You will see that all we got was a comprehensive list for the whole job and not just what was applicable east of St Andrew Square. But this is the basis for me saying today that in case of Separation they could be asking for £35 million.

Your note deals with the advanced payment on the basis that the expenditure by Infracore is equally borne by the two principal members. It isn't, Siemens will have bought forward to avoid the hike in metal prices and they will also be bearing design and systems testing costs which Bilfinger don't have.

In assessing the impact on the potential settlement figure I am minded that Siemens could be looking to obtain a much larger sum than their cash in advance through mobilisation to cover their outgoing cash flow which is most likely substantially negative.

I did a very rough and ready exercise on how quickly the mobilisation figure unwound and I came to the conclusion that it would do so in the second year and then become negative – but this is distorted for each member and I suspect that Bilfinger intended to unwind the advanced payment over the contract life and Siemens intended to spend it. In which case I would speculate that Bilfinger must be approaching a point where it has unwound for them and they are depending on additional preliminaries through changes and credit from sub-contractors to create positive cash flow. But I stress I am speculating.

¶ I was addressing audit on liability (thank goodness those days are over for me) I would consider the following heads:

Difference between amount applied for and amount certified (£30 million)
Current Claims (£39 m)
Exceptional items (Siemens Materials and Equipment) (£33 m)
Other potential liabilities and claims.

Against that I would credit an amount for payments in advance – in this case I would consider residual advanced (mobilisation) (based on prorate of construction milestones achieved against total construction milestones) and advanced preliminaries arising from changes (> 35% of £20 m).

But liability and settlement value are two different calculations in so far as do you add to or assume a saving?

Tony

From: Gregor Roberts [mailto:Gregor.Roberts@tie.ltd.uk]

Sent: 18 February 2011 16:13

To: Anthony Rush; 'Nigel Robson'; Dennis Murray; 'BrandonNolan'; 'Jim Molyneux'; 'Colin Smith'; Richard Jeffrey; Steven Bell

Cc: Alan Coyle

Subject: Accounting Treatment - Strictly P&C - Not for FOISA

All,

During our discussions around cost we have revisited the accounting treatment of the 'Initial Milestones' a number of times. The attached sheet is a 1-page summary of how this works from a finance perspective and why.

I hope that this is of help to you.

Have a good weekend.

Thank you
Regards,
Gregor

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Colin Smith

From: Gregor Roberts [Gregor.Roberts@tie.ltd.uk]
Sent: 18 February 2011 10:11
To: Nigel Robson; 'Anthony Rush'; Dennis Murray; BrandonNolan; Jim Molyneux; Colin Smith; Richard Jeffrey; Steven Bell
Cc: Alan Coyle
Subject: Conference call - Financials for Monday - Strictly P&C - Not for FOISA
Attachments: Deckchair Update18022011.pptx

All,

In order that we have a better like with like comparison between our Phoenix and Separation figures I have made some slight amendments to the figures. In the round the movements are not material, but I thought that it would be useful to ensure that our focus this afternoon was on the bigger ticket items.

Adjustments to the numbers from the previous slides are as follows (adjustments to slides 1&2 per the attached):

Adjustments	Tie Phoenix £m	BSC Phoenix £m	Separation £m
Total per previous slides to St. Andrews Square	639.5	748.1	639.5
Non BSC 'Other' the requirement for Interim works and site security is removed from Phoenix as we are Carrying On. Furthermore there is a PM project cost of £5m added to Separation relating to time at £0.4m pcm	-11.9	-11.9	+5.0
Non BSC 'Other' the assumption that we will recover - £4.3m for the 3 rd party funded works has been removed. This is a significant CEC risk and only included in the Newhaven Option (as the majority of the works are at Forth Ports)	+4.3	+4.3	+4.3
Highly Variable Elements The assumption that we will be able to immediately lease Trams has been removed from the Capital Build Cost estimate. We may well get an upside on leasing. This was a risk and will be a CEC upside if converted.	+10.5	+10.5	+10.5
Updated Total Cost per Slides attached	642.4	751.0	659.3

When we are on the conference call this afternoon we should refer to the slides attached.

Dennis and I will circulate a response to Nigel's queries prior to the conference call.

Regards,
Gregor

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From: Nigel Robson [mailto:robson.nigel@tie.ltd.uk]
Sent: 17 February 2011 16:55
To: Gregor Roberts; 'Anthony Rush'; Dennis Murray; BrandonNolan; Jim Molyneux; Colin Smith; Richard Jeffrey
Subject: Conference call - Financials for Monday

All,

We have an hour for the conference call tomorrow to deal with the 'deckchair' figures. Can I suggest that we limit ourselves to:

- 1 - we ensure that there is a clear understanding of the methodology and of the figures themselves.
- 2 - query/challenge the figures which look wrong
- 3 - highlight any omissions/judgements which would significantly influence the figures or collections
- 4 - agree any further work or presentational adjustments in advance of Monday

I am keen that we do not rush to judgements or positions at this stage. This is 'work in progress', and we have had nothing yet from the Infraco side. There is also an analysis of the DM figures and paper circulated yesterday which may inform these figures.

If you have queries or questions in advance then please email Dennis/Gregor so that they can pick up as much as possible pre con call.

Dennis/Gregor - initial queries/thoughts:

- 1 Please explain the interaction of the £33m premium (124 - 91) with the £11m deduction (residual amount of prelims not yet earned?) and the £14.3m Advanced Purchases (presumably Siemens kit?)
- 2 Am I correct that the QS figures "to go" are based on the CS BoQs, but the rates are from the Infraco contract - and what treatment for escalation?
- 3 What allowance/variance has been made for time to completion depending upon which outcome is adopted, and are there revenue considerations?
- 4 Do we need to factor Princes St remedials into the equations as a cost - or is it covered?
- 5 Separation would involve a premium to settle the historic claims and demobilisation/sub con costs. Are the sums of £11m added back in, and £10m settlement intended to cover these, and are they enough?
- 6 Please explain the £10m credit on the Bond?
- 7 How confident are we in relation to the extent of the notified value of claims, ie what is still to emerge?
- 8 The Siemens kit is a big 'swing' item at £14.3m? Does this relate to Airport/St Andrews Sq., or is it also for the work beyond St A Sq.? In a Project Separation scenario if they don't co-operate is there another figure we should factor in?

Regards,

Nigel

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Flow of offers

<u>Offers</u>	<u>Offer Date</u>	<u>GMP</u>	<u>Programme</u>	<u>Scope</u>	<u>reference</u>
BSC	29/07/2010	£433.3m & Euro 5.8m	19/11/2012	Airport to Princes Street East plus Newhaven Enabling Works	25.1.201/eki/6338
tie	24/08/2010	£267.3m	06/06/2012	Airport to St Andrews Square plus Newhaven Enabling Works	infcorr5858 (PARTA excl SDS/ tram supply price)
BSC	11/09/2010	£405.5m & Euro 5.8m	18/12/2012	Airport to Princes Street East plus Newhaven Enabling Works	25.1.201/eki/6682
tie	24/09/2010	£282.3m	06/06/2012	Airport to St Andrews Square plus Newhaven Enabling Works	infcorr6275 (appendix II p10) + £8m contam