

21 June 2010

SUBJECT TO CONTRACT

Dear Sirs,

Proposed sale of High Speed 1

We are writing to you following the announcement made by London & Continental Railways Limited ("**LCR**") on 21 June 2010 with regard to the potential sale of the entire issued share capital of HS1 Limited, the holder of the London St. Pancras to Channel Tunnel High Speed 1 rail concession ("**HS1**"), (the "**Transaction**"). UBS Limited ("**UBS Investment Bank**") has been engaged by LCR to act as its exclusive financial adviser in relation to the Transaction.

On behalf of LCR, we would like to invite you to express your interest in the Transaction. This letter provides details with respect to the pre-qualification phase of the sale process. We are also pleased to enclose a summary briefing document relating to HS1 and to the Transaction (the "**Teaser**") which is being provided to you for the purposes of evaluating your interest in participating in the sale process.

1. Transaction objective and process

The overall objective of the Transaction is to realise value for money for the UK taxpayer, which will be achieved through a combination of value maximisation, risk transfer and enabling the continued utilisation and safe operation of HS1. LCR intends to conduct the sale process as expeditiously as possible and in a manner that will minimise disruption to HS1, and its management, employees, customers and suppliers.

Following your review of the Teaser you are invited to submit a pre-qualification letter (the "**Pre-Qualification Letter**"). Submissions by interested parties, which should address the questions set out in Section 2 below, will be used by LCR and its advisers to evaluate your interest in, and capacity for, participating in the sale process taking into account the grounds for exclusion contained in Annex 2. Thereafter, selected parties will be invited to participate in the first phase of the sale process, during which they will be provided with additional information on HS1, in the form of a confidential information memorandum, following execution of an appropriate confidentiality agreement.

At this stage, your review will be limited to the information contained in the enclosed Teaser. If any clarification of the information supplied is required by you at this stage, such clarification may be provided by UBS Investment Bank only.

2. Pre-qualification questions

Your Pre-Qualification Letter should address or contain, at a minimum, the following items, and should be presented in the sequence set out below:

- a) Bidder identity: please identify the entity submitting the Pre-Qualification Letter, confirm that you are acting as principal and not as agent and confirm whether you are working alone or as part of a consortium (and if so, please identify the members of your consortium) or whether you intend to work as part of a consortium. You should also confirm that you, and all parties connected with your proposal, are in compliance with the "fit and proper person" test stipulated by the HS1 Concession Agreement (see Annex 1 to this letter);
- b) Strategic rationale: the reasons for your interest in acquiring HS1 as well as how you see yourself adding value to the business going forward;
- c) Relevant experience: a summary of your relevant experience of investing in infrastructure assets or other assets with characteristics similar to those of HS1;
- d) Investment strategy: your envisaged modus operandi with regard to managing HS1, including your approach to and level of active participation in operating and growing the business after a potential acquisition;
- e) Financing: your preferred sources of, and access to, debt and equity financing required for the acquisition. You should also include evidence of your financial strength and investment capacity for the Transaction;
- f) Process requirements: any potential issues which you envisage in terms of process, due diligence and other information requirements in order to be able to submit a binding, fully financed proposal and complete the Transaction within a timely manner;
- g) Conflict of interests: identification of any potential conflicts of interest that may arise from your participation in the sale process together with an outline of how you would envisage handling such conflicts of interest. This should include, but is not limited to, information regarding ownership of, or participation in, businesses contracting or competing with, or related to, HS1;
- h) Approvals: confirmation that your Board, investment committee or any other body with equivalent decision-making authority has reviewed and consented to the content of your response to this letter;
- i) Contacts and advisers: name and contact details of your primary contact person(s) as well as details of any advisers already appointed or intended to be appointed; and
- j) Other relevant information: reasons, if any, that may lead to your exclusion from further participation in the process based on the grounds set forth in Annex 2 as well as any other information which you consider relevant for evaluating your interest in participating in the sale process of HS1.

