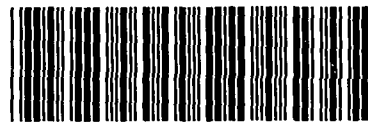


Northern Rail Limited

Report and Financial Statements

4 January 2014

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COMPANIES HOUSE

Officers and professional advisors

Directors

Dominic Booth
Julian Edwards
Jan Chaudhry
Joanne Roberts
Alex Hynes
Alan Chaplin
Chris Harris
David Stretch
Adrian Thompson
Kevin Thomas

Auditors

Ernst & Young LLP
100 Barbirolli Square
Manchester M2 3EY

Bankers

National Westminster Bank
Staines Branch
67 High Street
Staines
Middlesex TW18 4PU

Solicitors

Stephenson Harwood LLP
1 Finsbury Circus
London EC2M 7SH

Registered Office

Serco House
16 Bartley Wood Business Park
Bartley Way
Hook
Hampshire RG27 9UY

Registered Number: 4619954

Strategic report

The directors present their Strategic report for the 52 weeks ended 4 January 2014.

Principal activities and review of the business

The principal activity of the company is the operation of passenger railway services in the North of England under a Franchise agreement awarded by the then Strategic Rail Authority. Northern Rail Holdings Limited, the company's parent undertaking is a joint venture company owned by Serco Group plc and Abellio Transport Holdings BV.

Northern Rail Limited employs over 5,000 people, runs 2,500 train services every day and has a portfolio of 463 stations (representing 20% of the total of Britain's national rail network). Operations range from single-track branch lines with very simple track, signalling and station infrastructure to multi-trafficked high speed and densely used parts of the network.

The company's train services are operated by a fleet of 313 trains comprising 14 different types of diesel or 25kV AC electric multiple units. These generally operate as two, three or four coach trains, with some peak hour services strengthened to be longer than this and some rural branch lines served by single carriage trains. The company maintains most of the rolling stock fleet at four large depots at Manchester (Newton Heath), Leeds (Neville Hill), Newcastle (Heaton) and Liverpool (Allerton).

The company's operations serve three regions with a combined population of 14.2m. The North West, North East and Yorkshire and Humberside regions represent 21% of the UK's GDP. The company has a critical role to play in providing accessible transport that can be relied upon for commuting, leisure and business purposes. Our services also provide access to and from remote rural and coastal communities, offering an important method of social inclusion for local residents.

Trading results

Turnover increased by 8% to £642.4m when compared to the previous period (52 weeks ended 5 January 2013: £592.5m) whilst operating profit of £35.2m (52 weeks ended 5 January 2013: £33.5m) represented an increase of 5%.

Passenger revenue of £229.5m was 6% above the previous period which resulted in revenue share payments to the Department of Transport of £19.3m.

When the franchise began in December 2004, the public performance measure (PPM) moving annual average, which represents the number of trains on time over the previous 12 months, was 83.79%. In the 52 weeks to 4 January 2014 the PPM averaged 90.48%.

Initiatives

The company has invested over £1.9m on capital projects during the period with station and staff accommodation refurbishments being undertaken to improve the surroundings and services for both the customer and employees. As part of these improvements, the company has continued to install Customer Information Screens, with the further implementation of screens at 100 stations planned during 2014/15. Further improvements to facilities for passengers at a number of stations across the network include the refurbishment of waiting rooms and shelters, the installation of ticket vending machines, CCTV, lighting, help points and greater level access.

Strategic report (continued)

Recognition

During the period, Northern Rail Limited's Community Ambassadors scheme won the award for Customer Service and Information Excellence at the European Rail Congress Awards. This is a scheme that promotes the use of local rail services within socially excluded groups around the North of England. The company has partnered with local colleges and businesses to increase education and awareness of the facilities on people's doorsteps, encouraging people to make the most of their local train services.

Northern Rail Limited currently supports eighteen Community Rail Partnerships, promoting rural lines and bringing the railway and local communities closer together. The Clitheroe, Penistone and East Lancashire lines were each individually recognised at ACoRP's (Association of Community Rail Partnerships) Community Rail Awards in the categories which included 'Involving Young People', 'Community Art Schemes' and 'Best Station Volunteers' projects respectively.

The company has reiterated its commitment to sustainability by winning the 'Environment' title at the Rail Industry Innovation Awards. The award was a result of a commitment to conserving water at our train wash plants and for making a real difference in reducing water consumption activities at the four depots across the North of England.

Northern Rail Limited has installed the first eco shelter in Lancashire which has been constructed using sustainably sourced timber. The company has a commitment to a sustainability programme and are continuously looking for ways to reduce the carbon footprint and introduce energy efficient solutions. If the shelter proves to be successful and wins favour with passengers it may be rolled out to other stations on the East Lancashire line.

Health and safety

Northern Rail Limited is committed to ensuring, as far as reasonably practicable, the health and safety of its customers, staff and members of the public. We achieve this through a structured approach to health and safety built on three founding principles: Leadership – embedding safety at the heart of our business through strong and visible leadership; Process – robust safety procedures and a safety management system that is independently certificated to BS OHSAS 18001; and People – building a strong positive safety culture through our people, focusing on safe behaviours and personal ownership of health and safety.

Northern have a Health and Safety Strategy which is integrated into the Business Plan and defines the long term goals and commitment to continuous improvement. This is supported by an annual Health and Safety Plan detailing the specific objectives in any one year to deliver improving safety performance and to reduce accidents and incidents.

