

tie Remuneration Committee April 9th 2008

INCENTIVE ARRANGEMENTS AND PROCESS JANUARY 2007 TO MARCH 2008

1. tie Executive Management Team Incentive Arrangements

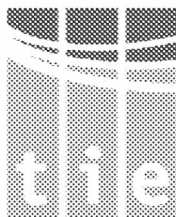
The bonus recommendations for the tie executive management team reporting to the Executive Chairman have been prepared against the objectives, criteria and ranges detailed below:

Objective	Criteria/Measure	Weighting /Range	Score
1. Tram Financial Close Programme	Financial Close 1 st Feb – 31 st March 2008	0-10%	0%
2. Tram Financial Close Cost	Contract Agreement Price £490m-£530m	20%-40%	55%
3. Tram Organisation	Delivery Organisation "Fit for Purpose" March 31 st 2008	30%-40%	75%
4. MUDFA Delivery	Programme and Budget 2007/8	0-20%	95%
5. EARL Closedown	Delivery against Programme and Budget	10%-30%	100%
6. tie Executive Leadership Team	Contribution and challenge	10%	80%-100%

The differences in range above reflect the different roles and responsibilities of the tie Executive Management Team.

The proposed payments below reflect a maximum 15 month period from January 2007. The first 3 months is based on 15% headroom and the second 12 months based on the agreed bonus headroom for tie Executive Management team of 50% from 1st April 2007. The scores reflect the different weighting of each role.

Role	Score
Tram Project Director	78%
Finance and Performance Director	74%
Strategy and Planning Director	74%
HR and Corporate Affairs Director	77%



2. tie Tram Project Procurement Team

The bonus recommendations for the **tie** Tram Project Procurement team reporting to the Executive Chairman have been prepared against the objectives, criteria and ranges detailed below and focusing on the procurement delivery and Financial Close:

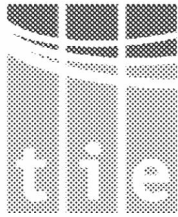
Objective	Criteria/Measure	Weighting	Score
1. Tram Financial Close Programme	Financial Close 1 st Feb – 31 st March 2008	20%	0%
2. Tram Financial Close Cost	Contract Agreement Price £490m-£530m	60%	55%
3. Tram Organisation	Delivery Organisation "Fit for Purpose" March 31 st 2008	20%	15%- 100%

The proposed payments below reflect the contribution to and outcomes of particular Procurement phases to March 2008. The budget was set at £400,000 and spend against the budget was 53.25%.

Role	Score
Tram Project Director	19%
Tram Commercial Director	26.5%
Tram Procurement Director	21.5%
TramCo Project Manager	19%
Infraco Director	53%
Contracts Director	53%
TEL & Operations Director	36%

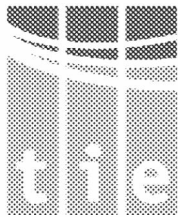
3. tie Employees Incentive Arrangements 2007/08

The detailed bonus recommendations for **tie** employees for the 15 months from January 2007 to March 2008 are based on review of performance and objectives throughout the 15 months period. The first 3 months have a headroom of either 5% (admin), 10% (managers) or 15% (director level) with the second 12 months at headroom of 25% for all employees.



The review is using the criteria below to establish bonus score for each employee and will be completed mid April 2008.

Performance Ratings	Bonus Range	
<p>The descriptions below provide guidance on the ratings and in what circumstances they should be awarded, these guidelines are not exhaustive.</p>	<p>The average payment for 2006/07 was 9% which is midpoint for "Acceptable"</p>	
	Min	Max
<p>1 – Outstanding This person clearly exceeds the expectations of their role; completing their objectives but going further than was required displaying initiative and leadership skills. They have outgrown the role.</p>	22%	25%
<p>2 – Excellent Completes the objectives, is self-motivated to complete tasks set and overcomes obstacles in a professional manner. Performance usually exceeds the results. Contributes beyond the role/function</p>	17%	21%
<p>3 – Good The objectives were completed in a professional and competent manner. The employee fulfils the role and requirements of the job with very limited supervision</p>	12%	16%
<p>4 – Acceptable Competent in the role. Tasks are completed on time but with appropriate supervision</p>	7%	11%
<p>5 – Requires Development New to the role, requires supervision and support in their work. Beginning to fulfil the requirements of the role but still needs development in certain aspects of the job.</p>	1%	6%
<p>6 – Unacceptable Their performance is significantly lower than expected; maintaining this level of performance is not acceptable.</p>	0%	0%



4. tie Executive and Senior Management Incentive Arrangements 2008/09

As advised in January 2008 twelve directors and senior managers will be moving to similar short and long term incentive arrangements as the Executive Chairman effective from Financial Year 2008/09. Of the 50% bonus opportunity the achieved payment will be split 60% payable in each financial year until 2010/11 with the remaining 40% banked for each of the three financial years until end of 2010/11. These arrangements will be formally confirmed by end of April 2008.

5. Objectives and Bonus Arrangements 2008/09

The tie and Edinburgh Tram Project performance objectives are being reviewed, agreed and rolled out through April 2008.

All objectives will be reviewed regularly by the Executive Board and a half-yearly report on progress submitted to the Committee at the Q3 Remuneration Committee meeting and following the revised performance management process.

The core elements of the 2008/09 objectives are detailed below and will also reflect the Executive Chairman's objectives:

Business Performance - objectives based on the overall delivery of tie Business goals and objectives and functional support for the delivery of Edinburgh Tram project e.g. Finance and HR

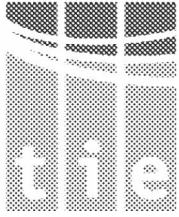
Edinburgh Tram Project Performance – objectives based on Annual Budgets, project operational programmes and milestones e.g. MUDFA, and Infraco mobilisation and delivery.

Personal Performance – personal and professional objectives monitored against performance reviews and personal contribution and achievements.

Safety Performance – project and individual targets based on safety performance against set KPI's and safety performance.

5. Conclusion

tie and the Edinburgh Tram project continue to progress and mature into a delivery organisation. 2007/08 was a difficult and transforming period for all employees and tie. The transfer of EARL and SAK, the successful commencement and delivery of MUDFA and the finalising of the Tram Procurement process was achieved with a tremendous amount of support from the employees.



For a continuously challenged and evolving organisation with difficult and unique operating environment we can acknowledge the important part played by all employees throughout the fifteen month period

The **tie** performance management scheme is intended to recognise and reward **tie** staff. The Committee is invited to acknowledge these recommendations.

CJMcl

4th April 2008

SIGNED

DATE

Brian Cox
Chairman Remuneration Committee