Your Pre-Qualification Letter, signed by a director(s) or officer(s) having authority to do so, should be sent, in order to be received by not later than **12:00pm (Noon) (London time) on 9 July 2010**, to:

Andrew Cowper
Executive Director
UBS Investment Bank
1 Finsbury Avenue
London EC2M 2PP

Tel: +44 20 7568 5996
Fax: +44 20 7336 2096
Email: andrew.cowper@ubs.com

3. Communications

UBS Investment Bank will be available to discuss the Transaction and the contents of this letter with you should you have any questions. All questions and information requests regarding the Transaction and/or the sale process should be directed to Andrew Cowper (+44 20 7568 5996; andrew.cowper@ubs.com) or Tobias Wagnert (+44 20 7568 1335; tobias.wagnert@ubs.com) at UBS Investment Bank only.

Under no circumstances should the management, employees, customers or suppliers of LCR, HS1, the UK Department for Transport and/ or any other Government department or the Office of Rail Regulation be contacted directly in relation to any aspect of the Transaction without the prior written consent of LCR.

4. Other matters

Neither this letter nor the release of the Teaser constitutes an offer or invitation for the sale or purchase of securities or any of the businesses referred to in this letter.

Please note that all parties joining a consortium would still need to submit a separate Pre-Qualification Letter and satisfy the relevant criteria.

Subject to applicable law, LCR reserves the right to amend or terminate any element of the procedures and/or change the timings outlined in this letter. LCR and/or HS1 Ltd are not under any obligation to accept any Pre-Qualification Letters. In particular, LCR reserves the right to exclude any interested party from further participation in the sale process on any of the grounds listed in Annex 2. LCR also reserves the right to allow interested parties to join the process at a later stage subject to them fulfilling the conditions set out in this letter. Neither LCR nor HS1 Ltd nor its advisers will be liable for any costs or expenses incurred by you in connection with their evaluation or investigation of HS1 or with their review of any of the information provided or disclosed.

You acknowledge that LCR and HS1 Ltd is or will become subject to legal duties which may require the release of information under the Freedom of Information Act 2000 ("**FoIA**"), in the case of HS1 Ltd, to the Office of Rail Regulation under the laws and processes governing the regulation of its business, the Environmental Information Regulations 2004 or any other applicable legislation or codes of practice governing access to information (together the "**Access Laws**"). Such information may include information supplied by you or matters relating to or arising out of or under such information supplied by you. In the event that LCR and/or HS1 Ltd receives a request for information under any Access Law, then you agree that any obligation of confidentiality that is imposed, whether arising out of any agreement with you, whether implied by the general law or otherwise, shall not apply to any information (in whatever form) that LCR and/or HS1 Ltd is required to disclose to respond to the request in accordance with the relevant Access Law.

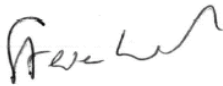
Your attention is drawn to the Important Notice in the Teaser that sets out the basis on which it is provided. None of HS1 Ltd or its respective affiliates, directors, officers or employees, or UBS Investment Bank, its directors, officers or employees, or any of their respective advisers warrants the accuracy or completeness of any information furnished and no liability or responsibility shall attach to such persons by reason of making available such information to you.

Please note that the confidentiality agreement to be provided to parties who are invited to participate in the sale process will include a requirement that parties do not engage potential providers of debt finance on an exclusive basis.

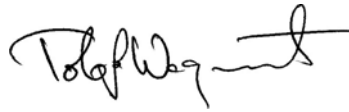
On behalf of LCR, we would like to thank you for your interest in the Transaction.

Yours sincerely,

UBS Limited



Steven Wirth
Managing Director



Tobias Wagnert
Executive Director



Andrew Cowper
Executive Director

Annex 1

“The Fit and Proper Person” test in the HS1 Concession Agreement, paragraph 17.1.2.2(b)

HS1 Co shall establish (...)