At the RoSPA Occupational Health and Safety Awards, we won the 'Transport, Storage and Distribution Industry Sector Award' for the fifth year in a row. The RoSPA Occupational Health and Safety Awards scheme is the largest and longest-running programme of its kind in the UK and recognises commitment to accident and ill health prevention. It not only looks at accident records, but also entrants' overarching health and safety management systems, including important practices such as strong leadership and workforce involvement.

Strategic report (continued)

Outlook

Following the announcement from the Department for Transport on 26 March 2013 which comprised a revised franchise timetable, the company entered into negotiations to secure a contract to continue to operate local and regional services across the North of England until 6 February 2016. This contract was signed on 24 March 2014.

Northern Rail Limited is aiming to achieve continued passenger revenue growth and will consider further use of ticket barriers and other revenue protection methods where there is clear evidence of fare evasion.

Commercial opportunities will be carefully assessed and progressed where appropriate, whilst the cost base will continue to be carefully managed.

Principal risks and uncertainties

In common with most train operators the main competitors to our business are the car, taxis and bus operators. To mitigate the risks from these pressures, the company works with stakeholders, shareholders and wider community groups to ensure that the company's services meet and exceed the requirements of our passengers.

The directors have reviewed the going concern assumption and are confident that the company is well placed to trade successfully over the franchise period. In reaching this conclusion, the Directors have performed an analysis of detailed trading and cash flow forecasts that extend beyond the 12 month period of consideration required by the standard. The cash flow forecasts reflect both national and local economic growth factors published by recognised authorities and demonstrate the company's ability to continue to service its debts as they fall due. This is despite the considerable downward sensitivities that have been applied, and hence the net current liabilities position at the balance sheet date is no cause for concern.

By order of the Board



Julian Edwards
Director

Serco House
16 Bartley Wood Business Park
Bartley Way
Hook
Hampshire
RG27 9UY

Date: 24 April 2014

Registered Number: 4619954

Directors' report

The directors present their report and financial statements for the 52 weeks ended 4 January 2014.

Results and dividends

The profit for the period after taxation amounted to £30.1m (52 weeks ended 5 January 2013: profit of £33.0m).

The directors recommended a final dividend of £10.4m (52 weeks ended 5 January 2013: £12.1m), which was paid on 20 December 2013, together with interim dividends of £5.7m, £5.9m and £6.3m which were paid on 28 March 2013, 24 June 2013 and 26 September 2013 respectively.

Directors

The directors who served the company during the period were as follows:

Dominic Booth

Jan Chaudhry

Joanne Roberts

Julian Edwards

Ian Bevan (Resigned 16 December 2013)

Jamie Burles (Resigned 27 November 2013)

Jonathan Brown (Resigned 1 November 2013)

Jonathan Stewart (Resigned 27 November 2013)

Stephen Butcher (Resigned 20 March 2013)

Adrian Thompson (Appointed 20 March 2013)

Alan Chaplin (Appointed 20 March 2013)

Alex Hynes (Appointed 27 August 2013)

Chris Harris (Appointed 20 March 2013)

David Stretch (Appointed 15 May 2013)

Kevin Thomas (Appointed 23 December 2013)

Political contributions

The company made no political donations during the period.

Financial instruments

The company operates passenger railway services in the UK and, as such, is exposed to movements in fuel prices and related exchange rates. To protect against price fluctuation, the company enters into forward contracts to hedge a proportion of its exposures to fuel price and related foreign exchange movements.

Employee involvement and disabled employees

The company gives full and fair consideration to applications for employment from disabled people having regards to their particular aptitudes and abilities. Efforts are made to continue the employment of those who become disabled during their employment, and training, career development and promotion is, as far as possible, identical for all employees in accordance with their skills and abilities. The company also has a policy of communicating and consulting with its managers and employees to ensure their active involvement.

Directors' report (continued)

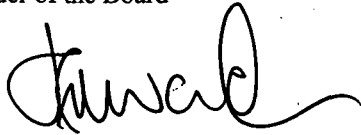
Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

In accordance with section 487(2) of the Companies Act 2006, Ernst and Young LLP will continue in office as auditor of the company.

By order of the Board



Julian Edwards
Director

Serco House
16 Bartley Wood Business Park
Bartley Way
Hook
Hampshire
RG27 9UY

Date: 24 April 2014

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report, the Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Northern Rail Limited

We have audited the financial statements of Northern Rail Limited for the 52 weeks ended 4 January 2014 which comprise Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 4 January 2014 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report (continued)

to the members of Northern Rail Limited

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Gary Harding (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
Date: 25 April 2014

Profit and loss account

for the period ended 4 January 2014

		<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
	<i>Notes</i>		
Turnover	2	642,401	592,458
Operating expenditure	3	<u>(607,164)</u>	<u>(558,928)</u>
Operating profit		35,237	33,530
Net finance income	4	<u>4,189</u>	<u>4,949</u>
Profit on ordinary activities before taxation		39,426	38,479
Tax	7	<u>(9,366)</u>	<u>(5,446)</u>
Profit for the financial period	18	<u>30,060</u>	<u>33,033</u>

All amounts relate to continuing activities.

