



Mr Andrew Malkin
MUDFA AMIS Project Director
Alfred McAlpine
Western Harbour
Leith Docks
Edinburgh
EH6 6QF

Our Ref: DEL.MUDFA.7658.JC.GB

Date: 11 March 2008

Dear Andy,

EDINBURGH TRAM PROJECT
AMIS Settlement Agreement Up To & Including 30th September 2007

Following our recent agreement in respect of the impact on programme and cost, related to issues which have adversely affected AMIS contract position up to the 30th September 2007, we confirm the following:

1. During the currency of the project issues have arisen which have adversely affected the ability of AMIS to meet their contractual obligations. These issues are outwith the control or influence of AMIS and as such have resulted in a contractual entitlement.
2. All the issues can be categorised into three areas:-
 - Interpretation issue related to the application of PCS and progressing to Construction Services;
 - Political delay to the commencement of the works; and
 - Delay in Issue For Construction (IFC) designs from tie / SDS Provider up to 30th September 2007.

tie Limited

Verity House 19 Haymarket Yards Edinburgh EH12 5BH
tel: +44(0)131 622 0300 fax: +44(0)131 622 8301 web: www.tie.ltd.uk
Registered in Scotland No: 230949 at City Chambers, High Street, Edinburgh EH1 1QS

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3. In recognition of these the following has been agreed:-

- A settlement sum in full and final settlement of all issues which originate, relate to or are associated with the works up to and including 30th September 2007 has been agreed. The settlement sum is £991,142.95 (Nine Hundred and Ninety One Thousand One Hundred and Forty Two Pounds, Ninety Five Pence only) in the following categories:

Ref	Description	£
3.1.1	Increased cost of work transfer to 2007 to 2008, i.e. indexation, adoption of subcontract resource in lieu of direct, provision of thumbnail sketches	593,142.95
3.1.2	Under-recovery of 2007 overheads	198,000.00
3.1.3	Budget savings at 7b	200,000.00
	Total:-	991,142.95

- In addition a document entitled Commercial Proposal for Construction Services following Pre-Construction Services Delays has been produced and agreed by both parties which summarises the way forward for the parties, copy attached Appendix A, which will be adopted as of 30th September 2007.
- In reaching the above full & final settlement figure it was agreed that the existing incentivisation mechanism within the MUDFA Agreement was inappropriate. A review and reappraisal of the incentivisation process was undertaken. A revised MUDFA Contractor Incentivisation has been agreed which is uncapped and based upon a 50:50 shared opportunity for any value engineered savings achieved between the issue for approval designs and the IFC designs and any savings generated during the delivery of the actual works undertaken in each work section. The revised MUDFA Contractor Incentivisation will be formally incorporated within the MUDFA Agreement as a replacement for the existing Clause 48 mechanism. The basis of the new incentivisation is contained in Appendix B which forms the basis of a formal contract amendment that is currently being drafted by our legal representatives. This revised mechanism will be adopted as of 30th September 2007.

- It has been agreed that an incentivisation benefit for Sections 7a & 7b be included in the settlement payment. The assessment of the AMIS benefit taken is £200,000.00 (Two Hundred Thousand Pounds), as detailed above. This is based upon the benefit realised over budget from AMIS approach. The assessed benefit is baselined upon the savings against budgets identified prior to the issue of IFC designs, any value engineering benefits/savings which AMIS may achieve, and are agreed by tie, during construction of Sections 7a & 7b will be shared equally in accordance with the agreed incentivisation mechanism.
4. As part of the process of agreeing a full and final settlement for all issues associated with the works up to and including 30th September 2007 a number of contentious measurement issues between the parties have also been resolved and concluded as detailed in item 3.1.1 above. Payment in respect of these contentious measurement issues were included within the December 2007 certification.

For the avoidance of doubt and as discussed during our meeting of 12th December 2007 we confirm the following:

- The settlement agreement is in full and final settlement of all issues which originate, relate to or are associated with the works up to and including to 30th September 2007.
- A revised Programme Rev 06 has been compiled and agreed by the parties as the revised construction programme to successfully deliver the MUDFA works. The programme being based upon a schedule of assumptions/basis, Appendix C attached.
- As part of the settlement agreement tie will issue a letter referring to all correspondence from AMIS related to the impact on programme and cost confirming that the issues have been resolved and included in this full and final settlement agreement.

Please find attached a copy of this letter for agreement and signature by an authorised AMIS representative confirming your acceptance of the settlement agreement as contained within this letter and the attached appendices. One signed and completed copy of this agreement to be returned to tie.

We trust you will find the above to be in order.

Yours sincerely



Graeme Barclay
Construction Director -- MUDFA

enc.

Signed on behalf of tie

Signed on behalf of AMIS

Steven Bell
11th March 2008

Steve Hudson
11th March 2008