“that the proposed transferee or purchaser is a fit and proper person, including having regard to whether:

- (i) the proposed transferee or purchaser or any statutory officer or representative of the proposed transferee or purchaser has been convicted of a criminal offence which is material in the context of this Agreement;
- (ii) the proposed transferee or purchaser should reasonably be excluded on the grounds of national security; and
- (iii) the proposed transferee or purchaser is incorporated or domiciled in, or controlled from, a country which is, or the proposed transferee or purchaser is otherwise, the subject of economic or security sanctions imposed by the United Kingdom.”

Annex 2

Grounds for exclusion of an interested party from further participation in the sale process

- a) The interested party does not satisfy the "fit and proper person" test stipulated by the HS1 Concession Agreement (see Annex 1 to this letter)
- b) The interested party has no relevant experience in investing in infrastructure assets or other assets with characteristics similar to those of HS1 or is not able to demonstrate that it is able to procure such experience in the context of its participation in the sale process (in the case of investment funds with no relevant experience, the experience of the investment fund managers and key employees will also be taken into consideration)
- c) The interested party is not able to invest at least GBP 25 million of equity
- d) The interested party has not received all required approvals from its Board, investment committee or any other body with equivalent decision-making authority to submit the Pre-Qualification Letter and participate in the process
- e) The interested party is guilty of serious misrepresentation in providing any information to LCR or its advisers in connection with the sales process
- f) The interested party is unlikely to be able to complete the sale within the fiscal year 2010/11 or within a reasonable period thereafter
- g) The interested party's participation would be likely to distort the competitive sales process
- h) The interested party or its advisers have contacted the management, employees, customers or suppliers of LCR, HS1, the UK Department for Transport and/or any other Government department or the Office of Rail Regulation directly in relation to any aspect of the Transaction after the date of this letter without the prior written consent of LCR



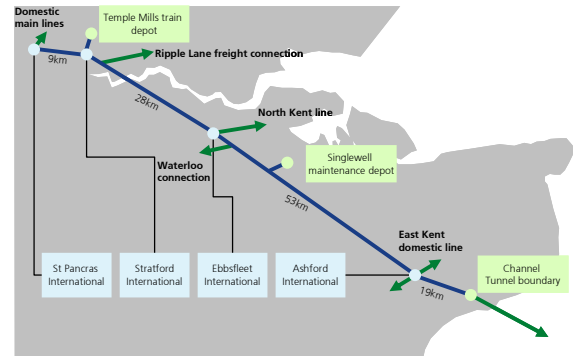
Sale of High Speed 1

The UK's first high speed rail line

High Speed 1

Asset overview

HS1 Limited ("HS1 Ltd") holds the concession until 2040¹ to operate, manage and maintain the 109 kilometre high speed rail line ("HS1") connecting St. Pancras International, through Kent, to the Channel Tunnel as well as the four stations along the route (St. Pancras International, Stratford International, Ebbsfleet International, Ashford International). HS1 is the UK's first high speed railway and forms the UK leg of the Paris-Brussels-Köln-Amsterdam-London trans-European transport network priority project.



The first section of the line opened to international traffic in 2003 with the entire line becoming fully operational in November 2007. Domestic high speed preview passenger services commenced in June 2009 and full services were launched in December 2009. International freight services are expected to commence during late 2010.


◆ Capacity	Up to 16–20 trains per hour
◆ Length	109 kilometres
◆ Max. speed	International: 300kph Domestic: 230kph
◆ Utilisation	High speed international and domestic passenger and international freight services

HS1 Ltd is wholly owned by London & Continental Railways Ltd ("LCR"). LCR also owns the UK interest in Eurostar and development land interests at King's Cross and Stratford. LCR is an independent company wholly owned by the UK Government.

Business overview

HS1 Ltd provides access to modern, high performance rail infrastructure to high speed rail operators, generating stable inflation-linked access charges with the potential for future upside. In addition, the business also comprises a number of related unregulated activities with the potential for further growth.