Statement of total recognised gains and losses

for the period ended 4 January 2014

		<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
	<i>Note</i>		
Profit for the financial period		30,060	33,033
Actuarial loss relating to pension scheme	20	(3,647)	(326)
Deferred tax attributable to actuarial loss		<u>766</u>	<u>75</u>
Total recognised gains and losses relating to the period		<u>27,179</u>	<u>32,782</u>

Balance sheet

at 4 January 2014

		4 January 2014	5 January 2013
	Notes	£000	£000
Fixed assets			
Intangible assets	9	1,377	1,371
Tangible assets	10	8,713	10,072
Investments	11	-	-
		<u>10,090</u>	<u>11,443</u>
Current assets			
Stocks	12	3,689	4,310
Debtors	13	38,684	50,586
Cash at bank and in hand		48,920	31,038
		<u>91,293</u>	<u>85,934</u>
Creditors: amounts falling due within one year	14	<u>(94,360)</u>	<u>(92,447)</u>
Net current liabilities		<u>(3,067)</u>	<u>(6,513)</u>
Total assets less current liabilities		7,023	4,930
Creditors: amounts falling due after more than one year	15	<u>(1,927)</u>	<u>(5)</u>
Net assets excluding pension liability		5,096	4,925
Pension liability	20	<u>(2,365)</u>	<u>(1,073)</u>
Net assets including pension liability		<u>2,731</u>	<u>3,852</u>
Capital and reserves			
Called up share capital	17	-	-
Profit and loss account	18	2,731	3,852
Shareholders' funds	19	<u>2,731</u>	<u>3,852</u>



Julian Edwards

Director

Date: 24 April 2014

Notes to the financial statements

at 4 January 2014

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Going concern

The directors have reviewed the going concern assumption and are confident that the company is well placed to trade successfully over the franchise period. In reaching this conclusion, the Directors have performed an analysis of detailed trading and cash flow forecasts that extend beyond the 12 month period of consideration required by the standard. The cash flow forecasts reflect both national and local economic growth factors published by recognised authorities and demonstrate the company's ability to continue to service its debts as they fall due.

Statement of cash flows

The company is exempt under FRS 1 from including a statement of cash flows in its financial statements as it is a wholly owned subsidiary of Northern Rail Holdings Limited, a company incorporated in the United Kingdom, which has included the company in its publicly available group financial statements.

Turnover

The company recognises turnover from three sources. Passenger income represents agreed amounts attributed to the company by the income allocation systems of the Railway Settlement Plan Limited, mainly in respect of passenger receipts. Grant income relates to support from the Department for Transport in respect of passenger services and amounts received from Passenger Transport Executives. Grant income is recognised in the profit and loss account in the period to which it relates. Other income arises from the provision of ancillary services to external parties.

Intangible fixed assets

Franchise goodwill arises on transition of a rail franchise, representing the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Franchise goodwill was capitalised and is written off on a straight line basis over the life of the franchise. After consideration of all information, the life of the franchise goodwill was extended during the period to reflect the contract to continue to operate the franchise until February 2016. The franchise goodwill is therefore being amortised on a straight line basis over the period to February 2016. The impact of this has been to reduce the amortisation charge for the period by £0.6m.

Franchise bid costs associated with securing a rail franchise are expensed as incurred, except where preferred bidder status has been reached. All directly attributable and incremental costs after achieving preferred bidder status are recognised as an intangible asset and are amortised on a straight-line basis over the life of the franchise.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided to write off the cost less residual value of tangible fixed assets on a straight line basis over the remaining franchise period.

After consideration of all information, the life of certain tangible fixed assets was extended during the period to reflect the contract to continue to operate the franchise until February 2016. Those tangible fixed assets are therefore being depreciated on a straight line basis over the period to February 2016. The impact of this has been to reduce the depreciation charge for the period by £2.9m.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is purchase cost on an average cost basis. Net realisable value is the value at which the stock can be realised in the normal course of business. Provision is made for slow moving and obsolete items.

Notes to the financial statements

at 4 January 2014

1. Accounting policies (continued)

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Pensions

The Railways Pension Scheme provides pension benefits to the substantial majority of current employees on a defined benefit basis. The company's main obligation in respect of the Railway Pension Scheme is to pay contributions as agreed with the scheme actuary and trustees over the franchise term.

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax. A 'franchise adjustment' is made to the deficit on this basis. The franchise adjustment is the projected deficit at the end of the franchise term which the company will not be required to fund, discounted back to present value.

The current service cost is charged to operating profit. The finance cost of liabilities and expected return on assets are shown as a net amount of other finance charges or credits on the face of the Profit and Loss account. The service cost is included as part of staff costs in note 6. The actuarial gain/loss is charged through the Statement of Total Recognised Gains and Losses.

The pension scheme assets are measured using fair values whilst the pension scheme liabilities are measured using a projected unit method and discounted using an appropriate discount rate.

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to profit and loss over the useful economic life of the assets concerned.

Notes to the financial statements

at 4 January 2014

2. Turnover

The company has one principal class of business being the operation of passenger railway services. Turnover is analysed as follows:

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
Passenger income	229,518	216,223
Grant	356,185	324,111
Other	56,698	52,124
	<u>642,401</u>	<u>592,458</u>

3. Operating profit

This is stated after charging/(crediting):

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
Depreciation of owned tangible fixed assets	3,275	4,892
Amortisation of intangible fixed assets	558	1,114
Rental income receivable	(1,077)	(1,121)
Access and related charges payable to Network Rail	<u>129,496</u>	<u>100,319</u>
Operating lease rentals		
– rolling stock	37,588	37,168
– property leases	21,333	20,526
– other	572	1,017
	<u>97</u>	<u>94</u>

The analysis of auditor's remuneration is as follows

Fees payable to the company's auditors for the audit of the company's annual financial statements

Fees payable to the company's auditors and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

