

Franchise Manager
London Midland
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Franchise Manager

Department for Transport
Rail Contracts
3/31 Great Minister House
76 Marsham Street
London
SW1P 4DR

Fax:

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09 September 2010

Dear

**London Midland Franchise Agreement (the "Franchise Agreement")
Annual Financial Statement Contravention**

I write to formally advise that London Midland has contravened paragraphs 3.7 & 3.8 of Schedule 13 to the Terms. The relevant provisions are set out in the Schedule to this letter.

Specifically, London Midland has failed to provide the following documents within the required timescales:

Document	Timescale	Schedule 13 reference
Annual Financial Statements for Franchisee Year 2009-10.	Within 3 Reporting Periods of the end of the Franchisee Year, i.e. by 26 June 2010.	3.7(a)
A reconciliation of these Annual Financial Statements to the Management Accounts for the same period.	At the same time as the Annual Financial Statements.	3.7(b)
An unqualified written auditors' report from your auditors complying with the requirements of paragraph 3.8 of Schedule 13.	At the same time as the Annual Financial Statements.	3.8

Failure to provide these documents in the required timescales is a contravention of the Franchise Agreement.

The Department is not currently minded to take further enforcement action in relation to this breach if you provide:

- the Annual Financial Statements for the previous Franchisee Year by 24 September 2010;
- a reconciliation of these accounts to the Management Accounts by 24 September 2010 ; and

- an unqualified written auditors' report complying with the requirements of paragraph 3.8 by 22 October 2010.

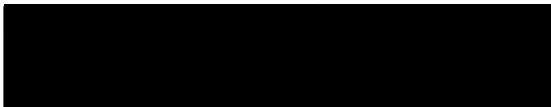
If you do not provide documents complying with the requirements set out in the Franchise Agreement by these dates, the Department will consider taking further enforcement action in relation to this breach.

The Department will expect London Midland to comply fully with these obligations in future. Please provide written assurance that appropriate internal processes have been put in place to ensure that no such further contraventions of this nature occur.

Words and expressions defined in the Franchise Agreement have the same meaning when used in this letter unless the context otherwise requires.

If you have any concerns in relation to this letter please do not hesitate to contact me.

Yours sincerely

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Franchise Manger

Schedule: Relevant provisions from Schedule 13 to the Terms

3.7 The Franchisee shall deliver to the Secretary of State:

- (a) in respect of any Franchisee Year other than the final Franchisee Year, its Annual Financial Statements for that Franchisee Year within three Reporting Periods of the end of that Franchisee Year; and
- (b) in respect of the final Franchisee Year, its Annual Financial Statements for the period from the start of that Franchisee Year to the end of the Franchise Period within three Reporting Periods of the end of the Franchise Period,

each together with a reconciliation to the Management Accounts for the same period.

3.8 The Franchisee shall deliver to the Secretary of State at the same time as it delivers the relevant Annual Financial Statements pursuant to paragraph 3.7, an unqualified written report from the Franchisee's auditors which confirms that such Annual Financial Statements:

- (a) comply with paragraph 3.11;
- (b) give a true and fair view of the amount of Revenue (including each revenue flow separately identified therein) earned by the Franchisee during the relevant Franchisee Year, excluding:
 - (i) any Revenue Share Adjustments paid or payable in respect of that Franchisee Year; and
 - (ii) any Revenue Support Adjustments received or receivable in respect of that Franchisee Year; and
- (c) detail that the amount of Revenue referred to in paragraph 3.8(b) comprises only some or all of those revenue flows specified in the definition of Revenue.