Operations and maintenance are currently subcontracted to Network Rail (CTRL) Limited ("NRCTRL") with almost all costs passed through directly to the train operators.



<p>Modern infrastructure</p> <p>109km high speed, modern rail line using proven and reliable technology</p>	<p>Strong profitability</p> <p>A stable, inflation-linked revenue stream, with minimal cost exposure</p>	<p>Growth opportunities</p> <p>Growth opportunities from using spare capacity to link the two high speed rail growth areas of Europe and mainland UK</p>	<p>Unregulated upside</p> <p>Scope to further develop unregulated businesses such as retail and car parking as well as new business opportunities</p>
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A high performance, high speed, European rail infrastructure asset with a stable, predictable long-term core income stream and unregulated profit opportunities

¹ The expiry date of the Concession Agreement is currently 31 December 2047. As part of the Secretary of State's commitment to underpin domestic services, the Concession Agreement will be shortened to expire in December 2040

High Speed 1

Key investment highlights

- | | |
|---|--|
| 1 Strong, stable cash flow generation ... | <ul style="list-style-type: none">◆ Strong established international demand via Eurostar (15 years of operations), carrying over 9 million passengers per annum◆ Domestic services underpinned by UK Government to the end of the concession◆ Clear, transparent regulatory regime◆ Low variability based on per train service rather than per passenger charging |
| 2 ... with scope for additional upside | <ul style="list-style-type: none">◆ Spare capacity to support growth and new route development◆ Entry of additional train operators expected following liberalisation of the EU passenger rail market in January 2010◆ Core access charge income supplemented by unregulated retail, advertising and car parking income◆ Upsides from providing critical transport infrastructure to the Olympic Games (including post 2012)◆ Future expansion of UK high speed rail network (HS2) |
| 3 Unique core infrastructure asset | <ul style="list-style-type: none">◆ Sole high speed rail infrastructure between London and the Channel Tunnel◆ Critical transport infrastructure for Kent commuters◆ St. Pancras is an iconic railway station setting the standard for future railway travel with annual footfall of 38 million people (2009) |
| 4 Attractive asset characteristics | <ul style="list-style-type: none">◆ Clear and robust concession agreement and regulatory regime◆ Long concession life (30 years remaining)◆ Strong competitive position with high barriers to entry◆ Newly built infrastructure with very limited initial capex requirements |
| 5 Limited operating and major maintenance/renewal cost exposure | <ul style="list-style-type: none">◆ Principally, cost pass-through to operators◆ Fixed price sub-contracting in relation to track operation and maintenance within control periods◆ Periodic resets and pre-defined re-openers to allow recalibration of expected costs and volume |
| 6 Inflation-linked income stream | <ul style="list-style-type: none">◆ Access charges directly linked to UK inflation (RPI) |
| 7 Experienced management team and established operating track record | <ul style="list-style-type: none">◆ Track record of operating HS1 for more than six years◆ Highly experienced management team◆ Average infrastructure-related delay per train service only c. 7 seconds |

High Speed 1

Service offering

HS1 Ltd provides high speed train operators with access to modern, high performance rail infrastructure as well as a number of smaller unregulated activities. Each of these service offerings has potential for future growth.

International passenger services

HS1 is used by Eurostar to provide high speed international passenger services from London to Paris, Brussels and other continental European destinations. Eurostar carried 9.2 million passengers in 2009 via approximately 19,000 services. Following the liberalisation of the EU passenger rail market in January 2010, other train operators are expected to apply for access to operate international passenger services on HS1. Eurostar may, in parallel, choose to expand services to new destinations on the high speed rail network in continental Europe. Eurostar is jointly operated by LCR, SNCF and SNCB (the state-owned railway companies in France and Belgium).