Analysis of operating expenditure in the period

Raw materials and consumables	57,709	59,172
Staff costs		
– wages and salaries	180,564	169,179
– social security costs	14,318	13,450
– other pension costs	20,269	20,567
Other external charges	329,959	290,039
Depreciation and amortisation of tangible and intangible fixed assets	3,833	6,006
Restructuring costs	512	515
	<u>607,164</u>	<u>558,928</u>

Notes to the financial statements

at 4 January 2014

4. Net finance income

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
Bond costs	(343)	(119)
Interest receivable and similar income	322	318
Net return on pension scheme assets (note 20)	4,210	4,750
	<u>4,189</u>	<u>4,949</u>

5. Directors' remuneration

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
Total directors' remuneration for the period (excluding pension)	764	318
Total directors' pension contributions	99	41
	<u>863</u>	<u>359</u>

	<i>No.</i>	<i>No.</i>
Number of directors who are members of a defined benefit scheme	<u>6</u>	<u>2</u>

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
	<u>27</u>	<u>26</u>

Remuneration of the highest paid director

Annual remuneration of the highest paid director (excluding pension)	213	214
Pension costs in respect of the highest paid director	<u>27</u>	<u>26</u>

In addition to the above, the highest paid director received a payment of £214,987 upon leaving the company.

The amount of the accrued pension of the highest paid director upon leaving the company was £56,351 (5 January 2013: £52,033). The amount of the accrued lump sum of the highest paid director upon leaving the company was £39,747 (5 January 2013: £36,812).

Dominic Booth, Jamie Burtles and Jan Chaudhry were remunerated through Abellio Transport Holdings Ltd.

Julian Edwards was remunerated through Abellio Transport Holdings BV.

Joanne Roberts, Jonathan Brown, David Stretch and Kevin Thomas were remunerated through Serco Limited. It is not practicable to ascertain what proportion of their emoluments relates to the company.

Notes to the financial statements

at 4 January 2014

6. Staff costs

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
Wages and salaries	180,564	169,179
Social security costs	14,318	13,450
Pension costs	20,269	20,567
	<u>215,151</u>	<u>203,196</u>

The average monthly number of employees during the period was made up as follows:

	<i>No.</i>	<i>No.</i>
Operational	3,361	3,304
Engineering and maintenance	893	845
Administration and support	748	731
	<u>5,002</u>	<u>4,880</u>

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
Current tax:		
UK corporation tax on the profit for the period	9,188	10,133
Adjustment in respect of prior periods	(231)	(4,277)
Total current tax (note 7(b))	<u>8,957</u>	<u>5,856</u>
Deferred tax:		
Origination and reversal of timing differences	(222)	(491)
Movement in pension provision	472	177
Effect of rate change	95	116
Adjustment in respect of prior periods	64	(212)
Total deferred tax (note 7(c))	<u>409</u>	<u>(410)</u>
Tax on profits on ordinary activities	<u>9,366</u>	<u>5,446</u>

Notes to the financial statements

at 4 January 2014

7. Tax (continued)

(b) Factors affecting current tax charge for the period

The tax as assessed for the period differs from the standard rate of corporation tax in the UK of 23.2% (52 weeks ended 5 January 2013: 24.5%). The differences are explained below:

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
Profit on ordinary activities before tax	<u>39,426</u>	<u>38,479</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.2% (52 weeks ended 5 January 2013: 24.5%)	9,160	9,414
<i>Effects of:</i>		
Expenses not deductible for tax purposes	278	412
Depreciation in excess of capital allowances	195	453
Movement in short term timing differences	(445)	(146)
Adjustment in respect of prior periods	(231)	(4,277)
Current tax for the period (note 7(a))	<u>8,957</u>	<u>5,856</u>

(c) Deferred tax

	<i>£000</i>
At 5 January 2013 including deferred tax on pension liability	1,405
Adjustment in respect of prior periods	(64)
Debited to the profit and loss account	(250)
Amount credited to the statement of recognised gains and losses	839
Effect of rate change	(168)
At 4 January 2014 including deferred tax and pensions liability	<u>1,762</u>

The analysis of the deferred tax asset is as follows:

	<i>4 January 2014 £000</i>	<i>5 January 2013 £000</i>
Included in debtors (note 13)	1,134	1,084
Included in pensions liability (note 20)	628	321
	<u>1,762</u>	<u>1,405</u>
Capital allowances in arrears of depreciation	842	794
Other timing differences	292	290
Pension liability	628	321
	<u>1,762</u>	<u>1,405</u>

Notes to the financial statements

at 4 January 2014

7. Tax (continued)

(c) Deferred tax (continued)

The underlying trade of the Group is profitable and profit forecasts support that it is more likely than not that there will be sufficient future trading profits against which the timing differences giving rise to the deferred tax asset will reverse.

(d) Factors that may affect future tax charges

In his 2013 Budget Statement, the Chancellor of the Exchequer announced certain tax changes which have an effect on the company's future tax position. The proposals included a reduction in the corporation tax rate to 20%, effective from 1 April 2015. This reduction is in addition to the proposed reduction to 21%, effective from 1 April 2014. As at the balance sheet date, both of the announced reductions have been 'substantively enacted' and these are therefore reflected in the closing deferred tax balances.

The rate change would also impact the amount of future cash tax payments made by the company. The effect of the proposed changes to the UK tax system will be reflected in the financial statements of the company in future years, as appropriate, once the proposals have been substantively enacted.

