
From: Anthony Rush [rush_aj@██████████]
Sent: 18 February 2011 12:07
To: Gregor Roberts; 'Nigel Robson'; Dennis Murray; 'BrandonNolan'; 'Jim Molyneux'; 'Colin Smith'; Richard Jeffrey; Steven Bell
Cc: Alan Coyle
Subject: RE: Conference call - Financials for Monday - Strictly P&C - Not for FOISA

Sorry Gregor – up against the clock on my day job – will talk over with you at 1400.

Tony

From: Gregor Roberts [mailto:Gregor.Roberts@tie.ltd.uk]
Sent: 18 February 2011 11:39
To: Anthony Rush; 'Nigel Robson'; Dennis Murray; 'BrandonNolan'; 'Jim Molyneux'; 'Colin Smith'; Richard Jeffrey; Steven Bell
Cc: Alan Coyle
Subject: RE: Conference call - Financials for Monday - Strictly P&C - Not for FOISA

Tony,

Thanks for getting back quickly on this. I'll bullet to keep this brief:

- Our BSC Phoenix position is based on the £410m + tie costs + an allowance for the previous offer not having been a GMP (we are aligned on this, but there will no doubt be debate as to allowances and like with like comparisons)
- Our tie Phoenix position is based upon our QS view of the Infrastructure costs + tie costs + an allowance for risk/delay (this allowance is lower than the BSC view as our position is that we want a GMP as far as is practicable from a risk point of view)
- Dennis has got a split of outturn on an individual Infraco Party basis, and we can slice and dice our figures in a number of ways
- The Bond Call is a red herring (as we will feed back later). I had put it in as a reminder that there was a Princes St issue (c£10m), which I offset it with an additional premium figure. There was £nil impact on any of the numbers net.
- The Premium allowed is included in the £124m (the difference to our evaluation of works of £90.8m). i.e. the £33.2m is a premium. I have not split out any allocation of this premium. This is something definitely that we should consider, but commercial/legal input would be required to inform this
- Dennis's exercise was done to corroborate that our original figures were correct. The rework by Dennis and CSweett backed up the previous numbers which are on the Slides.

The 'Crib notes' are items which Dennis can chat through the detail with you.

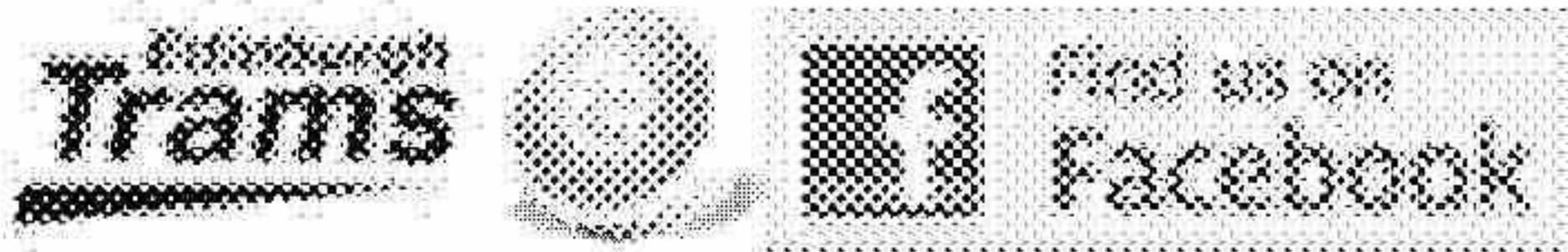
Thank you
Regards,
Gregor

Gregor Roberts
Finance Director

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From: Anthony Rush [mailto:rush_aj@cqm.co.uk]
Sent: 18 February 2011 11:15
To: Gregor Roberts; 'Nigel Robson'; Dennis Murray; 'BrandonNolan'; 'Jim Molyneux'; 'Colin Smith'; Richard Jeffrey; Steven Bell
Cc: Alan Coyle
Subject: RE: Conference call - Financials for Monday - Strictly P&C - Not for FOISA

Thanks Gregor - I will get a look at your numbers before 1400 but my IT system (firewall) is rejecting attachments from tie just now if you have your logos on - (Torquil will hopefully copy it off for me) But for me the default position on "Continuing" (Airport - Haymarket – St Andrew Square) is their last offer of £410 m plus tie's costs plus an allowance for Haymarket to St Andrews Square = less than £700 m. We can of course expect a higher offer this time round and we wouldn't be mediating is there wasn't an assumption on both sides that when a contractor says final he doesn't mean it. He didn't last October (obviously). You may have done this but it isn't readily apparent to me – but if these numbers are to be a platform to inform alignment have you considered what the out-turn may look like on an individual Infraco Party basis?

