

Our ref: SMcF/AY

12 December 2007

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For the attention of Matthew Crosse

Dear Sirs,

**Edinburgh Tram Network Infraco
Preferred Bidder Update**

We refer to your request for a Preferred Bidder Update.

Our update comprises this letter and the documents listed on the Index overleaf.

We confirm that our price has not been updated in respect of new information issued to us in the Preferred Bidder stage or the programme enclosed in this update. We would also like to remind you that in the revised offers dated 24 August 2007 and 30 August 2007 we reduced our price for 1a by a total of £4.7M, with this sum added to our price for 1b, to support your budget requirements.

We confirm that a number of issues are still to be resolved and are part of the ongoing workstreams. The issues include;

- finalisation of the SDS design and alignment with the Employers Requirements and Infraco Proposals;
- completion of the Third Party Agreement due diligence;
- completion of due diligence on the Consents;
- resolution of Building Fixing Agreements concerns;
- resolution of clarification issues set out in our tender submission;
- completion of detailed due diligence on Tramco/ SDS alignment;
- completion of detailed due diligence on the Operator/ Infraco interface;
- completion of all other technical due diligence (including the maintenance performance regime)
- resolution of security package

Included in this update are the Employer's Requirements V 3.0.1, which we have discussed together on 5th December 2007 at your office. Where agreed changes have been made, we have marked the matrix "compliant" with no comment. If we have achieved a technical solution, but a cost impact is expected on the Compliance Matrix, we have marked this item accordingly. Most of the items with a higher cost impact result from the SDS design and not the Employer's Requirements. To enable us to assess future price reductions, we need a design from SDS which fully reflects the ERs. This should enable us to realise cost savings. When we have received your confirmation in respect of agreements to changes in the Employer's Requirements V 3.0.1, we will come back with a technical solution for your approval.

With reference to the section on VE, we are aware of your view that the current VE items will not yield sufficient cost savings to support your budget targets for the Project. We confirm our commitment to the VE process and we will schedule further items in due course, most of which have been discussed, in general terms, with you. We are keen to develop these with you in the next stage.

We look forward to continuing Preferred Bidder negotiations.

Yours faithfully,



Scott McFadzen
Project Director
Bilfinger Berger Siemens Consortium