8. Dividends

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
Paid – £7.08m per ordinary share (52 weeks ended 5 January 2013: £8.55m per ordinary share)	<u>28,300</u>	<u>34,200</u>

The directors recommended a final dividend of £10,400,000 (52 weeks ended 5 January 2013: £12,100,000), which was paid on 20 December 2013, together with interim dividends of £5,700,000, £5,900,000 and £6,300,000 which were paid on 28 March 2013, 24 June 2013 and 26 September 2013 respectively.

Notes to the financial statements

at 4 January 2014

9. Intangible fixed assets

<i>Group</i>	<i>Franchise bid costs £000</i>	<i>Franchise goodwill £000</i>	<i>Total £000</i>
Cost:			
At 5 January 2013	3,712	17,181	20,893
Additions	564	-	564
4 January 2014	<u>4,276</u>	<u>17,181</u>	<u>21,457</u>
Amortisation:			
At 5 January 2013	3,484	16,038	19,522
Charge for the period	188	370	558
At 4 January 2014	<u>3,672</u>	<u>16,408</u>	<u>20,080</u>
Net book value:			
At 4 January 2014	<u>604</u>	<u>773</u>	<u>1,377</u>
At 5 January 2013	<u>228</u>	<u>1,143</u>	<u>1,371</u>

10. Tangible fixed assets

	<i>Short leasehold buildings £000</i>	<i>Plant and machinery £000</i>	<i>Assets under construction £000</i>	<i>Total £000</i>
Cost:				
At 5 January 2013	1,045	30,981	25	32,051
Additions	-	1,648	268	1,916
Transfer	-	25	(25)	-
At 4 January 2014	<u>1,045</u>	<u>32,654</u>	<u>268</u>	<u>33,967</u>
Depreciation:				
At 5 January 2013	915	21,064	-	21,979
Charge for the period	43	3,232	-	3,275
At 4 January 2014	<u>958</u>	<u>24,296</u>	<u>-</u>	<u>25,254</u>
Net book value:				
At 4 January 2014	<u>87</u>	<u>8,358</u>	<u>268</u>	<u>8,713</u>
At 5 January 2013	<u>130</u>	<u>9,917</u>	<u>25</u>	<u>10,072</u>

Assets under construction relate to various on-going station developments and other capital improvement projects.

Included in plant and machinery are assets with cost of £2,197,000 (5 January 2013: £nil) and depreciation of £589,000 (5 January 2013: £nil) relating to items held under hire purchase agreement. These items were sold and leased back under a hire purchase arrangement during the period (note 16).

Notes to the financial statements

at 4 January 2014

11. Investments

One share in each of the following companies is held by Northern Rail Limited and all were acquired for nil consideration.

<i>Company name</i>	<i>Capital</i>	<i>Proportion held</i>	<i>Activities</i>
ATOC Limited	£0.04	5.00%	Contracting arm of ATOC
Rail Staff Travel Limited	£0.05	5.00%	Manages staff travel in the industry on behalf of ATOC
Rail Settlement Plan Limited	£0.05	5.00%	Operates the income allocation and settlement routines on behalf of ATOC
NRES Limited	£1.00	5.26%	Provides rail related information to the public
Train Information Services Ltd	£1.00	5.30%	Provides rail related information to the public
Network Ticketing Limited	£1.00	1.00%	Manages multimodal travel within the industry on behalf of PTE's
Greater Manchester Travel Cards Limited	£1.00	4.00%	Manages multimodal travel within the industry on behalf of PTE's
West Yorkshire Ticketing Company Limited	£55.00	25.10%	Manages multimodal travel within the industry on behalf of PTE's

12. Stocks

	<i>4 January 2014</i>	<i>5 January 2013</i>
	<i>£000</i>	<i>£000</i>
Raw materials and consumables	3,689	4,310

There is no material difference between the balance sheet value of stocks and their replacement cost.

13. Debtors

	<i>4 January 2014</i>	<i>5 January 2013</i>
	<i>£000</i>	<i>£000</i>
Trade debtors	21,712	33,264
Other debtors	5,799	5,022
Deferred taxation (note 7(c))	1,134	1,084
Amounts due from related parties (note 24)	100	309
Prepayments and accrued income	9,939	10,907
	<u>38,684</u>	<u>50,586</u>

Notes to the financial statements

at 4 January 2014

14. Creditors: amounts falling due within one year

	<i>4 January 2014</i>	<i>5 January 2013</i>
	<i>£000</i>	<i>£000</i>
Trade creditors	28,879	28,817
Corporation tax	4,489	5,027
Other creditors	12,133	12,295
Other taxes and social security costs	4,220	3,953
Accruals and deferred income	43,974	39,967
Amounts due to related parties (note 24)	390	1,986
Loan	-	402
Obligations under hire purchase agreement (note 16)	275	-
	<u>94,360</u>	<u>92,447</u>

15. Creditors: amounts falling due after more than one year

	<i>4 January 2014</i>	<i>5 January 2013</i>
	<i>£000</i>	<i>£000</i>
Other creditors	5	5
Obligations under hire purchase agreement (note 16)	1,922	-
	<u>1,927</u>	<u>5</u>

16. Obligations under hire purchase agreement

	<i>4 January 2014</i>	<i>5 January 2013</i>
	<i>£000</i>	<i>£000</i>
Amounts payable under hire purchase agreements:		
Within one year	412	-
In the second to fifth years inclusive	1,648	-
After five years	618	-
	<u>2,678</u>	<u>-</u>
Less: future finance charges	(481)	-
Present value of lease obligations	<u>2,197</u>	<u>-</u>

The hire purchase agreement is on a fixed repayment basis with the final instalment due in June 2020. The obligations under the hire purchase agreement are secured by the lessors' rights over the assets to which the agreement relates.