Domestic passenger services



HS1 is used by high speed domestic passenger services between London and North and East Kent. Domestic passenger services on HS1 are operated by London & South Eastern Railway ("LSER"), as part of the Integrated Kent Franchise ("IKF") which runs until 2014 (with the final two years dependent on LSER achieving certain service performance targets) and are branded Southeastern Highspeed. The full service commenced in December 2009, following the successful preview services between June and December 2009. The introduction of domestic passenger services has been successfully implemented and resulted in significant time savings of up to 50 minutes for domestic commuters when compared with the journey times on the classic network.

The UK Government has agreed to enter into a commitment to underpin revenues in respect of domestic passenger rail services on HS1 on the basis of the service volumes specified in the current IKF agreement from the expiry of the LSER franchise to the end of HS1 Ltd's concession. This means that HS1 Ltd will be exposed only to availability risk (and very limited counterparty risk) in relation to the income from domestic passenger services up to the underpinned service level, whilst retaining the upside from increased services.

Freight services

International freight traffic services are expected to commence during late 2010.

Stations and car parking

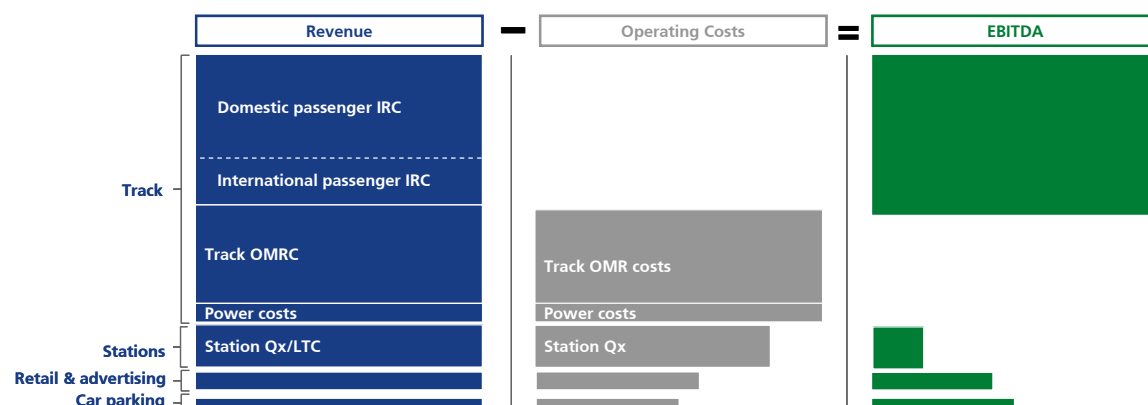
The stations leased and operated by HS1 Ltd (St. Pancras International, Stratford International, Ebbsfleet International and Ashford International) also provide retail, advertising and car parking income. This income is not regulated.



High Speed 1

Business model

HS1 Ltd has a simple business model which generates highly stable and recession-resistant access charges from international and domestic train operators with additional unregulated profit opportunities. The business has proven revenue streams, with minimal cost exposure.



Access Charges represent the main source of income and consist of three main elements:

Investment Recovery Charge (IRC)	A charge levied for the use of the track which is intended to recover the capital invested in HS1. With no ongoing directly associated costs, IRC is the primary driver of profitability. The IRC is subject to a fixed cap per minute per train service which is index linked. Unlike other UK infrastructure assets, the IRC cap is not subject to periodic regulatory reviews.
Operations, Maintenance and Renewals Charge (OMRC)	Costs of the operation, maintenance and renewal of track and ancillary rail infrastructure are funded in the form of the OMRC component of the track access charges paid by train operators. This charge is subject to a 5-yearly review which is regulated by the Office of Rail Regulation ("ORR"), meaning that the charge is recalibrated to respond to any changes in expected efficiently incurred costs and volumes. Given the recent construction of the infrastructure assets, no significant capital expenditure for renewals is expected to occur for many years.
Station Charges	Qualifying station operation and maintenance expenditures as well as and station-specific long-term charges reflecting future renewal costs and maintenance of lifts and escalators are charged to train operators. The Qx charges are set annually through a transparent process with the train operators.