Have you taken out the bond call and considered what the settlement outcome for each individual Infraco Party may be if we go down the Separation route – motives are different between them and will change for each option.

Is your exercise based on the papers Dennis sent us? I discussed this with Nigel and Jim yesterday and Jim is drafting a note for Nigel this morning which he will finalise on Tuesday. My crib notes for that meeting were:

1	Agreed that in accordance with Clause 66.6 the final account will be a statement of all amounts due to Infraco under the Infraco Contract and that this will include payments pursuant to Clause 80 and 65.
2	Clause 66 permits the Infraco to make claims for further payment up to three months after the agreement of the final account therefore any sums other than the CWP and agreed Estimates are assumptions and cannot be relied upon until three months after agreement of the final account.
3	Noted that Siemens claim in Carlisle 2 includes an additional sum of c£25 million for off-street trackwork .
4	SDS are claiming £15.847 million and £7.988 has been certified we have paid what they have asked
5	It can be deduced that Mobilisation is <u>de facto</u> an advanced payment of Preliminaries and that Preliminaries include an allowance for "Escalation" which has been spread or allocated into the individual cost centres laid out in [] and []. There is a paucity of definition of terms . The Appendices also refers to "Method Related" costs which conventionally are those items of cost which are commonly used over a number of operations – cranes etc.

6	Any materials and equipment should be included in the CWP. Any additional delivery charges should be included in the additional payment for Changes or EOT.
7	£177 million has been certified and paid up to the end of January which will increase marginally by the end of March. There is some value attributable to On-street Works which I adduce to be c£10.5 million.
8	The certified sum includes £24.9 million for Changes (including PSSA) against. But this may not tell the true picture. It does not illustrate to what extent it is a payment on account against what tie believe the final vale may be nor does it show what Infraco's position is – although I understand that they have claimed £32.5 million of what they assert is a larger sum.
9	Without carrying out a detailed exercise on each and every INTC any assessment for the Final Value of Changes cannot be verified at this stage. However that unless the parties can agree a compromise on each of them those which cannot be agreed that way will be the subject of an adjudication and that experience tells us that the Infraco over-claim, but also that tie under offer.
10	I note that the exercise takes comfort from a “market price” check carried out by Cyril Swett. But this has little relevance to the CWP which was the result of the tendering process and negotiations. Moreover, unless tie can gain access to the tender make-up from the Infraco any conclusions of similarity can only be safely thought to be coincidental.
11	In my opinion the conclusions reached are most likely the lower end of what the value which can be attributed to the Off—street works and in the spirit of compromise and negotiation are unlikely to be achieved as a settlement.

I hope this helps you in explaining your figures. I am sure that you must realise that it is much too early to come to a conclusion on best option just now – we have to give Phoenix our best shot so that we can establish the best position on that option. Sadly my experience tells me that in forecasting for Separation one can believe that they have been ultra pessimistic and when it is all over ask “how could I have been so optimistic”. Certainty, including certainty of time, has a value which is judgemental.

Tony

From: Gregor Roberts [mailto: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

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	-11.9	-11.9	+5.0

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			
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.

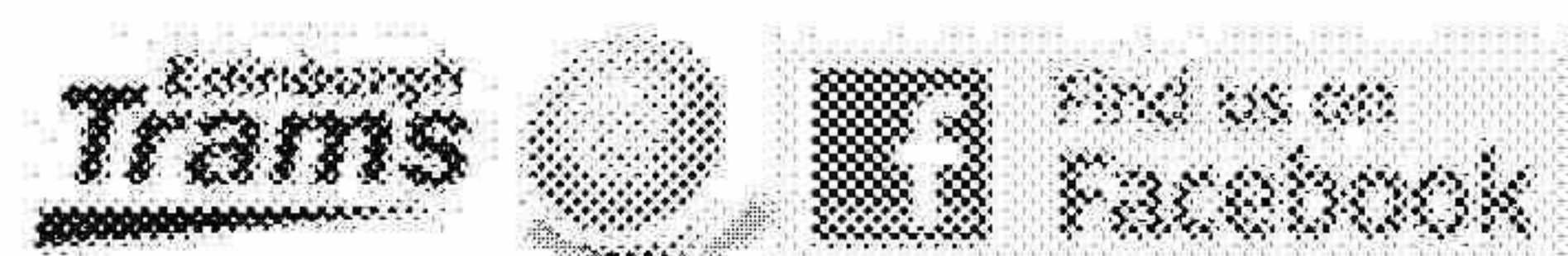
Regards,
Gregor

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From: Nigel Robson [mailto:robson.nigel@[REDACTED]]
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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