Notes to the financial statements

at 4 January 2014

17. Issued share capital

<i>Allotted, called up and fully paid</i>	<i>4 January 2014</i>		<i>5 January 2013</i>	
	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
'A' ordinary shares of £1 each	3	3	3	3
'B' ordinary shares of £1 each	1	<u>1</u>	1	<u>1</u>
		<u>4</u>		<u>4</u>

'A' ordinary shares of £1 each and 'B' ordinary shares of £1 each carry equal voting rights and rank pari passu in all respects with the exception that directors appointed by 'A' shareholders shall appoint one of their number to be chairman of the Board of Directors. In the case of equality of votes, the chairman shall have a second or casting vote.

18. Movements on reserves

	<i>Profit and loss account £000</i>
At 5 January 2013	3,852
Profit for the period	30,060
Actuarial loss relating to pension scheme	(3,647)
Deferred tax attributable to actuarial loss	766
Dividends	<u>(28,300)</u>
At 4 January 2014	<u>2,731</u>

19. Reconciliation of shareholders' funds

	<i>4 January 2014 £000</i>	<i>5 January 2013 £000</i>
Profit for the period	30,060	33,033
Other recognised gains and losses (net)	(2,881)	(251)
Dividends	<u>(28,300)</u>	<u>(34,200)</u>
Net decrease in shareholders' funds	(1,121)	(1,418)
Opening shareholders' funds	<u>3,852</u>	<u>5,270</u>
Closing shareholders' funds	<u>2,731</u>	<u>3,852</u>

Notes to the financial statements

at 4 January 2014

20. Pensions

The Company operates two sections of the Railways Pension Scheme ('the RPS'). This provides benefits for employees based on final pensionable pay. The members are expected to meet 40% of the cost of the emerging benefits. One section of the Railways Pension scheme relates to the Eastern division (ex Arriva Trains Northern Limited), and the other section relates to the Western division (ex North Western Trains Company Limited). The two sections are described separately below.

The Company's main obligation in respect of the two sections of the RPS is to pay contributions as agreed with the scheme actuary and trustees over the franchise term.

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax. A 'franchise adjustment' is made to the deficit on this basis. The franchise adjustment is the projected deficit at the end of the franchise term which the company will not be required to fund, discounted back to present value.

The valuations used have been based on the most recent actuarial valuations at 31 December 2010 and updated by Mercer Human Resources in order to assess the liabilities of the schemes as at the subsequent balance sheet dates. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are applied to each category of scheme assets. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit method.

Combined divisions

The following assumptions have been used for both divisions:

	4 January 2014	5 January 2013	7 January 2012
Discount rate	4.70%	4.60%	4.70%
Rate of increase in salaries	3.80%	3.40%	3.50%
Rate of increase in deferred pensions	2.60%	2.20%	2.30%
Rate of increase in pensions in payment	2.60%	2.20%	2.30%
Inflation assumption	3.30%	2.90%	3.00%

The assets in the scheme and the expected rates of return have been calculated separately for each division.

The assets in the scheme and the expected rates of return were:

Eastern division

	4 January 2014 £000	5 January 2013 £000	7 January 2012 £000
Total market value of assets	304,009	272,631	245,787
Present value of scheme liabilities	(443,159)	(389,094)	(378,763)
Deficit in the scheme	(139,150)	(116,463)	(132,976)
Members' share of deficit	55,660	46,586	53,191
Franchise adjustment	81,440	68,845	79,033
Company's share of deficit	(2,050)	(1,032)	(752)
Related deferred tax asset	430	238	188
Net pension liability	(1,620)	(794)	(564)

Notes to the financial statements

at 4 January 2014

20. Pensions (continued)

Western division

	<i>4 January 2014 £000</i>	<i>5 January 2013 £000</i>	<i>7 January 2012 £000</i>
Total market value of assets	260,188	233,989	211,696
Present value of scheme liabilities	<u>(342,370)</u>	<u>(300,505)</u>	<u>(290,795)</u>
Deficit in the scheme	(82,182)	(66,516)	(79,099)
Members' share of deficit	32,873	26,606	31,639
Franchise adjustment	<u>48,366</u>	<u>39,548</u>	<u>46,436</u>
Company's share of deficit	(943)	(362)	(1,024)
Related deferred tax asset	198	83	256
Net pension liability	<u>(745)</u>	<u>(279)</u>	<u>(768)</u>

Amounts included within operating profit

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
<i>Combined divisions</i>		
Current service cost	<u>20,269</u>	<u>20,567</u>
Total included within operating profit	<u>20,269</u>	<u>20,567</u>

Amounts included in net finance income

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
<i>Combined divisions</i>		
Expected return on scheme assets	18,480	18,060
Interest cost on scheme liabilities	(19,260)	(19,200)
Interest on franchise adjustment	<u>4,990</u>	<u>5,890</u>
Net finance return	<u>4,210</u>	<u>4,750</u>

Notes to the financial statements

at 4 January 2014

20. Pensions (continued)

Analysis of amount recognised in statement of total recognised gains and losses

<i>Combined divisions</i>	<i>52 weeks ended</i>	<i>52 weeks ended</i>
	<i>4 January 2014</i>	<i>5 January 2013</i>
	<i>£000</i>	<i>£000</i>
Actual return less expected return on assets	15,116	5,183
Experience gains and losses on liabilities	-	4,572
Gains and losses on change in assumptions	(35,186)	12,884
Experience gains and losses on franchise adjustment	16,423	(22,965)
Actuarial loss recognised	<u>(3,647)</u>	<u>(326)</u>

