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Willie Gallagher
Executive Chairman
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Date: 31 July 2007

Dear Willie

Thank you for your letter of 28 June 2007 to the Cabinet Secretary for Finance and Sustainable Growth, John Swinney MSP, concerning the SAK, EARL and Tram projects. As this is a matter delegated to Transport Scotland your letter has been passed to me for reply.

I recognise that since your letter many of the points raised in your correspondence have progressed and I do not believe it is necessary to comment any further other than to confirm the SAK team will not transfer to Transport Scotland. Therefore I would like to take this opportunity to decline your invitation on behalf of both Mr Swinney and Mr Stevenson to conduct an official visit to tie Ltd as this would be inappropriate whilst discussions on phase 1a of the tram project are concluded with the City of Edinburgh Council.

I trust you will support this decision.

Y sincerely

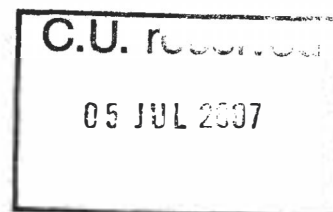
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MALCOLM REED



John Swinney MSP
Cabinet Secretary for Finance and
Sustainable Growth
The Scottish Executive
5th Floor
St Andrew House
Regent Road
Edinburgh
EH1 3DG

28th June 2007



Dear John

Thanks for taking the trouble to ring me last night confirming the position on tram and giving me a steer on EARL.

I have already given the go ahead for our MUDFA programme. I am looking at existing contracts with a view to the early termination of those relating to the EARL project. The EARL team will be disbanded. The SAK team will transfer with their work to Transport Scotland, as we discussed. The downsizing will be handled sensitively and in a way that doesn't cause embarrassment to government. The number of employees involved is likely to be around 20.

My aim is to present my Board Meeting on 10 July with a new organisational structure. We will continue to look at ways of further reducing our manpower costs and our risk exposure.

I also plan to explore (and share with you privately) possible funding mechanisms to extend the Phase 1(a) scheme to include Phase 1(b) without any call on Scottish Executive funding beyond the £500 million which, subject to final business case, we have agreed.

Strong economic and political arguments for Tramline 3 out to the Royal Infirmary have been advanced. I hope that the success of Phase I (a) will result in the further extension of the tram network here. Tram may also have a role in the proposed Gateway development to the West of the airport.

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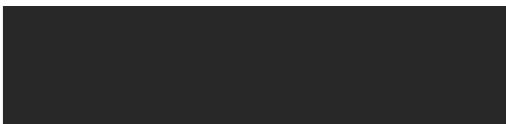
Dublin's experience shows how effective trams can be and I think it would be something for Alex Salmond to look at on his forthcoming visit. Indeed I would be happy to assist in arranging a follow up briefing visit for you and/or Stewart. You should certainly meet the people who gave us such a valuable insight into the costs and benefits of their Luas system.

Please be assured of my determination to work closely with you, with your officials and with the City of Edinburgh Council to deliver, ahead of the next election, a world class tram line for Edinburgh.

Might I suggest we meet again soon after our board meeting on 10 July? I think you may find it useful to pay an official visit to tie in due course. I am going to suggest to Stewart that he might consider a visit to tie with a photocall perhaps coinciding with our board meeting on 27th August.

I look forward to hearing from you

Yours sincerely



Willie Gallagher
Executive Chairman