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Dear Les

Network Rail's purchase of Hydrex Equipment (UK) Limited

I write further to our recent conversation about Network Rail's involvement in the purchase of the rail division of Hydrex Equipment (UK) Limited ('Hydrex'). As we have previously explained, Hydrex is the largest supplier of road rail vehicles ('RRVs') to the UK rail sector and accounts for around 23-25% of that market. Since January 2011, Hydrex has been seeking a buyer for its rail plant division. Over the last few weeks it has become clear that Hydrex's lenders are no longer prepared to continue to support the company and KPMG were appointed to seek a purchaser using a pre-packaged sale from administration. []].

It is now proposed that Network Rail (NDS-Plant) Limited ('NRP'), a newly incorporated wholly owned subsidiary of NRIL, should acquire the rail division of Hydrex for a consideration of approximately £[] with the associated transfer of approximately 530 employees under the provisions of TUPE. NRP will be managed by NRIL's National Delivery Service organisation ('NDS'). It is proposed that this solution is short term only, as we intend to commence a disposal of either NRP or its business and assets in the short to medium term.

We intend to complete this transaction by 9am tomorrow, 17 November 2011.

LC5 implications

The negotiations to get to this point have meant details have been fluid. It has now come to light that Hydrex has a workbank of orders to supply existing customers with road rail vehicle equipment. These orders include:

- Cable Deliveries on London Underground Limited ('LUL') until Tues 29 Nov.
- B&B Industrial Dismantlers on LUL at Hammersmith until Fri 25 Nov.
- Conductor Rail Recoveries on LUL at Upminster for LUL - Fri 18 to Mon 21 Nov.
- Scrap Recovery on LUL at Lillie Bridge on 6 and 7 Dec.
- Recover Sidings at Portsmouth Dock Yard for Colas until Fri 18 Nov (it may roll into the following week but no confirmation yet).



• [].

Condition 5 provisions do not permit Network Rail, without ORR's consent, to be directly or indirectly interested in the ownership or operation of any railway vehicle unless it is used in the operation of the network. We of course recognise that if we were to honour these existing orders, a Network Rail subsidiary will have a direct interest in the ownership of railway vehicles off Network Rail's network. We are therefore seeking ORR's consent for Network Rail and its subsidiary, NRP to be involved in the ownership of road rail vehicles for use by third parties to enable existing contractual obligation to be fulfilled.

Our rationale for seeking this consent is that these orders are currently 'live' and in progress. It will be extremely disruptive (as well as costly) to the operations of LUL and the other parties involved if NRP were to terminate the existing orders on completion of the acquisition. Indeed, it would put these parties in a similar position to that of Network Rail over the past few weeks; that is, uncertainty over the supply of important equipment to carry out operations on its infrastructure. We believe it is inappropriate to allow other industry parties, particularly other infrastructure managers to be disrupted in this way.

As stated above, we will be seeking to divest the business in the short term and we certainly do not envisage a long term arrangement.

If the transaction does not proceed, it places at risk the availability of Hydrex's fleet of RRVs to support NRIL's planned maintenance and enhancements works, particularly over the Christmas blockade. Cancelling the planned possessions work would result in significant disruption to maintenance - in the order of £0.5m per period, the loss of over £9.4m of Track projects over the Christmas period alone and a similar amount across Investment Projects, including direct impact on works being undertaken for Thameslink. These costs do not take into account the cost of re-planning possessions. The effect would also mean that more than 500 employees of Hydrex would be made redundant immediately.

Given the urgency of the transaction, we would be extremely grateful if ORR could consider this request as a matter of the utmost urgency, as we do not wish to proceed with an arrangement that could place us in breach of our network licence. We acknowledge that asking ORR to consider this matter in such a short time frame is far from ideal. We therefore seek a short term consent from ORR, which will allow us to carry out the immediate activities as described above, and enable ORR to consider the full details in due course.

I am copying this letter to Paul Plummer at Network Rail and to Michael Lee at ORR.

Yours sincerely

Jon Haskins
Licence and Assurance Manager