History of the experience gains and losses recognised in statement of total recognised gains and losses

<i>Combined divisions</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Difference between expected and actual returns on scheme assets	15,116	5,183	(29,802)	14,554	22,779
Percentage of scheme assets	3%	1%	(6%)	3%	6%
Experience gains and losses on scheme liabilities	(35,186)	17,456	(3,394)	6,983	(105,116)
Percentage of scheme liabilities	(4%)	3%	(1%)	1%	(18%)
Total actuarial gain or loss recognised in the statement of total recognised gains and losses excluding experience gains and losses on franchise adjustment	(20,070)	22,639	(33,196)	21,538	(82,337)
Percentage of scheme liabilities	(3%)	3%	(5%)	4%	(14%)
Total amount recognised in statement of total recognised gains and losses including experience gains and losses on franchise adjustment	(3,647)	(326)	436	(2,900)	1,707

Notes to the financial statements

at 4 January 2014

21. Analysis of the movement in the scheme deficit during the period

<i>Combined divisions</i>	<i>4 January 2014 £000</i>	<i>5 January 2013 £000</i>
<i>Change in benefit obligation</i>		
Benefit obligation at beginning of period	(689,599)	(669,558)
Current service cost	(33,270)	(33,529)
Past service cost	-	(157)
Interest cost	(32,100)	(32,000)
Actuarial (loss)/gain	(48,434)	32,554
Benefits paid	17,874	13,091
Benefit obligation at end of period	<u>(785,529)</u>	<u>(689,599)</u>
<i>Change in plan assets</i>		
Fair value of plan assets at beginning of period	506,620	457,483
Expected return on plan assets	30,800	30,100
Actuarial gain	15,116	5,183
Contributions	28,766	26,216
Additional contributions – brass matching	769	729
Benefits paid	(17,874)	(13,091)
Fair value of plan assets at end of period	<u>564,197</u>	<u>506,620</u>
Funded status	(221,332)	(182,979)
Members share of deficit at end of period	88,533	73,192
Franchise adjustment	129,806	108,393
Net amount recognised	(2,993)	(1,394)
Related deferred tax asset	628	321
	<u>(2,365)</u>	<u>(1,073)</u>

Cumulative gains since the adoption of FRS17 amount to £10,647,000 (52 weeks ended 5 January 2013: £14,294,000).

Notes to the financial statements

at 4 January 2014

22. Other financial commitments

On 4 February 2005, the company signed an agreement with Network Rail Infrastructure Limited for access to the railway infrastructure. The most recent contract was signed on 27 November 2013, which took effect from January 2014 and will expire on the date of the principal timetable change date during December 2016 (or transfer to the successor franchise operator if earlier). The variable charges cover track usage, traction and EC4T, and are primarily dependent upon train miles run.

The company has contracts which commit it to lease rolling stock from Angel Trains Contracts Limited, West Yorkshire Passenger Transport Executive, Eversholt Rail (UK) Limited and Porterbrook Leasing Company Limited. These contracts currently expire on the 31 March 2014.

At 4 January 2014 the company had the following commitments under non-cancellable and non-transferrable operating leases:

	<i>Fixed track access</i>	<i>Property</i>	<i>Rolling stock</i>	<i>Other</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
Within one year	29,741	4,821	8,773	150
	<u>29,741</u>	<u>4,821</u>	<u>8,773</u>	<u>150</u>

23. Contingent liabilities

Northern Rail Limited, as the franchisee, has procured two performance bonds in favour of the Department for Transport (formerly in favour of the Strategic Rail Authority). These bonds are in place for the franchise term and for a period of seven reporting periods after the end of the franchise.

The performance bond amount as at 4 January 2014 was £26,062,152 (5 January 2013: £26,062,152). The performance bond is due to expire on 12 October 2014.

In addition Northern Rail Limited, as the franchisee, has procured two season ticket bonds in favour of the Department for Transport. The total season ticket bond value as at 4 January 2014 was £5,298,000 (5 January 2013: £4,823,000) and is due to expire on 31 March 2014.

Notes to the financial statements

at 4 January 2014

24. Related party transactions

The company has taken advantage of the exemptions contained in FRS 8 'Related Party Transactions' paragraph 3c not to disclose transactions with fellow group companies.

Transactions with related parties outside of the group, as defined by Financial Reporting Standard 8, the nature of the relationship and the effect of the transactions with them are summarised below:

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
Expense recharges – receivable	-	4
Expense recharges – payable	(408)	(590)
Salary recharges – receivable	29	49
Salary recharges – payable	(31)	-
Interest	(172)	(170)

All of the above expenses were payable to/receivable from Serco Group plc and its subsidiaries, which are related parties by virtue of Serco Group plc owning 50% of the issued share capital of the company's immediate parent undertaking. At 4 January 2014, amounts due to Serco Group plc amounted to £129,705, and amounts due from Serco Group plc amounted to £28,656 (5 January 2013: amounts due to Serco Group plc amounted to £58,417).

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
Expense recharges – receivable	61	102
Expense recharges – payable	(60)	-
Salary recharges – receivable	535	820
Salary recharges – payable	(57)	-
Interest	(172)	(170)
Commission payable	(293)	(1,126)

All of the above expenses were payable to/receivable from NV Nederlandse Spoorwegen and its subsidiaries, which are related parties by virtue of NV Nederlandse Spoorwegen owning 50% of the issued share capital of the company's immediate parent undertaking. At 4 January 2014, amounts due to NV Nederlandse Spoorwegen amounted to £195,437 and amounts due from NV Nederlandse Spoorwegen amounted to £71,358 (5 January 2013: amounts due to NV Nederlandse Spoorwegen amounted to £1,928,076 and amounts due from NV Nederlandse Spoorwegen amounted to £309,027).

