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**From:** Steven Bell  
**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@[REDACTED]]  
**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.

If 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

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**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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