Both IRC and OMRC are paid by train operators for the use of the HS1 track based on a cost per minute, which translates into a fixed cost per train service in real terms. The vast majority of costs, including station charges, are passed through directly to the operators, leaving very limited cost exposure with HS1 Ltd.

Apart from regulated income, HS1 Ltd generates unregulated income in the form of rental income from retail outlets, the sale of advertising space and car parking income at each of the four stations.

HS1 Ltd expects to generate revenue of c. £263 million and EBITDA of c. £135 million in the year to 31 March 2011.

Growth in the core business is generated by utilising spare capacity to increase the number of trains running on the line as demand for high speed rail services in the UK and to/from Europe grows. In addition, HS1 Ltd benefits from unregulated income and growth opportunities by optimising the rental of retail and advertising space and the income from car parking facilities at the four stations, whilst continuing to pursue other opportunities.

High Speed 1

Operation, maintenance and renewal of track and stations

HS1 Ltd sets the asset management strategy for HS1 and directs the operations, maintenance and renewal of the track and stations, which is currently sub-contracted to a dedicated Network Rail subsidiary, NRCTRL. Under the terms of the arrangement the majority of risks are passed on from HS1 Ltd to NRCTRL, subject to caps and specific carve-outs. The residual risks retained by HS1 Ltd are either insured or actively managed.

HS1 Ltd, together with NRCTRL, has successfully operated the railway safely and reliably since the opening of the first section of HS1 in 2003. The contractual arrangement between HS1 Ltd and NRCTRL lasts until 2047, although HS1 has the option to market test the contract at the end of any control period and/or to internalise operations, the latter subject to payment of a fee.

Contractual and regulatory framework

HS1 Ltd has managed HS1 since 2003. A clearly defined contractual and regulatory framework has been put in place under which HS1 Ltd owns the right to the HS1 infrastructure under the Concession Agreement with the Secretary of State, which covers, amongst other things, HS1 Ltd's rights and obligations, performance requirements and enforcement and termination procedures. The rights and obligations of HS1 Ltd with regard to the land, stations and property are defined in the HS1 Lease.

Train operators enter into Track Access Agreements and Station Access Agreements with HS1 Ltd which define rights and requirements to use the respective pieces of infrastructure. To date, HS1 Ltd has entered into Track and Station Access Agreements with Eurostar and LSER and Station Access Agreements with East Midland Trains (St. Pancras International only).

Other arrangements are managed via contractual agreements including: station concession agreements with NRCTRL; power supply agreements with Network Rail; car park operator concessions with NCP; an agreement in respect of the electricity substations and distribution networks with EDFE and several property lease agreements. HS1 Ltd has also entered into bilateral interface agreements with Eurotunnel and Network Rail and other bespoke interfaces at St. Pancras International.

The station assets are overseen by the Department for Transport whilst the track assets are overseen by the ORR whose responsibilities also cover approving terms of access by train operators to use the line, periodic review of the OMRC and hearing of appeals.

High Speed 1

Sales process

LCR has retained UBS Limited ("UBS Investment Bank") as its exclusive adviser for the potential sale of HS1 Ltd. Full details of the process are set out in the enclosed pre-qualification letter. Should you have any questions in relation to this unique investment opportunity, please contact a member of the transaction team at UBS Investment Bank listed below.

UBS Investment Bank will act as the sole point of contact with prospective purchasers. Other representatives, directors, employees, customers, suppliers or shareholders of HS1 Ltd, LCR and the UK Government must not be contacted in relation to this sale process under any circumstances.

