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30 October 2008

Dear Mike

**NOTICE PURSUANT TO SECTION 55(6) OF THE RAILWAYS ACT 1993 (THE "ACT")
AS AMENDED BY THE TRANSPORT ACT 2000 AND THE RAILWAYS ACT 2005**

The Secretary of State for Transport (the "**Secretary of State**") and London & Birmingham Railway Limited (the "**Franchisee**"), now trading under the name London Midland, entered into a franchise agreement (the "**Franchise Agreement**") on 20 June 2007 pursuant to section 23(1) of the Act.

Words and expressions defined in the Franchise Agreement have the same meaning when used herein unless the context otherwise implies.

Following provision by the Franchisee of details of prior amendments made to the terms of eight Rolling Stock Related Contracts (Annex A), the Secretary of State notified the Franchisee by letter dated 20 October 2008 that it had contravened Schedule 2.2, Paragraph 2.1 of the National Rail Franchise Terms by failing to obtain the prior written consent of the Secretary of State before amending the terms of the Rolling Stock Related Contracts (the "**Contravention**").

By letter dated 22 October 2008, the Franchisee outlined the following steps taken to secure compliance with Schedule 2.2, Paragraph 2.1:

London Midland has reviewed the processes involved in the notification of contracts to the DfT and has put in place a validation procedure prior to any contracts or amendments being signed. London Midland has confirmed that the new process is as follows:

- The Engineering team forward relevant documents via the Fleet Contracts Manager, to the legal Directors, under the cover of the "Submission for Contract Award" form. The form asks specifically if the contract needs DfT approval and has to be marked accordingly. An example of a "Submission for Contract Award" is attached in Annex B.

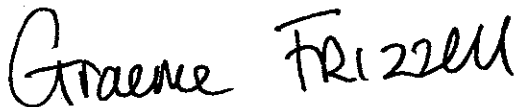
- This process came into effect on 6 October 2008 and has been communicated to the relevant persons involved in the entire process.
- All documents that go through the above process are also scanned onto a contracts database held and maintained within the Procurement Department. This enables London Midland to validate that the relevant process has been followed.

The Secretary of State, in accordance with Section 55(5B)(a) of the Act is satisfied, having regard to the above-mentioned steps, that the Franchisee is for the time being taking appropriate steps for the purposes of securing compliance with Schedule 2.2, Paragraph 2.1. Accordingly the Secretary of State does not consider it appropriate to issue an enforcement order under the Act in relation to the Contravention.

This Notice is without prejudice to any action (including action under the Franchise Agreement) that the Secretary of State may take in relation to any future contravention of the Franchise Agreement, including the Contravention identified herein.

A copy of this letter shall be placed on the Secretary of State's public register as required by Section 73(2)(e) of the Act.

Yours sincerely,

A handwritten signature in black ink that reads "Graeme Frizzell". The signature is written in a cursive style with a large initial 'G'.

Graeme Frizzell

For and on behalf of the Secretary of State

Annex A:

List of contract amendments for which London Midland failed to seek prior approval.

Class	No Vehicles	Mods	Start Date	Date signed
323	4	Passenger doors cab door interlocking/mechanical rack corrosion/exterior door push buttons etc etc etc	01-Jun-08	11-Aug-08
323	4	Redelivery Dates - All vehicles now 20.9.2015		11-Aug-08
170/5 and 6	17 x 170/5 2 car 6 170/6 3 car	Engine Air intake;IFU card refurbishment;EDC development;hydrostatic/engine run relay etc etc etc	01-Jun-08	04-Aug-08
153	10	Exterior door push buttons;rotary dra switch;instrument lights;engine air fileter etc etc etc	01-Jun-08	04-Aug-08
323	22 x 3 car	Passenger doors;new door control unit;cab door interlocking;cab door mechanical rack coorosion;exteriod door push buttons; cab to saloon door locks etc etc etc etc	01-Jun-08	04-Aug-08
172	66	Enhanced SDO; additional CCTV; guards door release DKS	20-Aug-08	20-Aug-08
350	37 x 4 car	Forward Facing CCTV	20-Aug-08	20-Aug-08
350	37 x 4 car	PAU/CFA Re-arming; Unit Deselect Indication; seat nos and reservation	14-Apr-08	14-Apr-08

Annex B:

Copy of London Midland's new Submission for Contract Award form



SUBMISSION FOR CONTRACT AWARD

Contract Number:	LBR/		
Description:	The Supply of		
Term:			
Contract Sum:			
Supplier:			
Comments:			
Does this Contract/Amendment require DfT approval?	Yes	No	
APPROVALS:	<u>Name</u>	<u>Signature</u>	<u>Date</u>
Sponsor		_____	_____
Procurement		_____	_____
Finance Director		_____	_____