	<i>52 weeks ended 4 January 2014 £000</i>	<i>52 weeks ended 5 January 2013 £000</i>
Salary recharges – payable	-	(21)
Station access charges and related costs	(700)	(694)

Notes to the financial statements

at 4 January 2014

24. Related party transactions (continued)

The above expenses were payable to Merseyrail Electrics 2002 Limited, a related party by virtue of the fact that both Northern Rail Limited and Merseyrail Electrics 2002 Limited are joint ventures of the same ultimate controlling parties. At 4 January 2014, amounts due to Merseyrail Electrics 2002 Limited were £64,441 (5 January 2013: £nil).

25. Ultimate parent undertaking and controlling party

The ultimate controlling parties of Northern Rail Limited are NV Nederlandse Spoorwegen and Serco Group plc. These companies each own 50% of the share capital of Northern Rail Holdings Limited under a joint venture agreement. Copies of the financial statements of NV Nederlandse Spoorwegen are available from Laan Van Puntenburg 100, 3511 ER, Utrecht, Netherlands. Copies of the financial statements of Serco Group plc are available from Dolphin House, Windmill Road, Sunbury-on-Thames, Middlesex, TW16 7HT. The immediate parent undertaking of the smallest group, which includes the company and for which group financial statements are prepared is Northern Rail Holdings Limited, a company incorporated in the UK. Copies of the financial statements of Northern Rail Holdings Limited are available from Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY, United Kingdom.

26. Financial instruments not included at fair value

The company operates passenger railway services in the UK and, as such, is exposed to movements in fuel prices and related exchange rates. To protect cash flows, the company enters into commodity swap contracts, to hedge a proportion of its exposures to fuel price and related foreign exchange movements. The commodity swap contracts that were in place during 2013 were between Northern Rail Limited, Credit Agricole, and Britannic Trading Limited.

The commodity swap contract in place with Credit Agricole was cash settled and ran from 1 January 2012 to 18 September 2013. The total volume for the contract was 64,631,205 litres, at a fixed rate of £0.4481 per litre for the term of the contract. Credit Agricole paid a floating rate on this contract. The floating rate was calculated as the daily 10PPM UK-CARGOES CIF NEW/BASIS price in USD per tonne converted into litres and then into GBP at the daily spot rate.

The commodity swap contract in place is with Britannic Trading Limited, is cash settled and runs from 19 September 2013 to 31 March 2014. The total volume for the contract is 22,322,800 litres, at a fixed rate of £0.4870 per litre for the term of the contract. Britannic Trading Limited pays a floating rate on this contract. The floating rate is calculated as the daily 10PPM UK-CARGOES CIF NEW/BASIS price in USD per tonne converted into litres and then into GBP at the daily spot rate.

A new hedge will become effective from 1 April 2014 to 6 February 2016. This is calculated as the daily 10PPM UK-CARGOES CIF NEW/BASIS price in USD per tonne converted into litres and then into GBP at the daily spot rate. The total volume for the contract is 72,979,244 litres at a rate of £0.4945 per litre.

The fair value of the fuel hedge was calculated using a discounted cash flow methodology. The forward rate for Gas Oil has been calculated on a monthly basis for the duration of the contract, and converted into GBP using the forward rate.

The fair value of the fuel hedge liability at 4 January 2014 was calculated to be £1,254,074 (the fair value of the fuel hedge at 5 January 2013 was an asset calculated to be £1,936,624).

Notes to the financial statements

at 4 January 2014

27. Post balance sheet events

Negotiations have been ongoing with the Department for Transport in respect of an interim franchise to run from 1 April 2014 to 2 February 2016. These negotiations have been concluded and an interim franchise agreement was signed with the Department for Transport on 24 March 2014.

As part of this agreement, the company has procured two performance bonds in favour of the Department for Transport. These bonds are in place for the franchise term and for a period of seven reporting periods after the end of the franchise, replacing the performance bonds discussed in note 23. The total bond value is £26,062,000 and due to expire on 20 August 2016.

Northern Rail Limited has also procured two season ticket bonds in favour of the Department for Transport, replacing the season ticket bonds discussed in note 23. The total season ticket bond value is £5,633,000 and due for renewal by 31 March 2015.

In addition, the company has been required to enter into new lease arrangements to ensure it is able to meet its commitments under the new franchise agreement. The following commitments (in addition to those identified in note 22) are payable in the period to 3 January 2015 under non-cancellable operating leases:

	<i>Fixed track access</i>	<i>Property</i>	<i>Rolling stock</i>	<i>Other</i>
	£000	£000	£000	£000
Operating leases which expire:				
In two to five years	18,884	16,310	55,617	520
	<u>18,884</u>	<u>16,310</u>	<u>55,617</u>	<u>520</u>

The contract to continue to operate the franchise until February 2016 therefore results in the following annual commitments under non-cancellable operating leases from April 2014:

	<i>Fixed track access</i>	<i>Property</i>	<i>Rolling stock</i>	<i>Other</i>
	£000	£000	£000	£000
Operating leases which expire:				
In two to five years	24,796	21,220	73,022	676
	<u>24,796</u>	<u>21,220</u>	<u>73,022</u>	<u>676</u>