Mergers & Acquisitions

Andrew Cowper

Executive Director
Tel. +44 20 7568 5996
andrew.cowper@ubs.com

Philipp Beck

Director
Tel. +44 20 7567 7079
philipp.beck@ubs.com

Infrastructure Group

Steven Wirth

Managing Director
Tel. +44 20 7568 5867
steven.wirth@ubs.com

Tobias Wagnert

Executive Director
Tel. +44 20 7568 1335
tobias.wagnert@ubs.com

Important Notice

The sole purpose of this document (the "Teaser") is to assist the recipient in deciding whether it wishes to proceed with a further investigation of HS1 Ltd (the "Target") owned by LCR (the "Vendor") and it is not intended to form the basis of any investment decision or any decision to purchase the Target. This Teaser does not purport to contain all the information that may be necessary or desirable for a full and accurate evaluation of the Target, nor does it constitute or contain an advertisement, offer or invitation for the sale or purchase of securities. Neither this Teaser nor anything contained herein shall form the basis of, or be relied upon in connection with, any contract or commitment whatsoever. The Vendor expects to prepare and circulate a more detailed information memorandum in relation to the Target in due course, which will supersede this Teaser.

All the information in this Teaser has been provided by the Vendor and has not been independently verified by UBS Limited ("UBS") or any other member of UBS Group. "UBS Group" for this purpose shall mean UBS AG and any subsidiary, branch or affiliate of UBS AG. No representation or warranty, express or implied, is or will be made in or in relation to, and no responsibility or liability is or will be accepted by the Vendor or any of its subsidiaries (including the Target) or by UBS or any other member of the UBS Group as to the accuracy or completeness of this Teaser or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

This Teaser has been delivered to interested parties for information purposes only and upon the express understanding that such parties will use it only for the purposes set forth above and will not pass it onto any third party without express permission from UBS and/or LCR. By accepting this Teaser the recipient has agreed, upon request, to return promptly all material received from the Vendor or UBS or any other member of the UBS Group (including this Teaser) without retaining any copies. In furnishing this Teaser, the Vendor, UBS and each other member of the UBS Group undertake no obligation to provide the recipient with access to any additional information or to update this Teaser or to correct any inaccuracies therein which may become apparent, and reserve the right, without advance notice, to change the procedure for the sale of the Target or terminate negotiations at any time prior to the signing of any binding agreement for the sale of the Target.

This Teaser is directed only at, (a) certain persons outside the United Kingdom (b) persons who have professional experience in matters relating to investments who fall within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (c) high net worth entities and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "relevant persons"). This Teaser must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Teaser relates are available only to relevant persons and will be engaged in only with relevant persons.

The distribution of this Teaser in jurisdictions other than the United Kingdom may be restricted by law and persons in whose possession this Teaser comes should inform themselves about, and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdictions. The Teaser does not constitute an offer or invitation for the sale or purchase of the securities, assets or business described herein and shall not form the basis of any contract.

UBS is acting as exclusive financial adviser to the Vendor and no-one else for the purposes of arranging a sale of the Target and will not regard anyone else as its client, nor will UBS be responsible to anyone other than the Vendor (whether or not a recipient of this Teaser) for providing the protections offered to clients of UBS nor for providing advice in relation to the transaction described herein, the contents of this Teaser or any other matter referred to herein. Any prospective purchaser interested in buying or evaluating the Target is recommended to seek its own financial and other professional advice.

Citigroup Global Markets Limited ("Citi") is acting as exclusive financial adviser to the Department for Transport ("the Vendor's Shareholder") in relation to the restructuring of the Vendor and the disposal of its subsidiary businesses, including the Target. Citi will not regard any person other than the Vendor's Shareholder as its client, and will not be responsible to anyone other than the Vendor's Shareholder (whether or not a recipient of this Teaser) for providing the protections offered to clients of Citi nor for providing advice in relation to the transaction described herein.

The Teaser has been prepared by the Vendor and the Vendor is solely responsible for its contents. Citi has not conducted any investigation with respect to such information, and each of Citi and the Vendor's Shareholder expressly disclaim any and all liability for representations, expressed or implied, contained in, or for omissions from, this Teaser or any other written or oral communication transmitted to any interest party in the course of its evaluation of the Target.